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Standing Committee on Regional Development, Infrastructure and Transport
Inquiry into local government sustainability
House of Representatives
Parliament House
Canberra ACT 2600

Via e-submission: https://www.aph.gov.au/Parliamentary_Business/Committees/OnlineSubmission

To whom it may concern,

The Victorian Greenhouse Alliances are formal partnerships of local government and statutory authorities working collaboratively to drive climate action for emissions reduction and community resilience across 70 of Victoria's 79 municipalities.

On behalf of our members, we are pleased to provide this submission to the Standing Committee on Regional Development, Infrastructure and Transport's **Inquiry into local government sustainability**.

Our submission responds to Items 1, 2 and 6 (other relevant issues) in the [Terms of Reference](#), with a focus on the financial sustainability and funding of local government, and the changing infrastructure and service delivery responsibilities of local government, in the context of climate change.

Local governments are on the frontline preparing for, mitigating, and responding to the risks and impacts of climate change as communities across Victoria and Australia experience the compounding effects of successive flood, storm, fire, and heatwave events, directly linked to the ongoing impacts of climate change. Councils play a critical role in community resilience and wellbeing, providing vital community service, coordinating local disaster preparedness, response, and recovery, and managing \$140 billion of high value community assets and infrastructure including roads, community buildings and facilities, parks, paths, tracks, and trails, all of which are impacted by climate change.¹

A recent economic analysis of the direct risks to council-owned community assets from climate hazards in Greater Melbourne assessed average annual damages as currently \$90-120 million. This is expected to increase to around \$210-\$300 million by 2050 (a 150% increase) and \$400-\$540 million by 2100 (a 300% increase) under business as usual (i.e. no adaptation).² In regional Victoria, analysis by Deloitte Access Economics found that the 2022 flood event alone caused \$432 million in damages to the local governments of Murrindindi, Moira, Strathbogie, and Mitchell – just four of the 63 Victorian LGAs impacted by this event – including damages to public infrastructure, losses of agricultural produce, business disruptions, residential and commercial damages, and emergency response costs.³

As the impacts of climate change become increasingly clear, it is critical that all three levels of government work together to accelerate the transition to net zero and beyond as fast as possible, while supporting communities to adapt to the unavoidable impacts of climate change and strengthening the resilience of local economies and our built and natural environment.

¹ <https://www.audit.vic.gov.au/report/results-2022-23-audits-local-government>

² Natural Capital Economics, 22 March 2023, Adaptive Community Assets: A report prepared for the Eastern Alliance for Greenhouse Action. ([link](#))

³ https://www.parliament.vic.gov.au/494a5d/contentassets/af5f665989af4f6caa09a886d56ce0b0/reply-1.-qon-moira-shire-council-attach-1-deloitte_report_final-draft_august2023.pdf



As the level of government closest to communities, councils are well placed to inform, facilitate, and implement place-based responses to climate change if adequately resourced to do so. Increasingly, however, councils are in the difficult position of having to do more with less, with rates in Victoria capped at 2.75%, Commonwealth Financial Assistance Grants falling to 0.53% of Commonwealth taxation revenue, and the impacts of climate change, rising inflation, labour shortages, and increasing construction and maintenance costs putting significant pressure on council budgets.

1. The financial sustainability and funding of local government

Primary sources of funding for councils to respond to climate change and support resilience building in communities include council rates and user charges, Commonwealth Financial Assistance Grants, and competitive state and federal grants. With a declining share of tax revenue and a growing list of responsibilities, local governments face a widening resource gap that limits their capacity to undertake the essential climate change adaptation and mitigation work that is critical to the sustainability of local governments and their communities.

Local government rates make up less than 4% of taxation in Australia, tied to property numbers and value. Climate events, such as bushfires, flooding, and sea level rise, are a growing threat to property values, with homes and businesses in some parts of Australia becoming uninsurable.⁴ The municipalities hardest hit by climate change are often least able to invest in resilience in a rate capped environment.

Over the past three decades, federal Financial Assistance Grants have fallen to just 0.53% of Commonwealth taxation revenue. This is one of the only sources of untied funding available to local governments. In a recent survey of council leaders conducted by the Australian Local Government Association (ALGA), climate change response was identified as one of the services most heavily dependent on Financial Assistance Grants. Councils also rely on Financial Assistance Grants for the renewal of local government assets.⁵ A greater share of Commonwealth taxation revenue would enhance the sustainability of local governments and increase their capacity to respond to the local impacts of climate change and invest in infrastructure and resilience building in communities.

With limited options to independently raise their revenue base to address the growing financial demands and impacts of climate change, councils also rely on state and federal grant funding for essential climate change adaptation and mitigation work. These funding streams are ad-hoc, often hazard-specific, and frequently over-subscribed. Restrictive grant guidelines, eligibility requirements, and application processes can also be prohibitive for smaller and under-resourced councils, particularly in rural areas. For example, some Victorian councils have been unable to meet the cash co-contribution requirements for grants through the Community Energy Upgrades Fund (CEUF). Councils also called for the CEUF to include a stream for feasibility studies and business cases, but funding has only been made available for implementation works.

The Productivity Commission has found that the costs of natural disasters are a growing and unfunded liability for governments due to over-investment in post-disaster recovery (with 97% of disaster funding invested after an event has occurred), and under-investment in adaptation and mitigation to limit the impacts of climate change.⁶

⁴ <https://www.climatecouncil.org.au/resources/uninsurable-nation-australias-most-climate-vulnerable-places/>

⁵ <https://alga.com.au/app/uploads/Importance-of-Financial-Assistance-Grants.pdf>

⁶ <https://www.pc.gov.au/inquiries/completed/disaster-funding/report>



In Victoria, Emergency Management Victoria have indicated that there will be no further funding rounds for Risk and Resilience Grants. Councils have relied on these grants to undertake proactive climate change risk assessments of assets and infrastructure to plan for resilience upgrades. Councils have also sought grants for this work through the National Disaster Ready Fund, but are competing with other local governments, state government departments, and community groups for a limited pool of funds.

Under current Disaster Recovery and Funding Arrangements (DRFA), councils are funded to return assets and infrastructure to their pre-disaster state. Resilience improvements are often not funded, or only partially funded through the DRFA, with councils generally required to pay for these upgrades themselves. Infrastructure improvements for disaster resilience can be costly, and most councils do not have the resources to invest in these upgrades following disaster events. The urgency with which essential infrastructure needs to be reinstated further limits opportunities to budget for and allocate funding to build back better.

There is growing evidence that investment in betterment can prevent or reduce damages from disaster events, deliver resilience benefits for communities, and ultimately save money through avoided reconstruction costs. Since it was established in 2013, the Queensland Benefit Fund has resulted in \$397.5 million in avoided reconstruction costs from an investment of \$174 million. Of the 531 projects completed to date, 423 have subsequently been impacted by disaster events, but 79 per cent of those impacted have suffered no damage or only minor (superficial) damage.⁷

Councils need direct financial support to ensure they have the capacity to transition and support their communities to adapt to climate change. Significant climate change mitigation and adaptation progress, and the sustainability of local governments in the face of increasing climate risks and resource burdens, requires long-term, flexible funding options alongside a regional approach to prioritising projects. Increasing direct funding for prevention, mitigation, and adaptation, can also deliver significant social, environmental, and economic returns.

Recommendations for the Australian Government

1. Significantly increase funding available for local and regional projects with a focus on risk mitigation and adaptation through the National Disaster Ready Fund.
2. Consult with councils and practitioners working on the ground on fund design and take a collaborative approach to the allocation of funding and the identification of priority projects for implementation (seeking to avoid a process whereby councils are competing with one another, or with state departments, for grant funding).
3. Work with state governments to develop a dedicated funding program to support local governments to undertake asset risk assessments and improvements, with reference to future climate projections and risk modelling.
4. Adopt betterment as an eligible expense under the Disaster Recovery Funding Arrangements and support state governments to establish Betterment Funds similar to the Queensland model.

⁷ Queensland Reconstruction Authority, 2023, Queensland Betterment Funds Paper, https://www.qra.qld.gov.au/sites/default/files/2023-07/0805_betterment_funds_paper_2023_0.pdf



2. The changing infrastructure and service delivery responsibilities of local government

For too long state and federal governments have looked towards councils as a vehicle for implementing fragmented emissions reduction, renewable energy, and climate change adaptation programs and policies, without adequate support or resourcing. Meanwhile, councils across Victoria are struggling to provide core services while also responding to successive climate-related disaster events that have caused extensive damage to community assets, disruption to the delivery of community services, and unbudgeted financial impacts. These challenges are particularly acute for rural and regional councils disproportionately impacted by climate change.

A survey of Victorian councils conducted by FinPro has found that cost shifting from higher levels of government, extensive capital works, and growing costs associated with climate change are resulting in significant financial pressure on councils resulting in a reduction in core services and infrastructure investment for Victorian communities.⁸

Victorian councils have a legislated responsibility to respond to climate change, and many have adopted ambitious corporate and community emissions reduction targets and climate action plans; but state and federal governments have greater capacity to generate the funds required to adequately mitigate and adapt to climate change as the primary recipients of tax revenue.

A multi-level governance approach is urgently needed to meet the scale of the climate change challenge for the benefit of current and future generations of Victorians. As outlined in the *Many Hands Make Light Work* report⁹, a multilevel governance approach that includes local, state, and federal governments would see more cohesive, unified work between governments, with less duplication. Each level of government must be adequately resourced to deliver within its remit. This approach would empower all spheres of government to fulfill their climate ambitions by promoting effective coordination between and across governments.

Recommendations for the Federal Government

5. Work with the state and local governments to re-set roles and responsibilities by establishing a multilevel governance approach to climate adaptation.

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⁸ [24.29.01-FinPro-Minister-Local-Government-Local-Government-Financial-Sustainability-Jan-2024.pdf](https://www.finpro.org.au/wp-content/uploads/2024/01/24.29.01-FinPro-Minister-Local-Government-Local-Government-Financial-Sustainability-Jan-2024.pdf)

⁹ https://citiespowerpartnership.org.au/wp-content/uploads/2023/07/Many-Hands-Make-Light-Work_Screen-Singles.pdf



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This submission has been approved through the Victorian Greenhouse Alliances approval processes but has not been formally adopted by individual members. The submission does not necessarily represent the views of all members.

