



Local Government Finance Professionals

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29 January 2024

The Hon. Melissa Horne MP
Minister Local Government
Melissa.Horne@minstaff.vic.gov.au

Dear Minister,

RE: Local Government Financial Sustainability

There are increasing financial pressures being felt by all levels of government, business and community members. The Victorian Local Government sector is experiencing financial challenges that will ultimately result in the reduction of services and infrastructure investment for Victorian Communities.

FinPro recently undertook a survey of its members to understand the impact. 55 Councils (70% of councils) completed the survey, with representation across all Council types. The response was extremely pleasing given that the survey was only open for one week and was distributed during the January holiday period.

We asked Councils to detail how they would describe the current financial pressures facing their Council, with comments such as 'extreme', 'significant' and 'immense' being common.

A number of themes emerged from the responses:

- **Financial Sustainability Strategy:** Many councils are grappling with financial challenges and developing strategies to improve long-term financial sustainability.
- **Financial Pressure and Deficits:** Many councils face significant financial pressure, with underlying deficits in their Long-Term Financial Plans (LTFP). The rate cap, often below inflation, contributes to these challenges.
- **Service Provision Challenges:** The ability to maintain current service levels is difficult due to the gap between revenue and escalating costs. Councils are considering how to reduce services or levels of service, which will ultimately have impacts on the community.

- **Rate Cap Impact:** The rate cap at 2.75% is insufficient to cover increasing costs in various areas, including labor costs, construction, insurance, and service delivery. This puts pressure on councils to limit capital expenditure, defer projects, and reduce services.
- **Population Growth Challenges:** Growing councils face the challenge of providing infrastructure and services for rapidly increasing populations. This requires careful planning and poses additional financial strain.
- **Cost Escalations:** Councils across the board are grappling with cost escalations well above income increases, placing additional strain on budgets and resources.
- **Revenue and Funding Issues:** Dependence on rates for revenue, coupled with limitations on discretionary income sources creates financial instability. External funding doesn't always match increasing costs, adding to the strain.
- **Impact of External Factors:** External factors like natural disasters, legislative changes, and global events such as COVID-19 contribute to financial stress, affecting cash flow, operational expenses, and service delivery.
- **Workforce and Employment Pressures:** Employment-related costs, including Enterprise Agreement pressures and staffing challenges, contribute to financial strain. Some councils report difficulties in securing resources.
- **Infrastructure and Asset Renewal Challenges:** Councils are grappling with the need for extensive capital works programs, renewal targets, and new asset demands. The ability to fund these projects is impacted by the rate cap and other financial constraints. These costs for maintenance and upgrades are soaring well above income increases.
- **Climate Change and Environmental Impact:** Costs associated with mitigating climate change, environmental impacts, and extreme weather events contribute to financial pressure. This includes environmental protection and sustainability efforts.
- **Legislative Changes and Cost Shifting:** Legislative changes, cost shifting from higher levels of government, and evolving reporting obligations add complexity to financial management. As well as compliance changes, such as consultation costs required of the new Act or other regulatory items, such as OVIC requirements.
- **Ongoing Challenges and Uncertainties:** Councils express ongoing challenges, uncertainties, and the need for constant adaptation to new circumstances, impacting their ability to make real cost savings and sustain services.

We share these insights as direct feedback from our members, so you and your office are aware of the sentiment of the sector.

FinPro requests that you consider a full and independent review of the rate cap system. While we acknowledge that a rate cap will remain in place, we believe that it is timely to undertake an examination that would review the effectiveness of the policy and the impact



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it has had on the sector and make recommendations that will support the ongoing financial sustainability of the sector.

We believe that there are changes that would make the rate cap system fairer for all – including that the rate cap should be based on a developed Local Government Cost Index. The majority of Australian States have developed a LG cost index, to reflect the cost increases associated with the delivery of local government services, recognising that the CPI alone does not reflect cost increases across the range of council service.

Please feel free to contact us with any further questions via myself via 0419 634 128 or our Executive Officer, Gabrielle Gordon gabrielle@finpro.org.au.

Regards,

Bradley Thomas
President – FinPro

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CC: Mike Goey – Executive Director Local Government Victoria