



Local Government Finance Professionals

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30 May 2024

Committee Secretary  
House of Representatives Standing Committee on Regional Development, Infrastructure and Transport  
PO Box 6021  
Parliament House Canberra ACT 2600

Via email: [rdit.reps@aph.gov.au](mailto:rdit.reps@aph.gov.au)

Dear Secretary

**Re: Federal Parliamentary Inquiry into Local Government Financial Sustainability**

FinPro appreciates the opportunity to provide a submission to the Federal Parliamentary Inquiry, conducted by the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport, into local government financial sustainability.

FinPro is the peak body servicing local government finance professionals in Victoria. An incorporated association, FinPro has over 800 members, representing all Victorian councils. FinPro is pleased that the Committee is investigating local government funding and service delivery in Victoria.

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 significant reduction of services and infrastructure investment for communities, if changes to our revenue structure do not occur.

Local services can be taken for granted as part of the broader General Government Sector, and include – amongst many others – libraries, local roads, maternal child health nurses, planning, sporting grounds, local roads, food safety, parks and playgrounds. Initiatives like climate change mitigation, land use planning, recycling, and integrated transport all support valuable improvements for the sustainability and liveability of our communities.

Financially sustainable Councils contribute to national policy priorities. These services can only continue to be effective if local governments are financially sustainable.

The financial sustainability and funding of local government is the focus of our submission. FinPro has recently completed a detailed report (**attached**) which provides detailed analysis and an assessment that the sustainability of the Victorian local government sector is deteriorating. While the Victorian rate cap system is a significant contributor to the deterioration, the reduction in real term Commonwealth funding is also a major contributor. The attached report was commissioned to respond to the upcoming Victorian Parliament Inquiry into Local Government funding and services - [Inquiry into Local Government funding and services \(parliament.vic.gov.au\)](http://parliament.vic.gov.au) however has vital analysis for this Committee's inquiry.

## The financial sustainability and funding of local government

Critical to the approach and considerations of the Committee is an accurate understanding and appreciation of the financial sustainability of local government in Victoria. It is critical because the current financial position and future sustainability of local government underpins and is impacted by the matters outlined in the Terms of Reference.

Changes will need to be made to the ability of Councils to generate revenue to avoid a further significant deterioration in the sustainability and services provided by local government.

The Victorian Auditor General Office (VAGO) in their recent report ([Results of 2022–23 Audits: Local Government](#)) noted:

*That the sector’s financial performance improved slightly. A number of revenue and income streams increased, but growth in councils’ expenses outpaced this for another year. VAGO however noted that the financial performance of the sector would have declined had the Australian Government not advanced 100 per cent of the 2023–24 financial assistance grants in 2022–23.*

FinPro would note that relying on early payment of financial assistance grants is not a sustainable model for Councils, and as the situation worsens, the early payment is clouding analysis of Councils true financial performance and position.

The same report also states that:

*The adjusted underlying result indicator measures a council’s ability to generate a surplus from its ordinary course of business (excluding capital receipts) to fund its capital spending. It is important that councils generate enough money to deliver community services. A longer-term negative trend in this indicator could force councils to reduce the services they offer their communities.*

*In 2022–23 the sector’s adjusted underlying result deteriorated.*

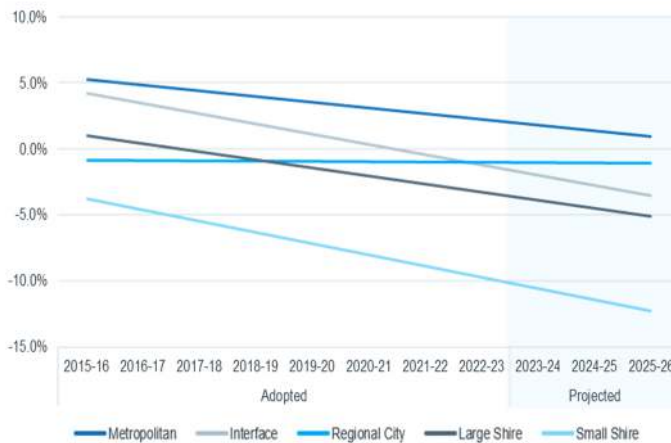
The following table is a summary of the deterioration of the sector’s adjusted underlying result since before the COVID pandemic and that the deterioration would have been larger if not for an increase in earlier grant payments.

Adjusted Underlying Result	2022-23 Number of Councils	2018-19 Number of Councils
Surplus	41	56
Deficit	37	23

Source – VAGO (2023)

As evidenced by the table, there is a deterioration in the number of councils reporting on underlying operating deficit in 2022-23 compared to the results in 2018-19 (prior to the pandemic). However, as VAGO note, the prepayment of financial assistance grants avoided a much higher number of councils reporting a deficit.

The below figure provides the trendline in the adjusted underlying result ratio over recent years. All Council cohorts except for regional city councils show a declining trend in the ratio in the budgets adopted from 2015-16 to 2022-23 and projections through to 2025-26.



Source: AEC Analysis (unpublished), LGV Budget Summary Report data (various years)

## Commonwealth Funding

Vertical fiscal imbalance is a characteristic of the current federation framework, which results in an inability of local government to earn sufficient revenue to fund services, relying on grant funding from the other levels of government. The imbalance is increasing in the Victorian context, rate revenue is restricted. Costs incurred by Councils have outpaced increasing to revenue to Local Government from both Commonwealth and State Governments.

FinPro requests that the following be noted:

- That as a percentage of total Commonwealth Government taxation revenue (excluding GST), the amount of Financial Assistance Grants made available to local government decreased from 0.76% to 0.57% from 2011/12 to 2021/22.
- That the vertical fiscal imbalance that exists results in the local government sector being vulnerable to policy settings of other levels of government, including the allocation of grant funding and transfer to local government from other levels of government.
- Unlike the Commonwealth and Victorian governments, the revenue base of local government does not grow in line with economic growth, due to the impact of rate capping and the Financial Assistance Grant funding model – due to rates and operating grants contributing 80% of revenue in the local government sector. This means while the Commonwealth and Victorian Governments can respond to demands for higher living standards as the economy grows (e.g. additional funding for better health services and better education), the local government sector is significantly constrained to meet the demand of the community for higher living standards.

FinPro calls on a fair share of funding, to assist the delivery of key services and infrastructure projects, to support priorities for Local Government and assist delivery of national priorities. Of note is that the Commonwealth Government taxation revenue (excluding GST) has increased by 65% over the last 10 years and 31% in the last 5 years, while Victorian Government taxation revenue for the states has increased by 98% over the last 10 years and 34% over the last 5 years. By comparison, local government

taxation revenue (municipal rates) has only increased by 54% over the last 10 years, and 16% over the last 5 years.



The quantum of the Financial Assistance Grants provided to Local Government should be increased to at least 1.0% of Commonwealth Revenue, and not through the reduction of other current funding programs and infrastructure investment made by the Commonwealth Government. This fairer level of funding for Local Government would significantly improve the financial sustainability of the sector, but more importantly would ensure that initiatives, programs and infrastructure is delivered by local councils for local communities.

Previous analysis by the Australian Local Government Association (ALGA) noted that Increasing the Financial Assistance Grants to 1% of total Commonwealth taxation revenues would provide \$5,125M in funding to local government in 2021-22, which is an additional \$2,429M in funding. An additional \$2,429M would increase the Gross Regional Product (GRP) by \$3,439M and support an additional 22,814 jobs full-time equivalent jobs.

There are also opportunities within the administration of many of these grants for efficiencies when local government is a key partner, which include:

- Reducing administrative burdens
- Let grants be used for local priorities
- Remove or ease co-contribution requirements
- Allow for more flexible timelines
- Increased grants for planning and feasibility studies (particularly in regional and rural settings)

**Recommendation 1** - Restore Financial Assistance Grants to at least one per cent of Commonwealth taxation revenue, not reducing other current Commonwealth funding programs.

**Recommendation 2** - The Government ‘reset the payment cycle’ with an additional once-off payment, to address the bring-forward of Financial Assistance Grants and then have a standard payment cycle.



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We look forward to hearing about the progress of this Federal Parliamentary Inquiry. Thank you for considering our submission, and we would welcome the opportunity to present before the Committee, should that opportunity be available.

Please feel free to contact us with any further questions via our Executive Officer, Gabrielle Gordon, at [gabrielle@finpro.org.au](mailto:gabrielle@finpro.org.au) or on 0400 114 015, or myself on 0419 634 128.

Regards,

**Bradley Thomas**  
**President – FinPro**

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