

TRANSCRIPT

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Local Government Funding and Services

Frankston – Wednesday 25 September 2024

MEMBERS

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David Davis – Deputy Chair

John Berger

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Sonja Terpstra

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Gaelle Broad

Georgie Crozier

David Ettershank

Michael Galea

Renee Heath

Sarah Mansfield

Rachel Payne

Richard Welch

WITNESSES

John Baker, Chief Executive Officer, and

Bulent Oz, Chief Financial Officer, Mornington Shire Council.

The ACTING CHAIR (Evan Mulholland): I declare open the Legislative Council Economy and Infrastructure Committee's public hearing for the Inquiry into Local Government Funding and Services. Please ensure that mobile phones have been switched to silent and that background noise is minimised.

We welcome any members of the public here today and watching via the live broadcast. I would like to start by introducing our committee colleagues, starting with myself, Evan Mulholland, Member for Northern Metropolitan Region.

Bev McARTHUR: Bev McArthur, Member for Western Victoria Region.

John BERGER: John Berger, Member for Southern Metro.

Sarah MANSFIELD: Sarah Mansfield, Member for Western Victoria.

The ACTING CHAIR: Thank you for joining us, Bulent and John. I remind you that all evidence is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide during the hearing is protected by law. You are protected against any action for what you say during the hearing, but if you go anywhere else and repeat the same things, those comments not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof version of the transcript following the hearing. Transcripts will ultimately be made public and posted on the committee's website.

For the Hansard record, could you please state your name and the organisation you are a representative of.

John BAKER: John Baker, Chief Executive Officer of Mornington Peninsula shire.

Bulent OZ: Bulent Oz, Chief Financial Officer, Mornington Peninsula Shire Council.

The ACTING CHAIR: Excellent. Thank you so much for being here. I will invite you to make your opening statement, kept to a maximum of 10 to 15 minutes.

John BAKER: Thank you. First of all, thank you for the opportunity to present our submission. I am very pleased to participate in the Economy and Infrastructure Committee's inquiry hearing into this hugely important area around local government funding and service delivery. That is following, of course, our submission to this important inquiry.

To give you a quick summary of Mornington Peninsula shire, our local authority is a unique mix of urban and rural and coastal communities who need a wide breadth of different services spread across what is a very diverse municipality, including 10 per cent of Victoria's coastline. We have got a growing population of 170,000 people, forecast to grow to around 180,000 by 2036.

Our LGA is 70 per cent green wedge, and we deliver more than 100 community services across an area of 723 square kilometres. We also of course have a state significant tourism industry with 8 million annual visitors – that is more visitors than you get at many very famous tourist destinations elsewhere – which places a huge additional financial challenge on our budget due to infrastructure demands. The shire, despite that, is the eighth lowest rating council in Victoria, \$400 lower per property than the average rateable property across Victoria, with very low borrowing.

Our commitment to prudent financial management has seen us successfully cut costs and find efficiencies to maintain balanced budgets. However, the shire cannot indefinitely deliver more and more with less adequate funding.

I would like to highlight three broad challenges today, including financial issues, state government policy impacts and strategic planning challenges, using the three examples of rate capping, cost shifting and of course the waste service charge. To start with cost shifting, councils are increasingly responsible for services, including foreshore management, libraries and kindergartens, and the fiscal reality is that our core service delivery is competing against new responsibilities for resources and budget. We have done extensive work on this cost shifting issue. Indeed, our mayor has undertaken a benchmarking exercise with some other local authorities impacted in a similar way to ours, and we are obviously happy to make that report available to the committee. He is actually in the audience today.

The shire developed a report that provides an evidence base and quantifies the impact of government cost shifting, which makes for some pretty stark reading. The report includes analysis of the total cumulative cost impact to both our community and the shire over the next four years, which will range from \$38 million to over \$238 million by 2028, and these figures do not consider the negative compounded impact of the previous years of rate capping.

To talk about rate capping, the rate cap declared by the minister applies uniformly across all councils, limiting the increase in average rates. We acknowledge the intent behind the rate cap, which is to enforce fiscal discipline for councils, but I would like to highlight a few challenges associated with rate capping. With 81 per cent of our revenue coming from rates, rate capping limits our ability to adjust income in line with inflation, threatening our financial stability and the ability to deliver essential services. The way the rate cap was introduced and how everything just stopped very suddenly at that point meant that councils with a lower-than-average rate cap when the cap was introduced are likely to face much greater financial challenges sooner than others.

For Mornington Peninsula, with an average rate income of \$1653 per rateable property, the effects of reduced income have become evident. Our average rate is approximately \$350 lower than interface councils' average and \$400 below the state average, translating to a loss of about \$40 million to \$42 million in rates income per annum since the introduction of rate capping. Over time councils with lower average rates will experience a decline in service levels due to the compounding effect of the cap.

In our proposal we have put forward an argument that the state government should consider relaxing the rate cap variation request for councils with average rates below the state average to allow them to level up. This adjustment could be implemented over several years, helping to ensure financial sustainability and maintaining service levels but also providing an equitable base to look at the rate cap going forward.

The next issue of course is about the rate cap versus CPI, and I am sure it has been very well documented in other submissions. Our Council expenses generally increase higher than CPI, particularly for capital projects. The rate cap applies to the average rate each year, and councils that apply a rate cap below the minister's set rate or who choose not to increase rates to the cap level and rate cap below the CPI experience significant ongoing reductions in revenue, with of course an accumulative effect.

A rate cap below CPI results in real revenue decreasing for that year and for future years. The rate cap over the last few years was significantly lower than CPI. Just as an example, CPI for FY 2021–22 was 6.12 per cent, whereas the rate cap was 1.5 per cent. The impact was reduced income for FY 2021–22 of \$7.5 million – or \$84 million cumulatively over 10 years. Similarly, CPI for FY 2022–23 was 6 per cent and the rate cap 1.75 per cent, and the income was reduced by \$9.6 million – or over 10 years cumulatively \$77.7 million.

I have personally observed the impact of rate capping. You may have gleaned from my accent that I am from the UK. I was a chief officer in the United Kingdom for a significant period of time, and I cannot emphasise enough the challenges associated with rate capping over a significant period of time if it is not handled sensitively. I do believe that it is a realistic option to do rate-cap setting and consider levels below inflation rates in prior years, but I do think that without sufficient state funding we are going to face pressures, including reduced government grants, high inflation and rising costs that far exceed the revenue-generating constraints imposed by the rate cap.

The last area I need to talk about is the waste service charge. The way the new waste service charge and recycling charges were introduced took the sector by surprise. With minimal consultation, they added somewhere in the order of \$68 million in costs over five years at the stroke of the minister's pen. Additionally,

the new guidelines issued by the minister late last year will significantly impact our services and capital works program, as they alter the interpretation and applicability of the waste service charge. We expect this change to result in an annual cost impact of \$15 million to \$18 million. And remember, there was very little consultation on this.

When Mornington Peninsula shire introduced the waste service charge in the 2016–17 financial year, to be prudent we simultaneously removed the municipal charge, which existed across a lot of local authorities and still does in some local authorities. At that time, in the absence of any clear guidelines, we interpreted the Act to define the waste service charge to encompass all of those waste-related services, including waste collections and disposal, street sweeping, footpath sweeping, beach cleaning – remember, we have 10 per cent of Victoria’s coastline – street and drain collections and the provisions of course for future landfill works. Now, this comprehensive approach was intended to ensure that the charge covered all aspects of waste management beyond just bin collection and street cleaning adjacent to properties. This was reinforced by a number of Supreme Court decisions as well, so the regulatory environment that we were operating in had been clearly defined. And once again I emphasise that with the stroke of a pen and very little consultation the waste service charge was fundamentally changed. The recent guidelines have redefined the scope of the waste service charge without prior consultation with councils. This change introduces an additional financial burden that was not anticipated in our financial projections and poses a challenge to our ability to plan effectively for future service delivery and infrastructure investment.

I do believe that part of the ongoing discussion following this inquiry should not just be about those issues that we have highlighted but should be about developing a more collaborative approach between local councils and the Victorian government, the regulatory environment and the potential for alternative local government multiyear funding models and revenue structures. We need a better conversation. I am happy to take questions.

The ACTING CHAIR: Thank you so much for that introduction. I will just start off with a couple of questions and then go to my colleagues. Has your council recently been advised of a new immunisation charge from the state government?

John BAKER: I am not aware of a new immunisation charge. That is not to say that we are not aware of it, but I am not personally aware of that. I will take that question on notice.

The ACTING CHAIR: That would be great. A number of other councils have received a letter from the state government advising them of a new charge to coordinate with paying for the internal system of the Department of Health.

I just wanted to ask about different funding, both state and federal, being held up. A number of councils have had funding held up until after a financial year, which has made council budgets, particularly with black spot funding and other things, look particularly bad. Has that happened with your council?

Bulent OZ: I think you are referring to financial assistance grants. So the previous year – 50 per cent or 100 per cent of the grants were released in the prior year. The impact for our council was very limited because we are getting it at the minimum levels, around \$6.5 million or \$6.8 million. The impact is on our annual statements for that year, but given it is around 2 per cent of our total income, we did not feel the impact that much.

The ACTING CHAIR: Your submission cites analysis which puts the annual impact of cost shifting at about \$44 million a year, which would total \$272 million over the next five years. Could you just walk us through what kinds of things that entails and what kinds of programs are being cost shifted onto local government that were previously the responsibility of state government?

John BAKER: Certainly – happy to do that – and perhaps my colleague will want to chip in as I talk through. There are costs impacted across a range of different policy initiatives that the state has introduced, including FOGO recycling and some cost impacts there. Electrical line clearance is another area that has had a massive impact on us. I will just quickly run through these, forgive me. But if you want to, ask any questions on this. Inspection and reactive pruning programs – we have seen a significant cost shift there. There is statutory planning of course and some of the changes in how a planning permit is required for new use or development of homes or land. There are building services and various VBA requirements we have seen that contribute to that. Libraries – we used to contribute something in the order of 50 per cent and we now contribute something

in the order of 80 per cent of costs associated with that. There are maternal and child health services, with costs estimated there of about \$1.5 million over the next five years of cost shifting.

Bev McARTHUR: What percentage is state and you?

John BAKER: For maternal and child health, I do not have the exact percentage in our report.

The ACTING CHAIR: Take it on notice if you like.

John BAKER: We will take that on notice and get back to you. Certainly early years – have you got the numbers?

Bulent OZ: Yes, for the last financial year the council contributed 66 per cent. Previously it was 50–50, so the shortfall is around \$258,000.

The ACTING CHAIR: Can you repeat that, sorry?

Bulent OZ: The shortfall for the last financial year was around \$258,000.

The ACTING CHAIR: Wow.

John BAKER: Early years – the Best Start program is a wonderful program, but certainly the costs associated with that do not fully cover our requirements.

Bev McARTHUR: To what extent?

John BAKER: It is very significant. We have budgeted that the costs relating to early years service will be \$138,000 in 2023–24, with costs estimated at \$738,000 over the next five years. Local emergency relief services – we have seen below-average funding for direct subsidies associated with that, so we have had to step up in things like Peninsula legal aid services, Vinnies kitchens, community houses and those sorts of things. Immunisation is an area certainly, and we will get that number to you, but without that included we have budgeted that the costs relating to the immunisation service will be \$321,000 additional, with costs over five years of \$1.7 million.

Bev McARTHUR: So that is what Evan was asking about.

The ACTING CHAIR: Yes.

John BAKER: Potentially. I have got to check that it is related to that, because I know there were other costs around vaccines. Fire hydrant plug maintenance – we now get billed for that through South East Water, and that is impacting us by about, I think, \$200,000.

Bev McARTHUR: What was that again?

John BAKER: Two hundred thousand dollars.

Bev McARTHUR: No, no, the –

John BAKER: Fire hydrant plug maintenance.

Bev McARTHUR: Fire hydrant plug maintenance?

John BAKER: Fire hydrants and the maintenance of those. And very quickly, school crossings is another area obviously where there is a significant amount of cost shifting – and mowing, where operational works for certain areas are now no longer covered by the state.

Bev McARTHUR: Such as?

John BAKER: In this instance, services along roads –

Bev McARTHUR: State roads?

John BAKER: where the responsible road authority would normally do some of that, but we have taken up doing some of the weed control et cetera. CCTV – due to community safety expectations we install and maintain a large proportion of those now on behalf of Victoria Police. We are looking at contributing \$109,000 in 2023–24, with an estimated \$583,000 over the next five years to maintain and install those. Climate change responses and mitigation – we are increasingly finding that MPSC is responsible for climate change adaptation and promotion of climate change. And indeed in response to some areas like that, particularly where councils traditionally have not been involved – so landslips, for example, and those sorts of areas – we have seen potentially Parks Vic or DEECA taking a step away from areas where they would normally be involved with us. That of course drifts into foreshore management. We have 10 per cent of Victoria’s coastline, and there is a significant impost on us as far as foreshore management is concerned. Obviously the waste service charge impacts that but also sea level rises – the climate change impacts of that. There is also a massive impact around that. We estimate that operational costs relating to foreshore management are going to be in the order of \$8.4 million in 2023–24, with costs estimated at \$45 million over the next five years, and capital works incurred will be about \$1.2 million in 2023–24.

The ACTING CHAIR: I am just conscious of time, so I might –

John BAKER: Okay. That was a long answer, wasn’t it?

The ACTING CHAIR: That is all right. I might go to Ms Mansfield for some questions.

Sarah MANSFIELD: Thank you. Thank you for your very detailed submission and presentation. You mentioned before your direct observations of the impact of rate capping, alluding to the experience in the UK. I am wondering if you can expand on that a bit and tell us about what is happening for councils in the UK.

John BAKER: I am very happy to. I am a proud Australian citizen now, but I spent a significant proportion of my career working in local government in the UK. Rate capping was introduced under Keith Joseph and Margaret Thatcher in 1989 in the UK, and it was very, very significant during the global financial crisis, where local authorities in any given year saw cuts in the order of 15 to 20 per cent in real terms during that era. What I have seen in my visits back to the UK and maintaining my contacts with people in local government over there is, to be blunt, services that were taken as the norm in the UK being denuded year by year by year. All I would say is: be very careful what you ask for as far as rate capping is concerned. Try finding a public toilet in any municipality in the United Kingdom. Try finding a well-kept park. It has some of the largest local authorities in Europe. Birmingham City Council in fact is the largest council in Europe, and it recently, obviously, was exposed to some significant media coverage around its very perilous financial position. That is taken as a norm. So rate capping cumulatively –

The ACTING CHAIR: Sorry, I am just going to pause you there for a second. We have to pause the hearing. We are having some issues with the broadcast. We have lost the connection, so we will take a couple of minutes break while we re-establish the connection.

Hearing suspended.

The ACTING CHAIR: Dr Mansfield.

Sarah MANSFIELD: Thank you. I am interested in the comments you made regarding your observations of rate capping in the UK and wonder if you can expand on that and explain a bit more about what has happened to the councils in the UK.

John BAKER: Very happy to, and thanks for the question. Rate capping of course in the UK was introduced much earlier than the rate cap introduced here. It was introduced in 1989 under the Margaret Thatcher government, and of course it really bit during the global financial crisis, where we saw real-term decreases in revenue for local government in the order of between 15 to 20 per cent. These were huge cuts that you saw in local government over that period of time. We have seen, cumulatively, evidence in the UK of what the end point is, in my opinion, of crude rate capping. It may seem like a superficial comment, but try and find a public toilet in a municipality in the UK and not pay for it. Try and find a well-kept public park to the standard that you see in Victoria at the moment. The roads – whilst obviously potholes and various other points are a consistent theme of local government, be careful what you ask for, because to be blunt, when you are driving

around many places in the UK, the roads are nowhere near the standard of the roads that you see in Victoria. That, I believe, is a direct impact of the introduction and maintenance of rate capping over many years.

The end point for that of course is you see the largest local authority in Europe, with a budget of over £2 billion a year, Birmingham City Council, facing massive financial challenges to a point that it can no longer function effectively. They are the first among a long line of local authorities in the UK that over many years have experienced death by a thousand cuts. That is, I believe, the result of the introduction and maintenance of rate capping in a crude way. I believe that rate capping, if it was equitable, could be maintained fairly in Victoria. I am not arguing completely against it, but it is certainly impacting local authorities massively. I can see an end point similar to that of the UK.

Sarah MANSFIELD: Thank you. It is an interesting observation. I think we have had other witnesses share observations in even just other jurisdictions in Australia on the impact of things like rate capping as well as cost shifting, and we get a little bit of a glimpse into our future if we continue down this path. So that is useful experience.

You also mentioned that there is room for improvement with state and local government collaboration. I understand that that can sometimes be difficult to talk about, given councils do need to – you know, they are often mindful of what they say about state government. But I am wondering what that might look like and where things are at at the moment and why you feel there is room for improvement.

John BAKER: At a high level I believe that the relationship between the state and the sector in Victoria is – if I wanted to define it crudely, it is almost a parent–child relationship that we have with the state at the moment, where the state decides what we are going to get, how we are going to implement it and what it is going to look and feel like. There is not very much opportunity for us to feed back in the way I would expect to see a peer-to-peer relationship managed.

I do believe that collaboration could be greatly improved between the state and the sector broadly. Now, with that said, I also think that as far as collaboration is concerned, local government has a huge range of ideas, fed predominantly from the community, about how we can manage things more effectively for the same price. I see very poor commissioning from the state sometimes as far as being informed by intelligence on the ground around things like aged care services and homelessness and housing, and I believe that local government has a huge role in helping inform how that can be configured better for the same dollar amount.

I also think that in some other areas having an ability to change the regulatory environment within which we operate would allow us to be more imaginative about how we work both with other local authorities and with the private sector and not-for-profits as well. When I look at the rules around things like what we can do with property and the fact that if we want to divest ourselves of property, we have to divest ourselves of it at a market rate, there is not necessarily the opportunity for us to do a deal if it is for the benefit of the community – land swaps, for example. That is another area I think we could look at. All of that requires a mature, adult relationship with the state, and at times it does not feel quite like that.

Sarah MANSFIELD: Thank you. Have I got time for any more?

The ACTING CHAIR: One quick one, yes.

Sarah MANSFIELD: Again, that is quite interesting. You mentioned the impact of climate change and more responsibilities that are being shifted onto the council as a result of that. I am also just wondering about the intersection of some of the planning decisions made by state government and how they intersect with climate change and what you are experiencing in your municipality.

John BAKER: Thanks for the question. It is a good question. One of the big worries I think that we have in the broadest sense as far as planning is concerned with regard to climate change is the fact that we are currently administering sea level rises of 0.8. The insurance industry is using 1.1 and sometimes even higher. I do like using insurance company information for this stuff; they do not hide behind stuff. One of the worries with that is that we are currently in the process – and many local authorities are doing this – of granting permits for areas that we know will suffer potentially significant challenges in the future. Where we have not done that, where council have been brave, and they have been, and made a decision – ‘Actually no, we’re not going to grant that permit’ – it has been overturned at VCAT, because they are administering 0.8 when they administer the

planning scheme. So I do believe that actually, as far as collaboration is concerned, we need to have a more honest and open and forthright discussion with the state about how we can put that out into the public domain and have a really honest conversation with our community about what the impact of sea level rise and climate is going to be.

Sarah MANSFIELD: Thank you.

The ACTING CHAIR: I will go to Mrs McArthur.

Bev McARTHUR: Thank you, Acting Chair. I am aware of your 19-page report, which you produced earlier this year, outlining your cost-shifting exercise. I think you have said it was \$38 million, rising to \$234 million over the next five years, that you will be impacted with. But local government have the capacity to say no to state government, don't they?

John BAKER: Sometimes. But actually the relationship – and again, my observation of a tier of government from being a chief officer in the UK for a number of years, where you are a statutory tier of government and you have the ability to say no, is it is more challenging in the relationship with the state to say no. So if I think about the introduction of the waste service charge and the way that was done, there is no ability for us to say no. Not many people know this, but even in the legislation around committees of management, and we have a number of committees of management – on foreshore, for example – if the state requires us –

The ACTING CHAIR: On state land?

John BAKER: Yes, on state land – if the state requires us to be a committee of management, we are required to be a committee of management. So I do agree, Mrs McArthur, that there are elements where we can be more challenging and we can actually say no in some instances. But the power dynamic is pretty clear as far as state and local government –

Bev McARTHUR: It is really not a parent and child relationship; it is really servant and master, isn't it?

John BAKER: I would not go that far, but yes.

Bev McARTHUR: Rate capping is the ratepayer's best friend, and ironically we do not have ratepayers coming in and telling us they would like to get rid of rate capping and they want to pay more rates. It is really only bureaucracies and some councillors who think you need to extract more money out of the ratepayer, who is also the taxpayer. I mean, it would be quite good in Victoria if we had a tax cap, actually, because we have totally burdened the taxpayer with 55 new taxes in this state. So I have no sympathy for the idea that you want to extract more money out of the ratepayers. I would prefer that you actually got out of some of the things. You do not have to provide lollipop ladies, for instance; that is an education department requirement. You do not have to do the vaccination program; that is a health department activity. You did not have to declare a climate emergency. I understand you want your beaches cleaned up by hand. Is that actually true?

John BAKER: I will take each of those in turn, but just on the last one, we have introduced a pilot to clean our beaches by hand. The cost actually is similar or lower than using mechanical rakes.

Bev McARTHUR: I mean, should your council handle emergency management, for example? You have decided that you must handle emergency management, that you must have statutory planning authorities and you must be responsible for foreshore management and emergency management. These figures – I think foreshore management is \$8.4 million and it is \$4.9 million for emergency management. You do not need to demand that you run those services. State government could, couldn't they?

John BAKER: Yes. We could walk away from a whole range of different services. Ultimately council has decisions to make, and what I did see – referring to the last question – in the UK as rate caps started to impact the sector, was dividing services up between statutory and non-statutory services. Very crudely, we got to a point in the UK where we had to say all we provide is roads at this level, rates will be charged at this level, obviously, and rubbish. And that is what to some extent we went back to – or we tried, because the community, whilst they are not punching the air over rate increases, are absolutely furious when they see education, vaccination, handling climate emergencies and weather events and the emergency management associated with that, and foreshore management not being handled appropriately or not being handled. Now, you could say,

okay, that is on the state and they need to be able to do that, but there has always been a role for local government to provide those services. Even before we started talking about cost shifting we provided around about 70 services.

Bev McARTHUR: Should we move to a system then, if the ratepayers do not actually want to pay more rates but they want all these services, where we have a different system of funding local government? Is the property taxing system past its use by date? It is a totally unjust system because it is the only tax where you pay a different rate in the dollar depending on where you live. Are you interested in exploring a different way of funding local government? For instance, if we define the roles and responsibilities of local government versus state government whatever, that you have a set amount of funding for these core services and anything extra – any sorts of frolics you want to go on, international relations or whatever – you can ask the ratepayers to fund them.

John BAKER: I am not entirely sure what the alternative to rates would be, and there are a number of taxes of course associated with rates, not just council rates. Some of the others – Bulent, what are some of the others?

Bulent OZ: Other ones are land tax, capital gains tax, fire services levy –

John BAKER: Land tax, capital gains tax – there are a range of other taxes associated with property-based tax. It is a longstanding tax. That is not to say it should not change, but it is well established across most Western-style democracies and for good reason. One of the key benefits of rates on housing is it is redistributive, so you basically see that the more expensive the house, the more you pay in rates.

Bev McARTHUR: No, no. That is not the case, because for the more expensive house in an inner urban area you pay much less than you would –

David DAVIS: He is referring to the municipality.

John BAKER: I am referring to our municipality.

Bev McARTHUR: Yes, in a municipality. But out in rural Victoria, for instance, you will pay an awful lot more in the rate in the dollar than you would in –

John BAKER: Potentially, and so there is –

Bev McARTHUR: So it is very unjust.

John BAKER: There is a differential.

Bev McARTHUR: And you set those rates.

John BAKER: One of our arguments actually was the way the rate cap was introduced made it even more inequitable, so actually what we have got is that kind of everything was frozen at a point in time and then the rate cap was introduced. And those like us – we are the eighth lowest rating council in Victoria – were penalised for that. Now, as far as our ratepayers are concerned, they pay \$400 on average less than any other municipality as far as the average is concerned.

Bev McARTHUR: Well, the others might all be paying too much.

The ACTING CHAIR: We are running on time. I might go to Mr Berger.

John BERGER: Thank you, Chair, and thank you both for your appearance at today's hearing. Throughout this year we have had a great insight into how councils work uniquely to serve their communities. I just wonder whether you work closely with your neighbouring councils for any specific work, and do you see that there might be any opportunities on, let us say, procurement or IT services to help you reduce your costs strategically?

John BAKER: The quick answer to that is yes. We work with our neighbours constructively on a range of things, even on an informal basis where we lend and borrow equipment from other local authorities during emergencies and those sorts of things. But on a more formal basis we are currently exploring a range of shared

services with neighbouring local authorities, including potentially Frankston and Kingston and other local authorities that you may well be talking to today, so we do that. The complexity sometimes of shared services is around the different needs and requirements of different local authorities. Even with something like, for example, an animal shelter and a shared service associated with that, there are different policies around treating feral cats in one local authority to another, so you have to do a harmonisation exercise. Then of course you mentioned technology, and there are a number of opportunities to share technology, particularly I believe in the use of AI. MAV are doing some very interesting work in that space with their innovation teams at the moment. But there is an opportunity I believe for us to share certain aspects of technology. Of course large-scale public sector shared services in technology have a chequered history. They have proven to be quite problematic, and that is to do with that uniformity, that requirement for the same process across a whole range of different municipalities. That sometimes makes for a very difficult IT implementation. I did a number of shared services across the United Kingdom as far as technology is concerned, and they were hugely problematic. I started my career with what was called the All Wales consortium – 22 Welsh local authorities, one IT system – and it proved to be extremely difficult.

David DAVIS: What could possibly go wrong?

John BAKER: Yes, Mr Davis, what could possibly go wrong?

John BERGER: Thanks, Acting Chair.

The ACTING CHAIR: No worries. Mr Davis.

David DAVIS: I should declare, first of all, that I have an interest – in the sense I am a ratepayer locally.

John BAKER: Good to hear – \$400 less than the average, Mr Davis.

David DAVIS: It does not feel like that when I get slugged, and it feels like it has gone up a lot too. I will just put that on the record. But I wanted first of all to start with the designation of Mornington shire as a city municipality. That was controversial during COVID, but it has some practical outcomes in the sense that the municipality is unable to apply for some grant programs at a federal level. I would just be interested – one question is: what is the council's position on those designations and its potential access, or not, to some of the particular grant programs? I have a second question about roads and grants on roads. I will perhaps come to that at the end. Then I am interested in energy costs and your energy costs over time. Over the last five to 10 years what has happened with your total energy costs? Do you have a time series on those?

John BAKER: Okay. Thank you. Maybe my colleague can look at the energy costs associated with that on the spreadsheet while I am answering that.

David DAVIS: You may not be able to give me that now. I understand that.

John BAKER: We might take it on notice. As far as practical outcomes of Mornington Peninsula being designated as metropolitan, there have certainly been some disadvantages associated with that, and they are well documented. They are everything from payroll tax right the way through to how many of our businesses were treated during lockdown. We looked jealously over the water at the city of Geelong –

David DAVIS: There was Queenscliffe as well.

John BAKER: and Queenscliffe – which were not designated as metropolitan. Now, with that said – and that is well documented – I do think it contributed to significant frustration amongst our community around that designation. As a council we are more interested in the fact that we need to be able to access those funding streams in different ways. Sometimes we are treated regionally – and I can tell you it feels very regional when you are having a discussion about wild kangaroos in Red Hill; it does not feel very metropolitan to me – but the actual grant programs that we can access differ from area to area. So sometimes we are 'regional'. We have, for example, a regional tourism board, which is funded, but we lose out on a number of other regional development funds that we do want access to. One of the arguments we have put forward is that actually we are more interested, like the peri-urban councils, in being able to access multiple funding than our legal position, as far as that is concerned, which would be far more problematic. There would have to be primary legislation to change our legal status.

David DAVIS: But the ‘country’ buckets – you cannot access most of those.

John BAKER: Absolutely, we cannot.

Bev McARTHUR: Were you metropolitan during COVID?

John BAKER: Yes.

David DAVIS: Yes, which they did not like. And I do not blame them.

John BAKER: At least we had some beautiful beaches to walk on, but it was hugely frustrating. It was hugely frustrating for a lot of the community. So yes, there were those elements. So we are losing out on a number of revenue streams that we believe we could access. Now –

David DAVIS: Have you quantified that?

John BAKER: We are also accessing metropolitan revenue streams, so there is a balance. We believe that actually in very regional areas on the Mornington Peninsula – 70 per cent green wedge, set aside for farming only – we are absolutely regional, right? But there are other areas where we are urban. I believe that it is more situational. It should be about the natural community that you are part of, as opposed to the formal legal designation of whether you are metropolitan or regional. That goes to that.

An example, I suppose, is in your second question, about roads and grants. We have an interesting mix of challenges, some associated with being regional and some associated with being metropolitan. We have got this mix – 1700 kilometres of sealed roads, 400 kilometres of unsealed roads. That is very, very different to the make-up of Frankston, which has, just here – I do not know – 500 or 600 kilometres of sealed roads. The maintenance and the cost associated with that is very much a regional one. And you see satisfaction with roads in regional areas is much lower than satisfaction with roads in metropolitan areas because they have got less road to maintain.

David DAVIS: But you get the large usage of the roads too, more than many other municipalities, because you have got the tourism, as it were.

John BAKER: We have 8 million visitors a year, which is more visitors than you get to the Blue Mountains, and the infrastructure requirement to support 8 million visitors is huge. It is why you cannot get out of your house to buy a pint of milk in the morning, because the roads are absolutely jammed for a period of seven to eight weeks.

David DAVIS: The previous country roads and bridges program – I do not know whether you are familiar with that.

John BAKER: Yes.

David DAVIS: Was that a good program for the peninsula?

John BAKER: We accessed some elements of that. They actually changed the area so that we were no longer eligible for some aspects of that, if it is the grant that I am thinking of.

David DAVIS: Is this the federal one?

John BAKER: The federal one, yes.

David DAVIS: No, I am thinking of the earlier state one.

John BAKER: I am not across that. I will take that on notice, though, if you want to understand the impact of the change.

David DAVIS: And Jetty Road. There was a \$75 million, I think, federal grant –

John BAKER: That is correct.

David DAVIS: for the duplication of that Jetty Road section down to Boneo.

John BAKER: Yes.

David DAVIS: Yes. The state government did not take that up –

John BAKER: No.

David DAVIS: and now it has been taken away.

John BAKER: Yes.

David DAVIS: Does council have a view on the Jetty Road duplication?

John BAKER: It was very supportive. Council made a decision there. Obviously we were very supportive of the changes to Jetty Road. It is a significant challenge around there. If you drive it yourself, Mr Davis, you will know that there is a very significant challenge there. We were disappointed that the state funding was not made available to match the funding at a federal level. We advocated hard for that funding to be matched, but unfortunately that did not come to fruition.

David DAVIS: Does council have a list of roads that it is interested in seeing the state fund? Because many of the roads are state roads, but they do carry significant traffic, which has an impact through your –

John BAKER: Absolutely. It is interesting. Yes, we do. I even have on my laptop a list of all the roads on the Mornington Peninsula, both state and federal, because I spend a lot of my time, unfortunately, pointing out to residents that that is a state road as opposed to a council road. It sounds very local government, but it is actually hugely important. In our customer satisfaction survey, from the quantitative information that we analysed, our residents do not make a distinction between a state road and a council road. And why should they? They just see a pothole or they just see a poorly maintained road. But it impacts us as much as it does the state. We are spending a lot of time trying to liaise with VicRoads and other organisations to make sure that they are maintaining those roads adequately. We would prefer a direct line to those. Indeed in some instances we are quite frustrated because we cannot undertake the works. I have been in an embarrassing situation of having a huge pothole partly – very partly – on council land but within 3 metres or something of a state road and we could not do the work on it, we just had to stare at it until it got done.

David DAVIS: Where was that?

John BAKER: That was in Mornington, actually, outside Chemist Warehouse.

David DAVIS: And the state road authorities would not move on it?

John BAKER: Well, they did eventually, but it took longer than it should have done. That is not to say that we are absolutely spotless in this. We have just recently negotiated our contracts to ensure that we are more responsive as far as some of our roads are concerned – but again at a huge cost. Every time I see the rain I worry about potholes now. It ruins you being in local government.

Bev McARTHUR: What caveats have you got on your contractors?

John BAKER: Caveats in the sense of –

Bev McARTHUR: Well, guarantees.

David DAVIS: In the sense of requirements or something.

John BAKER: Well, we have service level agreements with our contractors. We recently changed, and we have seen a huge improvement in the level of service that we are requiring of them. We watch them carefully. We monitor that they are doing the work that is needed to be done. I would say, hand on heart, that I suspect we did not do that as well as we could have done prior to the renegotiation of those new contracts. But council was very, very clear that there was to be in the renegotiation of those contracts no reduction in service and a requirement to improve and to get what we are paying for. That is something that we have now got in place, so I am quite excited about what we are going to see over the next couple of years.

The ACTING CHAIR: I might see if Mr Galea or Ms Payne would like to ask a question. All good?

Michael GALEA: All good.

The ACTING CHAIR: Any other questions?

David DAVIS: I would be very appreciative of those energy costs.

John BAKER: Apologies. Yes, I did –

David DAVIS: But I get that you do not have that on hand.

Bulent OZ: I could just give you high-level figures. For the last financial year our utility costs increased to around \$5.1 million, which was a 30 per cent increase on the prior year. For the last five years, I will have to get back to you.

David DAVIS: And how much in the last financial year was the increase?

Bulent OZ: The increase was around \$1.2 million – to \$5.1 million.

John BAKER: Which was about 30 per cent.

Bulent OZ: A 30 per cent increase.

David DAVIS: So this is a major cost.

John BAKER: Massive.

David DAVIS: Massive.

John BAKER: Massive, yes.

David DAVIS: All right. Thank you.

The ACTING CHAIR: Thank you so much for appearing today before the inquiry. As discussed, a draft transcript will be sent to you for approval.

Witnesses withdrew.