

TRANSCRIPT

LEGISLATIVE ASSEMBLY ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Commonwealth support for Victoria

Melbourne—Wednesday, 15 December 2021

MEMBERS

Mr John Eren—Chair

Mr Gary Blackwood—Deputy Chair

Ms Juliana Addison

Ms Christine Couzens

Ms Steph Ryan

Ms Kat Theophanous

Mr Nick Wakeling

WITNESS (*via videoconference*)

Mr Troy Edwards, Executive Director, Policy and Advocacy, Municipal Association of Victoria.

The CHAIR: Good morning and welcome, Troy, to the hearings for the Legislative Assembly Economy and Infrastructure Committee's Inquiry into Commonwealth support for Victoria. All mobile telephones should now be turned to silent.

All evidence taken by this Committee is protected by parliamentary privilege. Therefore you are protected against any action for what you say here today, but if you repeat the same things outside this hearing, including on social media, those comments may not be protected by this privilege.

All evidence given today is being recorded by Hansard. You will be provided with a proof version of the transcript for you to check. Transcripts will ultimately be made public and posted on the Committee's webpage. Could I please remind members and witnesses to mute their microphones when not speaking, to minimise interference.

Troy, if you can give us a brief 10-minute opening statement, we will proceed to ask questions accordingly. Thank you for being with us today.

Mr EDWARDS: Thank you, Chair, and good morning to Committee members and secretariat staff. First off, let me just say how thankful we are to have an opportunity to discuss today with you local government support for Victorian councils. We acknowledge that the primary focus for the Inquiry is on the no-worse-off guarantee and the Commonwealth-state aspects of the Commonwealth financial relations. But we just felt it was important to share with you the role the Commonwealth does play in providing financial support to Victoria's 79 councils, and that has obviously been going on since the early 1970s.

I guess the key point I would make right from the get-go, Chair, is that Commonwealth support is a vital component of the financial sustainability for Victorian councils. That support comes through both untied Financial Assistance Grants and a range of specific purpose grants, and I will come to both of those in turn briefly as well before we get to a bit of a conversation. As we know, the Commonwealth financial relations in Australia are designed around vertical fiscal imbalance, which kind of recognises that most of the taxation power sits with the Commonwealth. But at the same time that system is based on horizontal fiscal equalisation and again a general principle that all Australians should expect to get a relatively comparable standard of service regardless of where they happen to be, and those are two principles that are important in the context of financial support for local government.

In 2018 and 2019—these are figures we generally use—local governments nationally raised about 3.4 per cent of all public revenue, states and territories around 15 per cent and I think if my numbers are right the Commonwealth about 82 per cent, and they are generally the reference points we have. So there is clearly quite a bit of revenue-raising imbalance across those levels of government. The equalisation feature is critically important though, and that is where I guess the state of Victoria and councils benefit from having a relatively objective process through the Commonwealth Grants Commission and then the Victorian Local Government Grants Commission to distribute that funding on relative need. So it is really important for the financial sustainability, as I noted before.

For councils where in particular there are large asset bases, that revenue that comes from other levels of government is really important to making sure that those assets can be maintained. Just to give you some general reference points, the Victorian Auditor-General's Office in their 2018–19 report noted that Victorian councils generate around \$11.6 billion in revenue but manage an asset portfolio worth about \$103 billion, so you get some sense of the imbalance there. By comparison on a similar set of assets the state of Victoria collected almost \$79 billion in revenue and managed \$270 billion in similar assets, so there is quite a bit of difference in the capacity that sits there as well. I would also note that there is quite a pronounced difference particularly around rural and regional areas, where those extensive road networks can really start to add up when it comes to some of the asset burdens that councils carry, which is where untied Financial Assistance Grants become critical for local priorities and local needs to be appropriately funded based on local information. I guess many of these services and infrastructure are not particularly exciting things, when you are talking about drains and roads. They are not things that people often think a lot about, but they are certainly critical to how our communities and our economies function as well.

At the same time it is probably just worth noting that the rate cap policy that we have in Victoria does restrict councils' capacity to raise own-source revenue, and when that is kind of linked to cost shifting of key

responsibilities—and often those are things that local government willingly go into—it does reduce the capacity for those local aspirations and local needs to be funded by councils outside of being reliant on grants. And I guess today's newspaper had some interesting commentary around grants and some of the challenges that come with that too.

Just coming to Financial Assistance Grants themselves, in Victoria in 2021 \$647 million came from the Commonwealth to Victorian local government in two components: a general-purpose component, which was around \$470 million, and a local roads component of \$167 million. Overall Financial Assistance Grants from the Commonwealth are around 34, 35 per cent of all grant revenue received by councils in Victoria, and that is around 7 to 8 per cent of all underlying revenue, so it is quite a big component there. In terms of specific-purpose payments from the Commonwealth to do dedicated activities, Victorian councils in 2018–19 received around \$465 million, and most of those were in areas like aged and disability services, family and community services, and recreation and culture. So they do receive a range of those specific-purpose grant payments as well.

In terms of the Financial Assistance Grants in the \$467 million, there are probably a couple of key points to make there in terms of the benefits. The first is that they are distributed in terms of community need, which allows councils to make sure that they are delivering a comparable service and allows them to address those national issues. Secondly, it is not a competitive process, and again that is an important point: through the work that is done by the Victorian Local Government Grants Commission and their team, councils provide a range of information on their revenue-raising and expenditure activities, and then a quite sophisticated formula is used to make a distribution on relative need. So it is generally a clean process which reduces some of the potential for other objectives to emerge on that process as well.

They are probably some of the key points worth making. As I said, Financial Assistance Grants from the Commonwealth are a critical source of untied income and in many ways the only source of untied income that councils have other than rates revenue, which does allow them to ensure that local infrastructure and services can be delivered to meet local needs and aspirations, and we would certainly be wholeheartedly supporting a continuation of Financial Assistance Grants from the Commonwealth to Victoria in that untied way across both those categories. Thank you.

The CHAIR: Thanks, Troy. I might kick off the questions. Obviously the past just over two years have been really terrible for communities right across the state and right across the nation, and clearly governments have a duty of care in relation to all of those obligations to keep people in jobs as much as possible and to make sure that we have the best health care possible right across the nation in terms of looking after their health and the challenges that have culminated from COVID. Clearly all of the treasurers right across the country—indeed right across the world—would be finding it challenging to have a surplus in their budget bottom line. I would imagine that councils would be the same, because questions are then asked—I know in Geelong: why would you have a surplus when so many people need your services at this critical time? So there are challenges in relation to having the budget in the red. But what are the main challenges to the financial sustainability of Victorian councils, and how can we address them in the short term, medium term or long term?

Mr EDWARDS: That is a big question, Chair, and we would wholeheartedly agree around some of the broader financial challenges facing all public bodies, all public agencies—councils are no different. There are some underlying structural challenges that are not going to go away and I think we particularly see that out in the west of Victoria, where you have significant road networks and you have smaller communities, farming communities. The revenue that is required for them to continue to maintain those assets is probably never going to be easily fixed. That is where I think appropriate grant programs from the Commonwealth and the state are going to help that.

One of the challenges really for local government is around making sure that the discretionary capacity of local communities is not removed. I am kind of getting to the point of saying what we would want is communities to be able to make sure that they can support the investments that they think are critical in the tough times—and we saw that through COVID, with almost all councils in Victoria providing a range of business incentives, removing fees and charges for business communities, a lot greater access to rate waivers and those types of things. I think we need to keep that. But I think for councils it is about: how do we ensure that their independence can be maintained as much as possible and they do not become overly reliant on the largesse of

other levels of government? Which does, I think, become problematic with the less high profile services and infrastructure that they need to deliver.

The CHAIR: Thank you for that. Gary, do you have a question?

Mr BLACKWOOD: Yes. Thanks, John. And thanks, Troy, for your submission and your presentation this morning. I am going to take you to disaster management, Troy. I am from Gippsland, and we have had floods and we have had fires and we have had a number of natural disasters over the past little while. How do you think the Commonwealth can better support councils in the recovery phase and the mitigation of the impact of disasters?

Mr EDWARDS: Yes, that is a really important issue, Gary. The Commonwealth does play a strong role, and they have over time I think probably played to their strength, which is to provide financial support. Certainly since the fires in 2019–20 the Commonwealth has created more structure and public policy focus at national level around disasters and disaster relief, but at the same time it has maintained the ability to access the funds that are needed.

There are probably some things there that local government struggles with when it comes to accessing disaster relief funding arrangements, and some of those requirements are things like pre asset condition photographs of roads. Now, for a lot of our small rural and regional councils, you know, they do not have the capacity to hold that data or indeed have it, so that when for example—a flood is probably a good one on roads—a flood comes and washes away a road, really the idea of building back better and saying, ‘Actually, let’s just replace the road rather than having to replace the road to the standard it was at can be I think a bit detrimental.

I would observe that in Queensland there seems to be a different cultural approach to natural disaster funding arrangements, where the state and local government sectors are a lot more closely aligned and the money seems to flow a lot quicker. In Victoria at the moment I guess our concern would be there seem to be a number of kind of bureaucratic steps involved and many of the communities that have been impacted and the councils are struggling to get swift access to the money. I think a handful of councils after the storm events earlier this year are probably still having to go through a few processes to access that funding. So, whatever we can do to truncate that we would gladly appreciate, I think would be the key point.

Mr BLACKWOOD: Thanks, Troy.

The CHAIR: Thank you. Chris, did you have a question?

Ms COUZENS: Yes. Thanks, Chair. Thank you, Troy, for your contribution today. We really appreciate it. How does the Commonwealth currently support councils to build resilience to climate change?

Mr EDWARDS: I will approach this gently. I think tentatively at this point in time. We are starting to see, for example, some of the coastal resilience and infrastructure hardening type programs emerging from the Commonwealth, but through our national Australian Local Government Association we have been arguing for greater involvement of the Commonwealth in setting appropriate climate change policies. I think from a Victorian perspective one of the things we would like to see is the Commonwealth focused on using the policy tools that they have that are most effective. So, for example, on climate change we are perhaps a little bit disheartened when the Federal Parliament comes out and says, ‘Well, we want standardised bin lids around the country’. I think our view is that that is the type of thing that Victorians can decide with state and local governments. Let us have the Commonwealth focused on the key things that the Commonwealth can deliver, whether it be appropriate tax incentives, macroeconomic reforms, that can really drive climate-positive behaviours. I think we are starting to see a bit more of that appetite emerge, but that would be my comment there. There is more to be done, and let us make sure that the Commonwealth are doing the things that they are good at, let us make sure the state are doing the things they are good at and let us make sure councils are doing the things that they are good at when it comes to tackling climate change.

The CHAIR: Thank you. Nick, did you have a question?

Mr WAKELING: Yes. Thanks, Chair. Troy, thanks very much for your presentation. I am just interested to get your view on Federal support not just for Victoria but how we compare with the support for councils in other states and territories. Do you have any read on that?

Mr EDWARDS: Yes. Look, I think you are just testing my numbers a little bit now. I think we would get around 26 per cent of the total Financial Assistance Grants pool flowing to Victoria based on population, and obviously as we have been growing, that pool has been growing—or our share of the pool has been growing, rather than the pool itself—to the detriment of those states that have not had the growth. Obviously with the last two years, as the Chair pointed out, it has been a bit of a challenge and we have seen that growth slow. The local road component is slightly different, but we get just over 20 per cent of the total pool there. So I think on a general principle Victoria does well, as long as it is growing.

The local government sector nationally has a view that the challenge for all parties at the Commonwealth level is to actually increase the pool of funds and restore it to the 1% of total Commonwealth revenue, which is where it was pegged at when the Financial Assistance Grants were created. And that has kind of been eroded over the years, so as usual everyone wants more money. We understand it is not always there, but I think Victoria does get a fair share through financial assistance grants. We could always do with more. We certainly continue to argue that we should retain the capacity to hang on to minimum grants for all councils to ensure that all taxpayers get some benefit from Financial Assistance Grants through the minimum grant process. I think we would also argue that we want to make sure that those states that go through local government reforms, like we did in Victoria in the mid-90s, which has strengthened our sector by reducing us from 210 councils to 79, get a benefit too. We would not want any state that does that reform to be penalised either, at the national level.

The CHAIR: Thank you. Kat, did you have a question?

Ms THEOPHANOUS: Yes. Thank you, Chair. Thank you, Troy. I am interested in the section of your submission relating to community services. I am conscious that local government plays an extraordinary role in delivering services at a community level, particularly for elderly people and people with disability as well as young children and families. So my question is really about: how could the Commonwealth improve how it supports councils to provide these services?

Mr EDWARDS: Yes. That is a good question. There are probably two things I would say straight off the bat. Obviously with the Commonwealth moving to take more control of aged care, the traditional role Victorian councils have played is changing and we are transitioning away from direct service provision, so that level of specific-purpose payments will reduce in line with other states over time. But when it comes to early years programs and the universal access partnership, probably the biggest improvement I think would be longer time windows on some of those grant programs, to provide better certainty for planning. Often being caught in one-, two-, three-year-type cycles can be quite hard when it comes to councils planning, for example, their capital program. When money is tight you perhaps need longer time windows to ensure you can build, say, new early years facilities for kindergarten programs and day care and make sure that those time windows are longer to give us a bit more stability around just being able to deliver the service.

We are probably seeing that the shorter time frames are adding to some workforce pressures for the sector as well, in terms of ensuring we can plan to access, for example, early years workers to work in these facilities that we are building as well. So again, having longer time windows helps that, which I guess comes back to some of the preferences the sector would have for maintaining untied grants as a critical thing that allows councils the flexibility then to make sure those programs can be dealt with on their own business cycles.

Ms THEOPHANOUS: Thank you.

The CHAIR: Thank you. Any further questions, anyone? Yes, Chris.

Ms COUZENS: Thanks, Chair. What impact has the COVID-19 pandemic had on the councils' finances and how can the Commonwealth help address this?

Mr EDWARDS: Yes, it is another good question. Certainly council revenue has taken a hit through the waiving of fees and rates on a whole lot of different business classes and certainly some of the service demands have increased as well, just in terms of the cost of doing business. We know from our work with our interstate colleagues that the states are experiencing that as well. The Commonwealth provided a local roads and community infrastructure program, which was extended. More than \$1 billion was literally distributed to the states, based on the formulas used for financial assistance grants, and that has been critical in keeping many of the capital programs on the go. Programs like Working for Victoria at the time were also important in allowing councils to perhaps support their communities by providing more local employment for local people and also

allowing councils to deliver additional things on their works programs and service programs that they might not have got to. So that was greatly appreciated too.

There have not necessarily, though, been a lot of dedicated programs from either the Commonwealth or the state with the sole label of COVID support, and that has been kind of interesting. Certainly for councils as employers in certain employment classes we were perhaps disappointed that the Commonwealth did not provide access for JobKeeper programs at the time as well, particularly in the commercially centred operations of councils—so think about things like galleries, swimming and aquatic centres, those types of things. We had situations where councils that had contracted that out, staff were able to access JobSeeker. Councils that actually ran those services themselves were not able to access JobSeeker, so there were a few anomalies through that exercise as well.

The CHAIR: Thank you. Any further questions? Yes, Nick.

Mr WAKELING: Thanks, Chair. Just quickly, Troy, if I may, I would just like your view on the adequacy of Federal investment in Victorian infrastructure, particularly as it relates to local government. A few of us have probably been on local government before, so we understand the challenges of local council.

Mr EDWARDS: If I come back here, we could always do with more money. What is an appropriate level of money is a challenge. I think one of the preferences we would have is trying to make sure that local government can approach infrastructure programs as objectively as possible. Sometimes when we have other levels of government with particular grant programs delivering potentially on their priorities—sometimes they overlap with local governments—council can often want to chase that program, say, with matched funding, and that just means that other things get left behind, and that can be a challenge. There are lots of positives of that approach too, though. So, for example, some of the investment in community sporting infrastructure to ensure that there are appropriate facilities for women and girls is something the sector fully supports, and finding match funding for that has been, I think, a good incentive for the sector.

But there are other programs where I think we are probably seeing longer lead times now for infrastructure investment because the revenue constraints through rate capping and the like mean that perhaps if councils might have done three or four recreation projects in a four-year council plan, they might only do one or two now, and they are having to stretch that out, and that has a community impact too. I accept that there is never going to be enough money to do everything right on time to everyone's satisfaction, but there is no doubt that we are probably experiencing a bit of a slowing, and it is leading to, I think, some communications with community about what is the right level of asset and service provision that they are willing to pay for and accept as well.

The CHAIR: Thank you. I might ask a question about the impact of indexation freeze. Your submission mentions the three-year freeze on Financial Assistance Grants from 2014–15 to 2016–17. In what ways is the freeze still affecting councils today, and what level of increased funding would be adequate to address the impact of the freeze?

Mr EDWARDS: Again, a good question. Based on our numbers we would think that the pool available to Victorian councils is about 12 to 13 per cent lower than it would have been. So that is another, say, \$40 million or \$50 million that Victorian councils are not getting. I think our view would be it would be great to have that money restored. I think realistically we would accept that that is not possible. But what could be possible—and we would be willing to pursue with the Commonwealth—is to try and return the percentage of Financial Assistance Grants as a percentage of total Commonwealth revenue to the level it was at before the 2014–15 freeze. That would be, we think, a more acceptable outcome, I guess. I am probably a little bit tentative there, Chair. I do not have our president here, so I would not want to overcommit, but I think we have got to be realistic.

The CHAIR: You are very diplomatic, Troy. Any further questions? No? Any further comments you would like to make, Troy?

Mr EDWARDS: No. Look, just thank you for the opportunity. Obviously local government works closely with both the Commonwealth and the state to deliver for the community, and it is terrific to have the opportunity to (a) have a conversation with you but (b) make sure that we get the point across.

The CHAIR: Thank you for your submission and thank you for your presentation. Have a good day.

Mr EDWARDS: Thank you.

Witness withdrew.