

Inquiry into local government sustainability

House of Representatives Standing Committee on Regional Development, Infrastructure and Transport



Merri-bek
City Council

The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport will inquire into and report on local government matters, with a particular focus on:

- The financial sustainability and funding of local government
- The changing infrastructure and service delivery obligations of local government
- Any structural impediments to security for local government workers and infrastructure and service delivery
- Trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices
- The role of the Australian Government in addressing issues raised in relation to the above
- Other relevant issues.

Councils in Victoria are unable to raise their rates revenue to keep pace with the impacts of inflation and the related cost increases of delivering services, due to the rate capped environment. Merri-bek's rates and charges income makes up approximately 70% of revenue. Merri-bek adopted the Revenue and Rating Plan 2021 – 2025 on 24 June 2021. The adopted plan mentions how *the introduction of the Fair Go Rates System (rate capping) has provided substantial financial challenges to Council's long term financial sustainability and continues to restrict Council's ability to raise revenue to maintain service delivery levels and invest in community assets.*

Lost income streams

The below are two key examples where income was previously being received by local government and has since been removed and the income sits with state government.

Income from enforcement of Clearways – in July 2020 Councils were advised of changes to the enforcement of Clearways, with the State Government announcing the Clearways Management Program, impacting associated infringement revenue previously collected by Councils. The change was implemented without consultation and resulted in a \$0.5 million (based on the 2020 penalty unit value) impact based on lost revenue. The lost revenue increases in line with the annual increase in the penalty unit value, equivaless to lost revenue in 2023/24 of approximately \$0.6 million.

Council has not been able to offset the reduction in income with a reduction in staffing levels, vehicle and equipment expenditure as the same number of Parking Officers required to enforce other parking regulations remains the same.

Planning Permit application income

State government planning reforms have increased the matters that are now decided by the Minister for Planning rather than Councils, including, developments by private schools, development projects with affordable housing fully or partly funded by Homes Victoria, State funded projects and significant developments meeting development costs thresholds from \$10 million or greater. The fees for the assessment of these significant projects can be \$62,000 per application. The lodgement of an estimated 6 significant applications with State government alone would reduce income by \$372,000 without considering the various other private school, state projects or affordable housing proposals.

Additional reform changes which make more planning applications eligible for the VicSmart planning process also then attract 50% of the standard planning application fee. In the case of VicSmart changes Council staff are still tasked with completing an assessment of the application at half the fee and in all other examples Council officers are notified or referred the application with the need to complete a full assessment to inform advice to the State Government on whether Council supports or opposes the proposal. The assessment includes a range of internal expert input on such matters as traffic engineering, parking, heritage, urban design, waste management and environmental sustainability to inform conditions of any permit, observing the reliance of State Government Planners on this Council expertise, to complete recommendations and prepare planning permits for the approval of the Minister for Planning.

Reduction of grants

The below are examples of some key areas which previously had greater levels of funding by the state government which has reduced over the years. In all these services, the level of payment Council receives (or the absence of payment) from government does not reflect the true cost of providing the service to the community. This then leaves the financial burden to be borne by ratepayers within the municipality.

While Council is fully supportive of the services listed below and the positive impact that they have on the community, these services still pose a significant financial cost in a rate capped environment.

Libraries – in 1975, public libraries were funded 50/50 by the State Government and Local Government. In the 2022/23 year, State Government funded 20% of the operating costs of running our five public libraries, with Council now contributing 80% of the total costs. As a result of this reducing grant funding Council is now incurring \$4.8 million to the cost of the libraries, which is \$1.7 million more than if the funding split remained consistent.

Libraries are an important resource for communities during times of financial stress – libraries provide a safe and free venue for families to spend time together, workers and students can access free wi-fi and workspaces and there are no cost wellbeing and educational opportunities. It is important that libraries are appropriately funded so that they can continue to provide a financial buffer for community members in need.

Council also funds a significant capital investment annually of approx. \$1.1 million for purchases of books and furniture. Whilst our five libraries are an integral part of our community, the funding is not keeping pace with inflation, rising costs and increases in demand for library services.

School crossing supervision – when the school crossing supervisor program was established, it had an 80/20 funding split with the State Government paying 80% of the cost. This has since diminished significantly, despite an increase in funding 10-years ago. In the 2022/23 year, the State Government funded 46% of the school crossing program with Merri-bek funding the remaining 54%. Council is now incurring a cost of \$0.6 million to run this program, which is \$0.3 million more than if the original funding split remained consistent. The number of approved school crossing sites has increased over the years as the road conditions change e.g. higher volumes of vehicles on roads, resulting in additional costs to Council.

Local Governments are not obligated to provide any school crossings under the Local Government Act, however if this service was not provided it would have a significant impact on the community.

Change in regulations, legislation or policy

The below are several key examples of areas where a change in regulation or policy has resulted in additional costs incurred by local government. A change in policy or regulation is becoming increasingly more difficult to implement in the rate capped environment.

While Council is fully supportive of the services listed below and the positive impact that they have on the community, these services still pose a significant financial cost in a rate capped environment.

Tree pruning - Tree pruning around powerlines is required by Councils in accordance with *Electricity Safety (Electric Line Clearance) Regulations 2020* which was introduced by the State Government in response to bushfire concerns. It is estimated that Council now incurs approximately 50-70% (\$0.5 - \$0.7 million) additional expenditure in relation to the new regulations.

Swimming pool regulations – new laws were introduced by State Government on 1 December 2019 to improve safety around private pools and spas. These include requirements to register all 1500+ pools/spas with Council for a nominal fee and to obtain a certificate of swimming pool or spa safety barrier compliance every four years. The change has increased the regulatory burden on Council to both administer, monitor and enforce this new legislation through maintaining registers, sending notices and reminders administering fines and undertaking compliance activities given the known safety risks if pools are not registered or checked for safety barrier compliance when required. When a private certifier provides a Certificate of non-compliance Council has an obligation to then take enforcement action to achieve compliance. The nominal fees associated with these new requirements fall well short of covering Council's costs.

Concern is also raised with further building reforms which have been muted to increase Council's responsibilities for essential building fire safety measures regular compliance certifications and orphaned/detached building permits issued by a private building surveyor which have not been finalised. This can be due to a range of circumstances, such as retirement, insolvency or de-registration of a private building surveyor.

Cladding remediation works - Over the last four years Statewide combustible cladding audits have required Council's to step in and undertake compliance action to address buildings approved by private building surveyors which contain combustible cladding. Council has resolved approximately 60 buildings over this time to address the concerns of both community and building owners. After more than 3 years the State Government has handed back to Council from the Victorian Building Authority a further 71 building rated as high risk for resolution. These comprise of buildings with combustible cladding that is unresolved as well as 40+ buildings that while they have had cladding removed also have various unresolved fire safety compliance issues. While as of 2024 some funding support has been provided to assist with those remaining buildings with combustible cladding no funding is available to assist with the 40+ buildings with various unresolved fire safety compliance issues.

Early years reform – the State Government has introduced the largest reform of early childhood education in Victoria's history, which entails redesigning the kindergarten service so all Victorian children can access two years of funded kindergarten prior to formal schooling. The introduction of universal 15 hours per week of government funded 3-year-old kindergarten and the increase from 15 hours to 30 hours per week for 4-year-old kindergarten programs has required significant capital investment by Council. The draft budget for 2024 – 2028 includes \$22.2 million for early years' facilities, of this \$15.7 million is funded by Merri-bek.

Council does not directly operate or manage Early Childhood Education and Care (ECEC) services however we do provide a Central Registration and Enrolment Scheme (CRES) for not-for-profit kindergartens and long day care services with the majority operating out of council-owned or head leased facilities. There are currently 25 kindergartens and 10 long day care services taking part in CRES which provides an equitable, streamlined registration and enrolment scheme into participating ECECs. The total staffing cost to deliver CRES is \$326k per annum with a new grant being received by the State Government of \$126k per annum, resulting in council funding the shortfall of \$200k per annum. While there is no explicit obligation under the Local Government Act to provide early years infrastructure, Council has a long history of supporting children and families to access and participate in ECEC. Council provides peppercorn leases for 24 council-owned early years facilities and head leases 2 early years facilities from Department of Education which are managed by not-for-profit Committees of Management and Early Years Management.

Climate change response & mitigation – Legislation under the Climate Change Act of 2017 and the Local Government Act of 2020 require Councils to mitigate and plan for climate change risks, to integrate climate change into decision-making, and to consider climate change in municipal public health and wellbeing planning. Merri-bek City Council recognises that the climate emergency presents an unprecedented challenge and are proud to be a part of the movement taking urgent action to reduce emissions and address climate change impact. Our Zero Carbon Merri-bek (Climate Emergency Action Plan) and Climate Risk Foundational Action Plan guide our efforts to achieve net zero carbon emissions for the entire Merri-bek municipality and to proactively manage climate risks.

Our dedicated sustainability & climate team (and delivery projects) costs approximately \$4.6 million per annum as per the 2023/24 adopted budget. This cost estimate is a minimum as it is extremely difficult to quantify the full cost of climate change response (adaptation and emissions management) across the whole organisation. Merri-bek incurs a significant (and increasing) cost impact in dealing with the effects of climate change, particularly in relation to public infrastructure, climate change adaptation and managing climate change risk.

The estimated average annual damages from climate hazards for Merri-bek City Council was estimated by NCEconomics in a 2023 report to be in the range of \$1-2 million today, to be \$3-5 million by 2050 and to be \$4-8 million by 2100. This costing is underestimated as it mostly covers extreme heat damage to physical infrastructure. This does not cover the cost of upgrading ageing buildings to improve the safety and thermal comfort of occupants, or changes to service provision, staffing, and flexibility and increase in service delivery to support the most at-risk community members. This also does not include the cost of increased drainage capacity, water sensitive urban design infrastructure, and cleansing and maintenance services to manage stormwater flooding.

Waste – the introduction of the *Circular Economy (Waste Reduction and Recycling) Act 2021* has required significant up-front cash contributions by Council. While Council has a fully cost recovered waste charge, Council has contributed approximately \$7.5 million in cash to fund the purchase of bins for the 4-stream roll out in 2023, these costs will be recovered over the next 10-years. These additional costs still reflect an increase on our annual rates notices to ratepayers and are creating a cost burden to the community who have seen the waste charge increase by upwards of 10% annually in some years.

The key contributing factors to this waste charge increase have been the landfill levy and the roll-out of the 4-bin service.

Community engagement / changes in legislation: The Local Government Act 2020 includes the need for a community engagement policy and the principles that must be adhered to, including deliberative engagement practices key ideas. Council now incurs approximately \$0.9 million annually in community engagement costs and then every four years an additional \$0.2 million for the deliberative engagement specific to the Community Vision, Council Plan, Financial Plan and Asset Plan.

Child safety standards – New child safe standards came into effect 1 July 2022. As a result of these updated standards, Council incurs the ongoing cost of a part-time position of approximately \$0.1 million per annum.

Local Governments response to additional financial pressures

Local governments capacity to respond to the above cost pressures are limited, all having potential detrimental consequences to the municipality. The options available are:

- Reduce investment in other services;
- Reduce expenditure in the capital works program which would not allow for 'new' assets, rather focusing expenditure on upgrading or renewing existing assets;
- Advocate for additional funding to help offset the additional costs and/or reduced revenue;
- Exit or reducing the service;
- Seeking an exemption from the rate cap, which ultimately may not be supported by the State government.

The above examples are some of impacts that Merri-bek City Council have been financial impacted by either reduced grant funding or a change in policy, legislation or regulations.