

30 May 2024

Mr Luke Gosling OAM, MP

Chair - Committee on Regional Development, Infrastructure and Transport

Submitted via email: [rdit.reps@aph.gov.au](mailto:rdit.reps@aph.gov.au)

Dear Mr Gosling,

**Re: Inquiry into local government sustainability**

As a small regional Local Government, Hepburn Shire Council (Hepburn) is pleased to have an opportunity to provide input to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport for their 'Inquiry into Local Government Sustainability'. We thank the Committee for undertaking this most required review.

Hepburn Shire is a small regional local government serving numerous diverse communities across townships including Daylesford, Creswick, Trentham, Glenlyon and Clunes. With a land area of 1,470km<sup>2</sup> and servicing a population of more than 16,000 residents, our modest annual budget is a constant challenge when endeavouring to meet community needs and expectations.

Our submission has been prepared to align with the key focus areas detailed in the Inquiry's Terms of Reference.

**Financial sustainability and funding of local government**

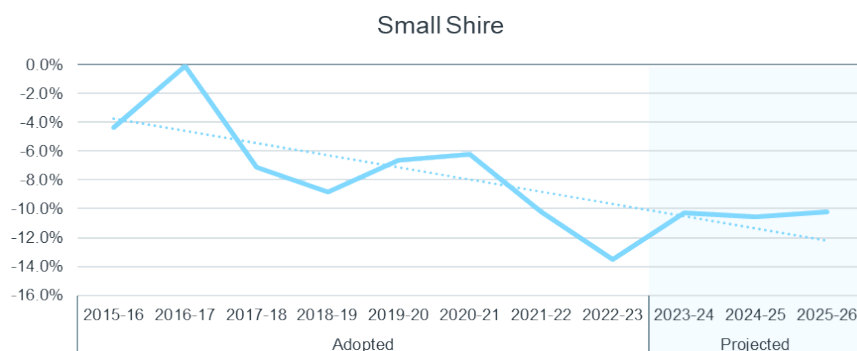
It is now beyond doubt that the ability of regional and rural councils to continue operating and providing the services expected by our communities is on the knife edge.

With the very real risk of imminent service reductions, deteriorating community assets and significant cost increases for service delivery and asset renewal, the financial viability of local Government has never been more challenged. This reality threatens to compromise the livability and prosperity of many smaller and regional communities.

This scenario, when viewed alongside the sector's limited ability to generate additional income through alternate means, is greatly concerning.

The 9 key findings of the international report prepared by Rural Councils Victoria (RCV) titled 'Alternative Sources of Income for Local Government 2022' [Alternative sources of income for local government \(ruralcouncilsvictoria.org.au\)](https://www.ruralcouncilsvictoria.org.au) details these constraints and identifies where additional income may be possible. It is limited to a very small component of the overall funding required.

In Hepburn's case, we are currently managing a rapidly declining underlying result, a forecast negative unrestricted cash position at 30 June 2024 – and the consequent need to significantly increase revenue or decrease expenditure over the coming years. Council's draft budget presented to the community on 28 May 2024 detailed \$1.5 million of operational reductions in 2024/25, new borrowings of \$5.5 million and the need to generate an additional \$4 million of revenue or reduced spending annually from 2025/26. Our situation is consistent with the trend of small councils adjusted underlying result ratio shown below.



Source: AEC Analysis (unpublished), LGV Budget Summary Report data (various years)

### Financial Assistance Grants

The Financial Assistance grants are not keeping up with the cost-of-service delivery and a review of indexation methods is required. The indexation applied does need to be commensurate with the cost of delivering local government services, and the limited ability to raise income compared to State and Commonwealth Governments. The current gap from past freezes and low indexation also needs to be addressed.

Vertical fiscal imbalance is a characteristic of the current federation framework, which results in an inability of local government to earn sufficient revenue to fund services,

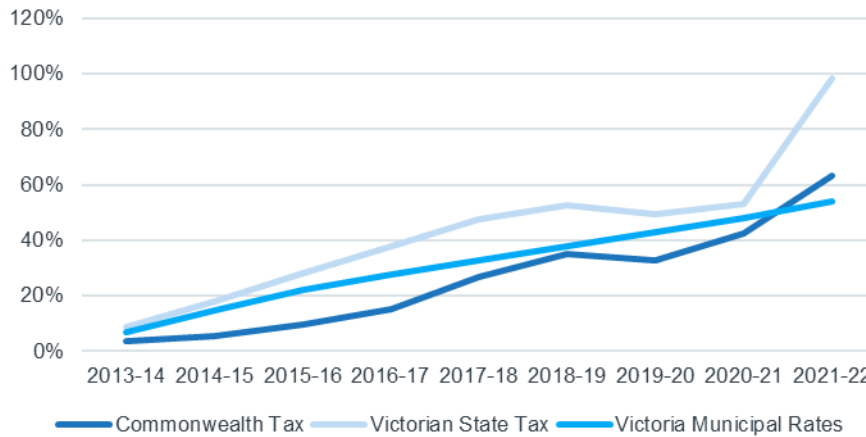
relying on grant funding from the other levels of government. The imbalance is increasing in the Victorian context, especially as rate revenue is restricted.

Hepburn Shire requests that the Committee note the following:

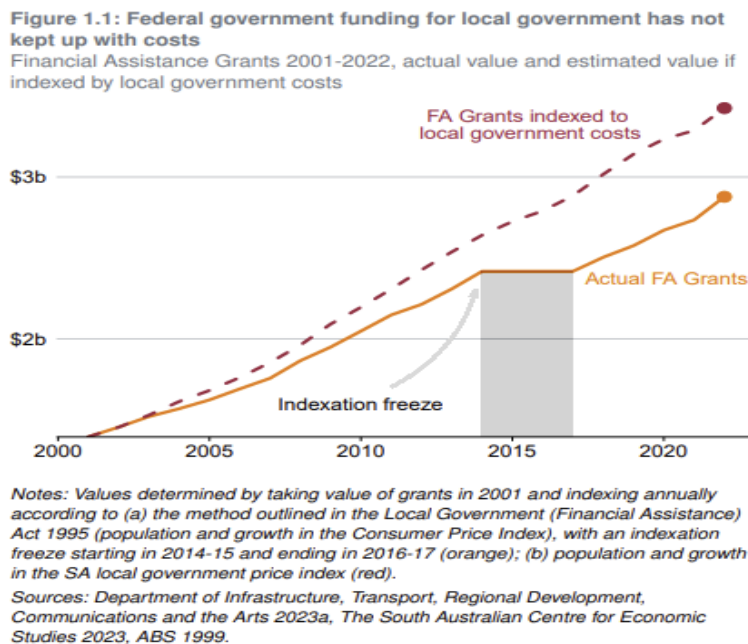
- As a percentage of total Commonwealth Government taxation revenue (excluding GST), the amount of Financial Assistance Grants made available to local government decreased from 0.76% to 0.57% from 2011/12 to 2021/22.
- That the vertical fiscal imbalance that exists results in the local government sector being vulnerable to policy settings of other levels of government, including the allocation of grant funding and transfer to local government from other levels of government.
- Unlike the Commonwealth and Victorian governments, the revenue base of local government does not expand in line with economic growth, due to the impact of rate capping and the Financial Assistance Grant funding model – due to rates and operating grants contributing 80% of revenue in the local government sector. This means while the Commonwealth and Victorian Governments can respond to demands for higher living standards as the economy grows (e.g. additional funding for better health services and better education), the local government sector is significantly constrained to meet the demand of the community for higher living standards.
- Between 2011/12 and 2021/22, Commonwealth Government taxation revenue (excluding GST) increased by 65% (or 31% in the five years to 2021/22) yet Victorian local government taxation revenue (municipal rates) only increased by 54% (or 16% in the five years to 2021/22).

Hepburn Shire Council calls for a fairer share of funding, to assist with the delivery of key services and infrastructure projects. Of note is that the Commonwealth Government taxation revenue (excluding GST) has increased by 65% over the last 10 years and 31% in the last 5 years, while Victorian Government taxation revenue for the states has increased by 98% over the last 10 years and 34% over the last 5 years. By comparison, local government taxation revenue (municipal rates) has only

increased by 54% over the last 10 years and 16% over the last 5 years.



Grattan Institute released their Pot Holes and Pitfall's report [Potholes and pitfalls: How to fix local roads \(grattan.edu.au\)](https://grattan.edu.au) which clearly demonstrates the growing gap between Actual Financial Assistance Grants provided and proper indexation for the same grant.



Source: Grattan Institute - Potholes and pitfalls: How to fix local roads report

With increasing community expectations and changing service delivery obligations, there is significant importance placed on Financial Assistance Grants and we cannot overstate the importance of them being appropriately indexed.

#### **Recommendation**

**Restore Financial Assistance Grants to at least one per cent of Commonwealth taxation revenue while maintaining other current Commonwealth funding programs.**

#### **Recommendation**

**The Government ‘reset the payment cycle’ with an additional once-off payment, to address the bring-forward of Financial Assistance Grants and then have a standard payment cycle.**

#### **Increasing Cost of Service delivery**

Maintenance and renewal of existing infrastructure assets has seen cost increases of between 10-30% over the past 3 years with no commensurate income opportunities. These cost increases, often being realised part way through project delivery, without any increase in grant funding supporting the initial project, have required Local Government to continue to fund the cost escalation to deliver the projects for our communities.

Council has investigated options for other income raising potential, regrettably without any practical options being identified. We have very limited ability to raise revenue from typical sources that are available to large urban centres such as parking fees and enforcement activities. Further, applying increased service fees for important community and social services is also not realistic, especially in the midst of a cost-of-living crisis.

In deliberating on budget constraints over recent months and acknowledging the increased costs and limited ability to generate other sources of income, Council supported two Notices of Motion at the 19 March 2024 Council meeting regarding long term financial sustainability.

In relation to cost increases, Council determined:

*That Council resolves to submit the following motion to the 2024 National General Assembly of Local Government:*

*“The National General Assembly urgently calls on the Australian Government to provide funding for the establishment and ongoing update of an annual Local Government Cost Index, given that the Consumer Price Index (CPI) issued by the Australian Bureau of Statistics (ABS) measures household inflation, which is not a true indication of the cost factors impacting on Local Governments. The Local Government Cost Index could be used to assess annual adjustments to recurrent grant funding.”*

### Recommendation

**That the Committee considers the establishment of a Local Government Cost Index to be used for annual adjustment to recurrent grant funding. This would be a more accurate reflection of cost adjustment for Local Government than the current Consumer Price Index issued by the Australian Bureau of Statistics.**

### Rate Capping

Although a State Government policy, the Committee should be aware of the impact of the Victorian State Government Fair Go Rates System.

Hepburn has, and continues to be a low rating Council. Prior to the introduction of the Capped Council Rates under the Fair Go Rates system, Hepburn Shire responsibly self-imposed a rate cap model for our communities which allowed ongoing service delivery however also required identification of operational efficiencies. The subsequent introduction of a state-imposed, one size fits all, rate cap, without an attempt to bring councils to a consistent foundation, has resulted in Hepburn being financially penalised with the rate cap being applied to an already low base. This is demonstrated in Hepburn Shire being ranked 61 out of 79 Victorian Councils in terms of lowest rating municipalities.

While deliberating on budget constraints over recent months and acknowledging the required service reductions effective 1 July 2024, council supported two Notices of Motion at the 19 March 2024 Council Meeting to support our long-term financial sustainability.

In relation to the rating system Council determined:

*That Council resolves to submit the following motion to the May 2024 MAV State Council meeting:*

*“That the MAV calls upon the Victorian State Government to undertake a comprehensive, independent review of the workings of the rating system, specific to the rate cap provisions. While acknowledging the State Government’s policy to*

*apply a rate cap, that the MAV seeks review of the application of the system – with the objective of improving its effectiveness and supports long term sustainability for rural, regional and metropolitan municipalities.”*

The requirement for all levels of government to be responsible with public money and deliver cost effective services is well acknowledged and the ability for individual municipalities, in partnership with their communities, to self-determine required service levels, and funding options, with their communities is of utmost importance.

Without this, Council is now preparing to reduce services effective 1 July 2024. We are also working through asset disposal options as a means of reducing costs and generating one-off income in the short term. Additional options are also being considered to secure our longer-term financial position.

### **Recommendation**

**That the Committee acknowledges that rate cap systems imposed by State Governments severely impact the ability of Councils to operate in a financial sustainable and responsible manner.**

### **Emergency Management and Recovery from Natural Disasters**

Unfortunately, Hepburn Shire has been severely impacted by three (3) declared natural disaster events since 2021 and our community has suffered significant impacts. As expected, these natural disasters also have a devastating impact on community Infrastructure. With the Disaster Recovery Funding Arrangements (DRFA) eligibility criteria tightening every year, the financial burden for repairing public infrastructure is increasingly shifting from other tiers of government to Local Government. We do however acknowledge, and are very appreciative of, the increasing support for mitigation infrastructure. From the last three events (excluding the pandemic) Hepburn Shire is currently covering a funding shortfall of \$4.460M, or nearly 30% of the expenditure incurred. This shortfall is the equivalent of over 20% of our annual rates income. This has required the deferral or cancellation of other services and capital projects to fund this need.

Given the high fire and flood risk environment of Hepburn Shire, the probability of future major natural disaster events is high. For this reason, Council remains mindful of the need to also invest in mitigation infrastructure, as well as make some long-term financial provision for future response and recovery efforts. For many communities and

individuals who are increasingly unable to gain cost effective insurance cover, the community turns to Local Government for these local solutions.

### **Recommendation**

**That the current review of the Disaster Recovery Funding Agreements is fast tracked and that reasonable scope for betterment is available for reimbursement as part of the guidelines and how they are interpreted.**

### **Changing infrastructure and service delivery obligations**

The increasing obligations placed on Local Government without any financial assistance to support the service delivery needs evaluating. Expectation on Local Government for increased action in many areas such as social and affordable housing, response to climate change, noxious weed management, emission targets, pool fencing compliance and so many other areas have passed a point of equilibrium.

Demands continue to increase, however investment has remained steady and the impact of deteriorating assets becomes more evident. Preliminary asset condition modelling forecasts an increase in assets falling outside service intervention levels. We currently have an annual asset renewal gap of \$1.5 million which is expected to increase as available funding is unable to match cost increases. National funding programs that target specific challenges, in a similar way to the highly valuable Roads to Recovery Program would be one such means of supporting service delivery in these areas. The recently announced increases in the Roads to Recovery Program is greatly appreciated.

There are also opportunities within the administration of many grant programs for efficiencies when local government is a key partner, which include:

- Reducing administrative requirements
- Remove or ease co-contribution requirements
- Allow for more flexible timelines
- Increased grants for planning and feasibility studies (particularly in regional and rural settings)

### **Recommendation**

**That the Committee takes steps to ensure that with any increased responsibilities placed on Local Government, they must be accompanied with commensurate funding to allow the requirements to be fully met.**



### **Attraction and retention of a skilled workforce**

Hepburn Shire is situated between two regional cities (Bendigo and Ballarat) who are often more attractive options for skilled workforce due to the often-increased remuneration package, greater career path opportunities, and the proximity to housing availability.

These influences make it very difficult to be competitive in the recruitment market for small regional councils. In addition, these larger centres also provide opportunities in the private sector for skilled professionals, which also impacts on Council's ability to attract and retain valuable team members. With the increasing reputational challenge faced by Local Government, and the restricted ability to compete with attractive remuneration packages, the private sector does often become a more attractive proposition.

When this is layered with the overall shortage of trained professionals for many of the traditional Local Government service areas, there is a relatively high staff turnover across the sector. Specific areas of expertise that have been difficult for Hepburn to recruit to include:

- Environmental Health Officers
- Town Planners
- Municipal Building Surveyors
- Asset Engineers
- Community Safety and Local Laws
- Senior Finance roles

A national program to promote the benefits of Local Government, alongside a national training program targeting specific career paths in Local Government would assist the sector greatly and secure a long-term pathway for strong service delivery by the sector.

### **Recommendation**

**In collaboration with Local Government implement a program of advertising and training targeted at improving Local Government career paths.**

### **Recommendation**

**That the Australian Government deem vital roles for Local Government, including statutory planning, as critical occupations and incentivise a new**

**generation of local government workforce by extending support to students studying in these fields.**

#### **Other relevant issues**

The cumulative impact of the above items and other impacts not specifically referenced above does result in a financially challenging landscape for the Local Government sector and Hepburn Shire specifically. With the implications of service cost rises, rate capping and other grant income not keeping up with cost escalations, a number of natural disasters, managing the pandemic and increasing community expectations, Hepburn is in an unenviable position for 2024/25 and beyond. This will result in reducing services and possible asset sales to continue base service delivery.

Hepburn Shire greatly appreciates the opportunity to provide a submission to this inquiry. Despite the financial challenges, Local Government has continued to reinvent how services are delivered and value our respective communities. Regrettably this has consumed any of the reserve capacity held in Local Government and is testament to the agility and commitment of the sector. We look forward to our continued partnership with the Federal government, and a shared vision of supporting our communities and allowing them to prosper.

Thank you for considering our submission, and we would welcome the opportunity to present before the Committee. We look forward to the work of this Federal Parliamentary Inquiry.

Yours sincerely,



Cr Brian Hood  
Mayor



Bradley Thomas  
Chief Executive Officer