

REGIONAL CITIES VICTORIA

COVID-19 revised budget submission to the Victorian Government

July 2020

Investing for recovery and growth in
Regional Victoria



RCV
REGIONAL
CITIES
VICTORIA

ABOUT RCV

Regional Cities Victoria (RCV) is a regional leadership group dedicated to building a sustainable Victoria by providing strategic advice, coordination and advocacy to state and federal governments. RCV supports policies which enable Victoria's regional centres to grow and develop by attracting further investment and encouraging the presence of a skilled workforce.

Comprising Mayors and CEOs of the 10 largest cities in regional Victoria – Ballarat, Bendigo, Geelong, Horsham, Latrobe, Mildura, Shepparton, Wangaratta, Warrnambool and Wodonga - RCV is focused on policies and targeted initiatives that will support their communities through both the response and recovery phases of the COVID-19 crisis.

RCV is widely recognised as a pre-eminent advocacy organisation for regional Victoria. It is a trusted policy partner for government, working with key ministers and various arms of government including Local Government Victoria (LGV); Regional Development Victoria (RDV) and the Victorian Planning Authority; as well as other bodies such as Rural Councils Victoria, the Municipal Association of Victoria, RACV, the Victorian Chamber of Commerce and Industry.

As regional hubs, RCV cities support surrounding towns and districts through the provision of education, health, financial, transport and social services, as well as retail, sport and recreation, cultural and tourism amenities and activities.

CONTEXT

Since the implementation of the lockdown in Victoria in late March, RCV member councils have been focusing on business continuity and crisis management, as well as adapting council operations to comply with the social distancing and working from home requirements mandated by state and federal governments. Staff have been redeployed and services adapted to meet the rapidly changing needs of regional communities under these unusual circumstances.

Regional cities, like many local governments, have also been under pressure from their communities to provide financial assistance in the form of rates deferral; waiving of fees, levies and charges; and other measures. RCV has welcomed the State Government's decision to defer the increase of the landfill levy until 1 January 2021. We also acknowledge the funding provided to a raft of regional community infrastructure projects that will improve local amenity and support the visitor economy; as well as initiatives such as the Working for Victoria program that provide much needed employment opportunities in regional areas, in particular in the agricultural sector.

With federal and state plans for a phased re-opening of the economy in place, RCV members are keen to explore ways in which they can work with government to re-invigorate their local economies. RCV recognises the opportunities that some lockdown measures - such as widespread take-up of remote working – have raised for regional living; and also highlights the infrastructure (such as housing and digital connectivity) that is still required to make regional living a more compelling proposition for those contemplating relocation.

Lastly, RCV is especially mindful of the impact that the pandemic continues to have on the mental health and well-being of our communities. The isolation of lockdowns; the new stresses that come with working from home; the financial pressures that come with unemployment, the sudden loss of retail trade, or simply reduced working hours; and the overall uncertainty of the pandemic situation, in some areas coming

on top of the recent bushfires, all contribute to declines in mental health and well-being in our communities.

RCV applauds the Andrews Government's investments in mental health support, including the \$23.4 million package announced after the bushfires. We urge the Government to make available further support and resources to all Victorians in the wake of the COVID-19 pandemic.

Some of the priorities identified in this budget submission will also contribute to improving mental health and well-being in our regional communities.

For further information or queries about this submission please contact the RCV Secretariat on (03) 9654 4799 or via email: rcv@cprcomm.com.au

REVISED 2020-21 BUDGET PRIORITIES

IMPROVING INFRASTRUCTURE DELIVERY

- \$7.5 million to implement the Small Business Better Approvals program across planning and building approvals.
- \$2 million per annum for the expansion and continuation of the Streamlining for Growth Program and implementation of PSP 2.0.
- A low-cost loan scheme, similar to the successful Community Sports Infrastructure Loans Scheme, to finance enabling infrastructure for regional housing developments, and business and employment precincts.

Why is this needed now:

The COVID-19 pandemic has had a significant economic impact across all regional cities. The initiatives RCV proposes to improve infrastructure delivery will improve efficiencies and accelerate construction projects, creating jobs and boosting amenity and services through infrastructure projects.

AFFORDABLE HOUSING

- Additional direct investment by State Government in housing stock, with some funds specifically allocated to regional municipalities.
- Support to implement affordable housing provision through planning schemes, including enabling fast track planning processes.
- Commitment of additional rental assistance to Registered Housing Providers, so that the private sector can fund, build and own, and then lease to RHPs to manage.

Why is this needed now:

RCV recognises the already acute need for affordable housing, which may be exacerbated as the financial impacts of COVID-19 on households and individuals become more apparent. RCV Councils can support government assistance and investment in affordable housing with commitments to providing council land, facilitating partnerships and providing local leadership to address this growing issue.

Urgent action to boost the supply of social and affordable housing will help alleviate the stress associated with insecure accommodation. Once this basic need of housing is met, circumstances of health and employment can be better addressed.

LOCAL GOVERNMENT FINANCING

Support the RCV business case with a \$2 million commitment to establish the proposed Treasury Shared Service model.

Why is this needed now:

While borrowing is one means of addressing the severe financial impacts of the pandemic, RCV's Local Government Financing proposal offers the sector an alternative to borrowing from the banks, whose lending conditions are tightening.

DIGITAL CONNECTIVITY

Further investment of \$100 million in digital and telecommunications infrastructure through the Connecting Regional Communities Program, including:

- Free Wi-Fi in all regional cities
- Free Wi-Fi on all regional trains.
- Continued roll-out of the Mobile Blackspot Program across regional and rural Victoria.

Why is this needed now:

The issue of digital connectivity has been brought into sharper focus during the pandemic and subsequent lockdown. The use of Zoom, Webex, FaceTime, and other digital platforms during the lockdown has increased exponentially, for work, education, and social purposes.

The shortcomings of accessible and reliable digital connectivity in regional Victoria have been highlighted with the shift to working from home, and the necessity of remote learning across all levels of education. It is a disadvantage that must be addressed as a matter of priority to support businesses and workers alike through a prolonged period of remote working, and to future proof regional communities.

In a time when people's movements are restricted due to border closures, stay-at-home orders, and other public health directives to minimise in-person contact, digital connectivity also provides a means of maintaining social connections and this contributes to personal well-being.

WASTE MANAGEMENT

- Consultation with RCV councils on the location of recycling and resource recovery infrastructure in regional Victoria; and
- Consultation with local governments in relation to the use of the Municipal and Industrial Landfill Levy to ensure stronger sustainability outcomes for local communities.

Why is this needed now:

The public health response to the pandemic, which mandates working from home, has seen a significant increase in household waste. The burden of managing this is shouldered largely by local government.

The development of recycling and resource recovery facilities presents opportunities for job creation and improved recycling and resource management outcomes across regional Victoria. This will drive stronger economic and environmental outcomes for regional communities.

IMPROVING INFRASTRUCTURE DELIVERY

Construction is an important driver of regional economies and will be a key sector in Victoria's post-pandemic recovery.

The Regional Australia Institute report [The Big Movers](#), released in June 2020, highlights increasing mobility within and relocation to regional areas. However, further investment in infrastructure is required to support this growth, and to maintain and improve liveability across the state.

In its report *Growing Victoria's Potential (2019)*, Infrastructure Victoria states that regional infrastructure priorities must be targeted to reduce disadvantage and build on local economic strengths.

RCV has identified the following key areas which, with government support, would significantly improve construction processes and accelerate project completion.

Planning

Improvements in planning processes can have a substantial and positive impact on the delivery of infrastructure projects and lead to better infrastructure outcomes. With regional areas recovering from the combined impacts of bushfires and COVID-19, speeding up planning processes and approvals is crucial to aiding the rebuild and delivering economic benefits to communities that have been so heavily impacted.

The review of building permits and approvals undertaken by the Commissioner for Better Regulation has revealed several opportunities to streamline these processes, saving time, money and resources. RCV supports the proposal in the *Building Approvals Process Review* to apply the approach taken for the Small Business Better Approvals program, across planning and building approvals.

The Victorian Planning Authority's *Streamlining for Growth* program is another successful program that is well regarded among RCV member councils. The expertise and knowledge-sharing the VPA bring to local government through this program, and the subsequent planning outcomes and efficiencies, provide significant value to infrastructure and development projects across regional Victoria. In addition, RCV supports the proposal in the *Building Approvals Process Review* for the VPA to work with referral authorities on enhanced and streamlined processes for Precinct Structure Plans in the regions (PSP 2.0).

RCV calls for:

- **\$7.5 million to implement the Small Business Better Approvals program across planning and building approvals.**
- **\$2 million per annum for expansion of Streamlining for Growth and implementation of PSP 2.0.**

Enabling Infrastructure

Regional Victoria is experiencing a shortage of new and rental housing stock. The lack of accommodation exacerbates labour shortages, and is a strong disincentive to relocating to regional Victoria, whether for education, employment or business reasons.

A significant barrier to new housing developments, as well as business and employment precincts, is the cost of connecting utilities and essential services to greenfield sites.

RCV proposes a low-cost loan scheme, similar to the successful Community Sports Infrastructure Loans Scheme, to finance enabling infrastructure for regional housing developments, and business and employment precincts.

AFFORDABLE HOUSING

As well as proposing measures for improving the processes for delivering infrastructure, RCV highlights the increasing need for a significant boost in affordable housing across regional Victoria. Victoria currently has a waiting list for social housing of around 43,000 applicants. With turnover of social housing units between two thousand and three thousand units per annum, demand for new units is high. The Priority Waiting list is currently 11 months.

Housing options cover a spectrum from social housing, including crisis accommodation, to a range of transitional housing types, such as rooming houses; to affordable housing and, finally, to market-based home ownership. Research shows that movement on this spectrum from crisis accommodation, or some form of subsidised social housing, to independent home ownership, may be a very slow and difficult process that can be hindered by myriad factors, including personal and financial circumstances, health issues, job insecurity or unemployment, a lack of support networks, and market conditions.

On the other hand, movement in the other direction, from home ownership into affordable or social housing, is more common, with many direct and indirect causes that push people out of home ownership and into less secure housing categories. In addition to the factors above, these include, but are not limited to:

- Insecure employment;
- The widening gap between median household income and median housing costs;
- Shortages of rental properties;
- Rising land values, and development and construction costs; and
- Commodification of housing and increasing expectations of exponential returns.

RCV is concerned that the economic impacts of the COVID-19 pandemic on Victorians could result in even greater demand for affordable housing, both in the short-term, and into the future. RCV believes that the provision of additional stock now could provide jobs throughout Victoria during the COVID-19 pandemic, as well as addressing growing demand, and permanently adding to housing stock.

RCV recognises that State and Federal Governments, not-for-profit Registered Housing Associations and Providers, and the private sector all have a part to play in addressing this issue. RCV applauds the State Government's current efforts in providing social housing, its ongoing commitment to substantial investment in new stock, and the provision of exponential community benefit by combining social housing delivery and refurbishment with job creation programs.

Nevertheless, the gap between supply and demand remains intractable. It is essential to undertake planning and construction of housing stock now, to mitigate longer-term impacts of the pandemic. RCV acknowledges there are existing programs such as the Victorian Social Housing Growth Fund and the First Home Loan Deposit Scheme, as well as previous programs such as Group Self Build. We would be interested in exploring how these programs could be applied to support better housing outcomes in regional areas.

RCV is keen to work with the State Government to find ways to bridge the housing supply gap, and supports the use of innovative models to fulfil diverse housing needs, such as build-to-rent, deliberative development, and co-housing.

To this end, RCV commits to:

- Providing leadership in seeking to provide additional social housing in our cities;
- Facilitating partnerships, where appropriate and effective; and
- Where possible, providing under-utilised or surplus Council land as a contribution towards early action, either by sale, lease or through partnerships and/or Joint Ventures.

RCV calls for:

- **Additional direct investment by State Government in social housing in regional areas, especially emergency and transitional accommodation, including investment on new housing stock in appropriate locations, and increased funding allocation to RHAs to support crisis accommodation in motels, etc.**
- **Support to implement affordable housing provision through planning schemes, including enabling fast track planning processes.**
- **Commitment of additional rental assistance to Registered Housing Providers, so that the private sector can fund, build and own, and then lease to RHPs to manage.**

LOCAL GOVERNMENT FINANCING

RCV welcomed the announcement of the Community Infrastructure Loans Scheme in September 2019, which provides up to \$100 million funding for low cost loans for local governments. This is a great opportunity for regional communities and makes use of the state's AAA credit rating and the prevailing low interest rates.

However, RCV believes there a further step to be taken in the area of local government financing, based on the business case for a treasury shared service model, which was submitted to the state government in June 2018, and which was developed over several years.

Background

RCV commissioned the following research papers on the topic: Financing for Growth in 2012 (by SED); 2013 Regional Cities Growth Framework (by MacroPlan Dimasi); and Local Government Financing and Treasury Shared Service (by EXEM Australia) in 2014, with an update in 2015.

This work has outlined a robust case for the creation of a Treasury Shared Service, in which RCV member councils would aggregate funds in order to access to wholesale investment markets, dramatically reducing interest costs for all ten councils.

RCV acknowledges the \$100,000 grant from the Living Regions Living Suburbs Fund, approved by the former Minister for Regional Development in late 2017, to develop the formal business case underpinning the proposal for the implementation of the Treasury Shared Service. As well as working closely with Regional Development Victoria (RDV) on the business case, RCV also obtained support for this initiative from the Treasurer's Office, the Department of Treasury and Finance (DTF), the Office of Local Government, and Treasury Corporation Victoria (TCV). The business case was submitted to state government in June 2018.

What is the benefit of RCV's Treasury Shared Service Model?

While the new Community Infrastructure Loan Scheme is a welcome initiative for funding future community projects, the RCV treasury model would allow local governments to aggregate their existing debt and take advantage of the current low interest rate environment.

Victorian Local Government Authorities (LGAs) have a fragmented approach to debt financing and typically lack sophisticated treasury risk management resources. LGAs pay on average a 2.5 per cent premium for debt, compared to Treasury Corporation Victoria (TCV) and other municipal financing vehicles. This is because they access debt 'indirectly' through banks rather than 'directly' from the wholesale investment markets. It is estimated that this, together with the lack of risk management resources, has cost the sector in excess of \$500 million over the last 10 years.

This 'slippage' has had a hidden but significant impact on asset provision, community services and the financial sustainability of the sector. LGA debt grew from \$700 million in 2008 to \$1.2 billion in 2017. The 2.5 per cent premium equates to payment of \$240 million in margins to banks for service over this period.

Debt is forecast to increase to \$2.4 billion by 2031. Equipment lease costs (road making and quarry plant, cars, office, etc.) are not independently reported in the financials, but are estimated to be equivalent to at least 50 per cent of on-balance sheet debt. Therefore, slippage over this timeframe from this type of financing is an additional \$120 million.

Councils have a propensity to fix debt for extended terms while investing 'cash' in the short term (typically less than 180 days). Overall the sector's investments are three times greater than its debt levels. This had a significant impact when the Global Financial Crisis hit and official interest rates sharply fell from 7.25 per cent in 2008 to 3.0 per cent in 2009. The average term on debt portfolios for councils sampled was 5 years. As a result, for 5 years, local government paid the higher 'fixed rates' on debt, while income from investments fell by 4.25 per cent. On an average of \$800 million of debt over the period 2008 to 2013, this implies a reduction of \$170 million due to the mismatch between fixed expenses and floating income from interest rates.

These figures indicate that slippage from increased bank margins and the opportunity cost from interest rate risk has pulled an estimated \$530 million out of the LGA sector overall since 2008.

Analysis by EXEM Australia shows the model would deliver a 2 per cent reduction in interest – an annual saving of \$5 million on RCV member council debt levels in 2018. These savings would allow RCV cities to make further investments in their communities, addressing infrastructure backlogs and developing assets and creating opportunities for economic growth and improved liveability in their local government area.

Under RCV's proposal, the shared service structure would initially comprise RCV's ten member cities, with the possibility of extending the service to rural councils within RCV catchments at a later date.

In the current economic environment, which has seen an increase in local government sector borrowing to address the financial impacts of the pandemic, but in which banks are also tightening lending conditions, the treasury shared service model provides an alternative financing vehicle.

RCV calls on the state government to support the RCV business case with a \$2 million commitment to establish the proposed Treasury Shared Service model.

DIGITAL CONNECTIVITY

The issue of digital connectivity has been brought into sharper focus during the pandemic and subsequent lockdown. The shortcomings of accessible and reliable digital connectivity in regional Victoria have been

highlighted with the shift to working from home, and the necessity of remote learning across all levels of education.

Digital and mobile connectivity is essential to economic growth, improved education outcomes, and enhanced liveability in regional Victoria. Improving digital and mobile connectivity across regional Victoria will help address social and economic disadvantage by supporting business and investment attraction, training and education, and tourism. It will also boost local commerce and support greater e-commerce uptake.

Infrastructure Victoria's work on *Addressing Regional Disadvantage* highlights the lack of digital connectivity as a key factor in socio-economic disadvantage in regional areas. Improving digital connectivity means improving access to information, social networks, government services, and education and employment resources and opportunities.

RCV calls for a further investment of \$100 million in digital and telecommunications infrastructure through the Connecting Regional Communities Program, to ensure reliable mobile coverage and business grade digital connectivity throughout regional Victoria, including:

- **Free Wi-Fi in all regional cities.** This initiative builds on the roll-out of public Wi-Fi in Ballarat and Bendigo, Shepparton, Geelong, and Latrobe Valley.
- **Free Wi-Fi on all regional trains.**
- **Continued roll-out of the Mobile Blackspot Program**, ensuring Victoria receives an equitable share of the national fund and regional Victoria is not left behind.

WASTE MANAGEMENT

The public health response to the pandemic, which mandates working from home, has seen a significant increase in household waste. The burden of managing this is shouldered largely by local government.

Local government is at the frontline of the so-called "war on waste". Local government's ability to effectively combat and sustainably manage the increasing volumes of waste and recyclable material depends on robust and informed policy and regulation at state and federal levels, where the reduction and avoidance of waste generation is prioritised.

RCV welcomes the State Government's *Recycling Victoria* strategy, which identifies the need to develop and strengthen a circular economy in Victoria. RCV also acknowledges the \$129 million investment in the waste and recycling reform program, and look forward to working with the Department and relevant agencies to develop transition plans to implement the reform to collection systems and to support behaviour change programs.

The need for recycling infrastructure presents opportunities for regional cities. RCV notes that Infrastructure Victoria's *Advice on recycling and resource recovery infrastructure in Victoria* identifies 52 potential regional locations for such infrastructure. RCV is keen to work with the State Government to determine the most suitable sites that will deliver the best environmental and economic outcomes, and create much-needed jobs in regional Victoria.

RCV appreciates the State Government's decision to delay in the increase of the landfill levy to 1 January 2021, in recognition of the financial impacts of the COVID-19 pandemic on both council and household budgets. In the 2017-18 financial year RCV member councils contributed a combined total of almost \$18

million in landfill levies. We would appreciate the opportunity for greater consultation between state and local government in relation to the use of the landfill levy contributions for environmental initiatives that will improve sustainability outcomes in our local communities.

RCV calls for:

- **Consultation with RCV councils on the location of recycling and resource recovery infrastructure in regional Victoria; and**
- **Consultation with local governments in relation to the use of the Municipal and Industrial Landfill Levy to ensure stronger sustainability outcomes for local communities.**

CONCLUSION

RCV applauds the State Government for its initiatives to support regional Victoria as we collectively respond to the COVID-19 pandemic. RCV urges the Government to continue investing in and supporting regional communities as we face economic uncertainty and ongoing challenges in dealing with the pandemic. In particular, we call on the State Government to:

- Enable infrastructure delivery, through streamlining policies and fast-track initiatives;
- Strengthen and boost the delivery of affordable housing in regional Victoria;
- Strengthen financial performance of regional local governments and support RCV's Treasury Shared Service model of financing;
- Improve and secure digital connectivity across regional Victoria; and
- Work closely with regional local governments to plan and construct recycling and resource recovery infrastructure in regional Victoria.

RCV would welcome the opportunity to discuss the proposals in this budget submission in more detail and looks forward to working closely with the State Government to strengthen and grow regional Victoria.