

**Submission
No 103**

INQUIRY INTO LOCAL GOVERNMENT FUNDING AND SERVICES

Name: Murrindindi Shire Council

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Victorian Parliamentary Inquiry into Local Government Funding and Services

**Submission by Murrindindi Shire Council
June 2024**



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1. Introduction

Murrindindi Shire Council welcomes the opportunity to lodge this submission to the Victorian Legislative Council Economy and Infrastructure Committee Inquiry into Local Government funding and service, including:

- The ability of Local Government to meet core service delivery objectives
- Local Government's revenue structure, and whether these structures are sustainable and appropriate
- Cost shifting from State and Federal governments to local councils
- Whether there are alternative revenue models to consider

This submission highlights the challenges faced by our small rural council in Victoria's north-east in maintaining basic services and infrastructure essential for community wellbeing and livability. These challenges are exacerbated by the constraints and limitations of government policy and funding models that restrict Council's revenue raising capacity.

We propose eleven recommendations for the Committee to consider as part of its work to address local government funding and service delivery in Victoria.

2. Background and Context

The Murrindindi Shire in north-east Victoria is a small rural municipality with a population of 15,197 spread over 3,873 square kilometres and encompasses the rural townships of Alexandra, Eildon, Kinglake, Marysville and Yea. Despite being close to Melbourne, its mountainous terrain, and with 48% of the Shire being State Forests and National Parks, hampers development and accessibility. Population growth is steady at 1.2% annually, however the Shire is able to accommodate higher growth. Limited public transport and poor digital connectivity hinder access to essential services, forcing residents to travel long distances to regional centres. Council struggles to attract and retain staff due to competition with higher-paying metropolitan councils, large businesses and remote work opportunities.

The small, dispersed and ageing population creates financial and operational challenges for Council, which must duplicate services across five townships and 42 communities, some 100 km apart. With only 12 residents per kilometre of council roads compared to 287 in metropolitan areas, the cost to service is high and economies of scale are difficult to achieve. The area's natural beauty draws tourists, especially during peak holidays, however the financial benefits are minimal and low yielding, while the strain on municipal services and ageing infrastructure increases.

Murrindindi's susceptibility to the negative impacts of climate change and natural disasters, such as the 2009 Black Saturday bushfires and recent floods in 2022, 2023, and 2024, poses significant challenges. These events lead to infrastructure loss and additional financial burdens, especially for emergency responses that do not always qualify for disaster recovery funding. The toll on the community and the staff, emotionally, physically and financially is significant with repeated disasters. Maintaining emergency preparedness and community education further strains the Council's limited resources. The Shire's relative isolation, despite its proximity to Melbourne, underscores the unique challenges faced by this small rural shire.

3. Ability of Council to Deliver on Core Service Delivery Objectives

Murrindindi Shire Council faces significant hurdles in addressing the above challenges and meeting community expectations for the ongoing delivery of an expanding range of services and infrastructure. This challenge is compounded by the restrictions on Council’s ability to raise revenue and the current inflationary environment, which has seen costs for road and building materials, contractors and services like insurance, escalate by up to 30-40% over the last 24 months.

Council’s financial results in recent years reveal operating surpluses, which, at face value, suggest that it has capacity to generate sufficient funds to absorb these cost increases, meet its operating needs, with provision for future growth.

These operating surpluses, however, are largely driven by capital grant income, and as the corresponding capital expenditure associated with these grants is not included in the operating result, these grants distort the true financial picture. When these grants are excluded, Council operates with an underlying deficit which is increasing over time. This is increasingly eroding Council’s cash and financial position and its capacity to meet the current and future service and infrastructure needs of our local communities.

This deterioration in underlying deficits is a common trend across Victorian councils and well recognised as a key indicator of financial sustainability across the sector. The Victorian Auditor General’s Office (VAGO), in its annual audit of financial performance across Victorian councils for 202/23, shows that the number of councils reporting underlying deficits has increased since 2018/19 include just under half of all councils (Table 1). It goes on to indicate that the advanced financial assistance grant payments from the Australian Government mask an even worse result for the sector.

Adjusted underlying result	2022-23 number of councils	2018-19 number of councils
Surplus	41	56
Deficit	37	23

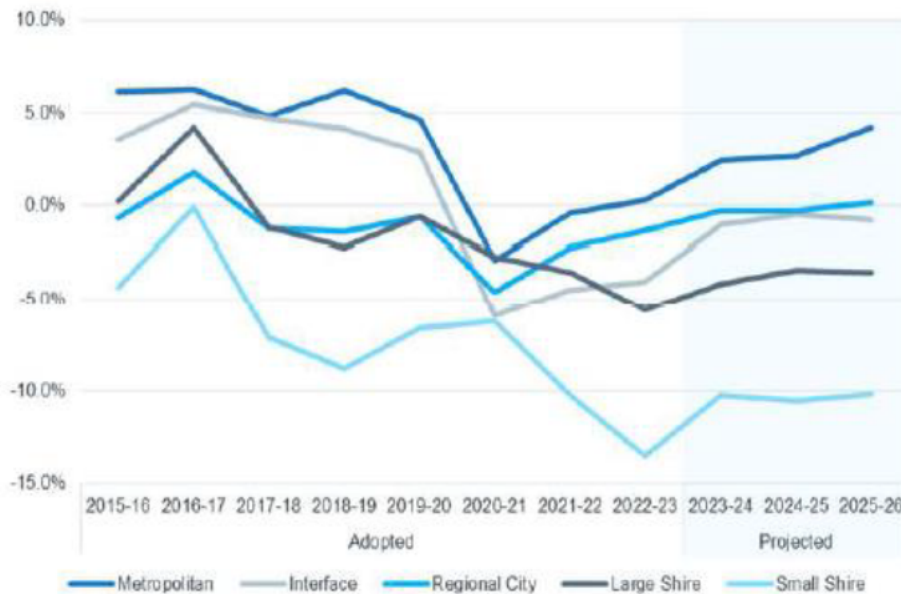
Note: 78 councils for 2022-23, as one council yet to finalise their financial report.
Source: VAGO.

The adjusted underlying surplus includes the advance financial assistance grant payments from the Australian government. Had the total financial assistance grants not remained at the same percentage as the previous year, more councils would be reporting an adjusted underlying deficit.

Table 1 – Source: VAGO Results of 2022/23 Audits of Local Government

Furthermore, as noted in the recent analysis of the financial sustainability of Victorian councils undertaken by FinPro (Incorporated Association supporting Local Government Finance Professionals)¹ this trend in deteriorating underlying deficits is particularly evident amongst small rural councils.

¹ Submission – Committee Inquiry into Local Government Funding and Service Delivery in Victoria, FinPro 2024



Source: AEC Analysis (unpublished), LGV Budget Summary Report data (various years)
 Notes: The Australian Government has provided a prepayment of financial assistance grants over recent financial years. Given the analysis presented here is budgeted not actual, it is unlikely that councils planned to receive further payments of grants in advance.

Chart 1 – Adjusted underlying deficits for different Council cohorts. Source: FinPro

Importantly, as shown in Chart 2, the underlying deficit for Murrindindi Shire Council is deteriorating at a faster rate than the average across all Victorian councils, as shown in the following chart. Again, this trend would be worse if it were not for the financial assistance grants being paid in advance.

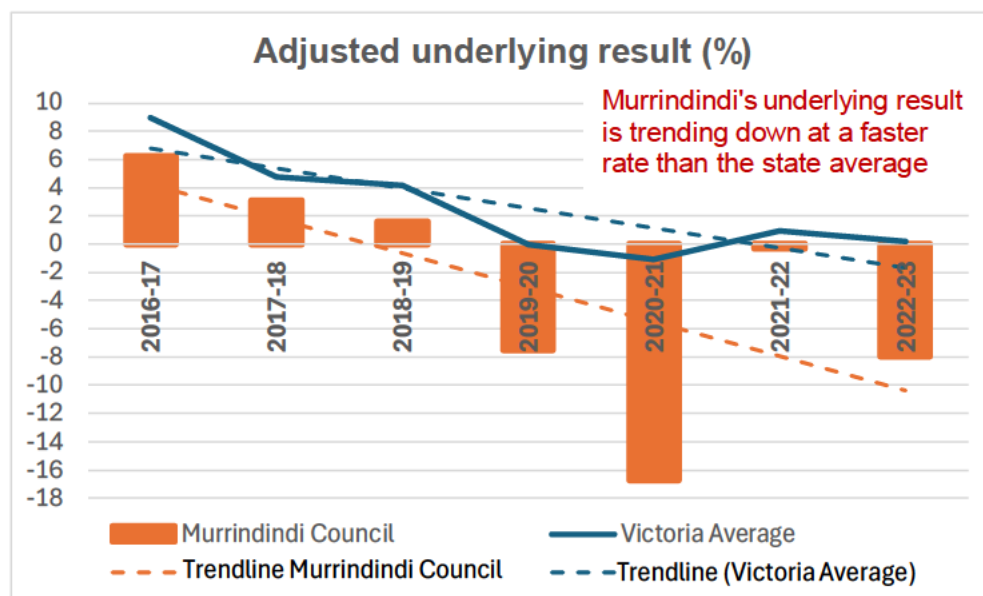


Chart 2: Adjusted Underlying Result trend for Murrindindi Council and Victoria's 79 Councils Average. Source: [VAGO](#)

On the basis of these results it could be argued that Council is operating beyond its means and needs to reduce its cost base and increase its efficiency. However, Murrindindi Shire Council already provides very lean and efficient services, with unit costs for most services being below, or on par with the average costs across small rural councils, as measured through the Victorian Government's Local Government Performance Reporting Framework

([Know Your Council](#))². Similarly, the average expenses per assessment are also within the average range for this cohort of councils. Clearly it is not feasible to cut operational costs any further as this would erode already low service levels.

Nevertheless, overall community satisfaction with Council's services, as measured in the Local Government Community Satisfaction Survey, is deteriorating across the board, especially for road infrastructure, indicating that Council is finding it increasingly difficult to provide the level of service and infrastructure needed and expected by its communities.

One of the national principles in determining the allocation of the Australian Government's financial assistance grants is 'horizontal equalization' which stipulates that the funding allocation should contribute to each council's ability to function, by reasonable effort, at a standard not lower than the average standard of other councils in the State/Territory. Despite showing that Murrindindi is operating efficiently with respect to service costs, the community satisfaction indicators suggest that currently Murrindindi is not able to achieve the same outcomes when compared with the average performance across both small rural and all Victorian councils.

4. Sustainability and Appropriateness of Local Government Funding Sources

The deterioration in Council's underlying deficit is unsustainable. Without increased revenues to offset the rising costs of service provision and infrastructure, Council's financial position will be further weakened, leading to an inevitable and detrimental withdrawal or reduction in service levels and infrastructure quality.

This situation is largely due to the low grants revenue and the limit posed on Council's own revenue-raising capacity. Two thirds of Council's total revenue comes from rates and recurrent government financial assistance grants, over which the Council has little or no control.

4.1 Victorian Government's Rate Cap

The operational and financial challenges on Council are exacerbated by the limitation on Victorian councils, particularly in rural areas, to raise own source revenue. Rates and Charges represent the single main source of Murrindindi's total revenue (56%), yet Council is limited to raising rates by the State Government's rate cap mechanism which is widely known to consistently result in rates set well below inflation and the level of cost increases experienced by local government. This fact is acknowledged by the Essential Services Commission in its advice provided to the Minister for Local Government in the setting of the rate cap for 2024/25³.

It is estimated in a joint analysis by the Municipal Association and Victoria (MAV) and FinPro in 2022⁴ that cumulatively over the first 4 years of rate capping (introduced in 2016/17) the gap between the increase in the local government cost base and the rate cap increase was 4% for the sector and 9% for small rural councils, indicating a compounding erosion of the rate base.

Whilst a mechanism exists to seek a rate cap exemption, the process, as directly experienced by Murrindindi Shire Council, is administratively burdensome, with an unrealistically high bar to demonstrate community support. This places the burden on councillors to bear the political

² LGV - www.vic.gov.au/know-your-council

³ FinPro Submission 2024

⁴ State of Victorian Local Government Finances – MAV and FinPro 2022

consequences for promoting a rate hike to address a funding gap that has been generated by State level decisions to set the cap below the cost-base of councils.

The rates per assessment in Murrindindi are significantly higher than the average for small shire councils in Victoria as shown in Chart 3, indicating that our community is already contributing more than its fair share. Consequently, promoting a rate cap exemption for our shire only would likely be seen as inequitable and unpalatable.

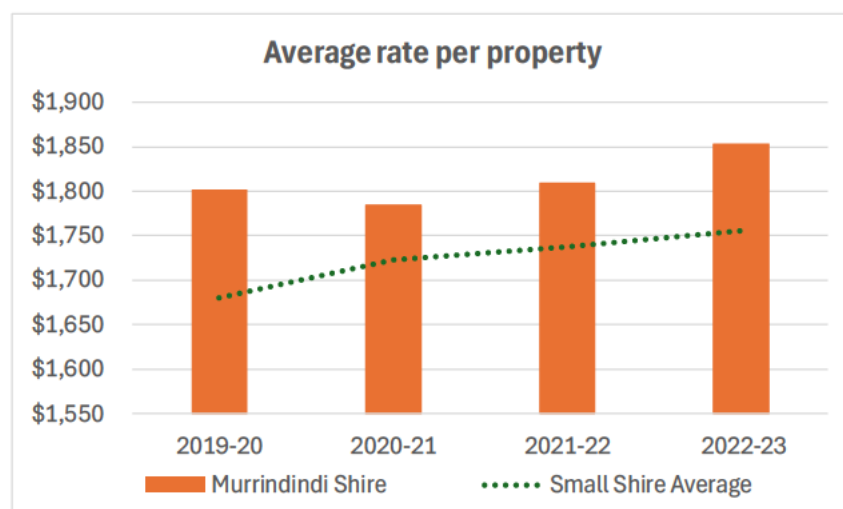


Chart 3 - Average rate per property assessment. (Source: [Know Your Council](#))

As will be discussed later in this submission, the restriction of funding due to successive rate caps being set below the true cost base of local government, is also affecting Council's ability to finance the renewal of its infrastructure assets. The renewal funding gap is expected to significantly increase over the medium to longer term, leading to higher maintenance costs, increased safety risks, and a greater likelihood of asset failure.

4.2 Commonwealth Financial Assistance and Other Grants

For Murrindindi Shire Council, the Commonwealth Government's Financial Assistance Grants (CFAGs) are a critical component of the recurrent revenue mix. It is well documented that following the 3-year freeze on indexation from 2014/15 to 2016/17, there has been a loss of \$925 million in federal government budget allocation for CFAGs, with the allocation now representing just 0.6% of Commonwealth Tax Revenue, down from 1% in 1996. Similar to the Victorian Government rate cap, this erosion in funding is compounded by the fact that CFAGs indexation does not reflect the rising costs specifically associated with Local Government.

We also question the adequacy of the mechanism used by the Victorian Grants Commission in distributing the Victorian component of the CFAGs to councils. CFAGs are becoming an increasingly insufficient source of financial assistance for Murrindindi Shire Council to meet its core service delivery objectives. This funding erosion is illustrated in Chart 4 below, which shows the worrying trend of the steadily reducing ratio of the value of CFAGs relative to Council rate revenue.

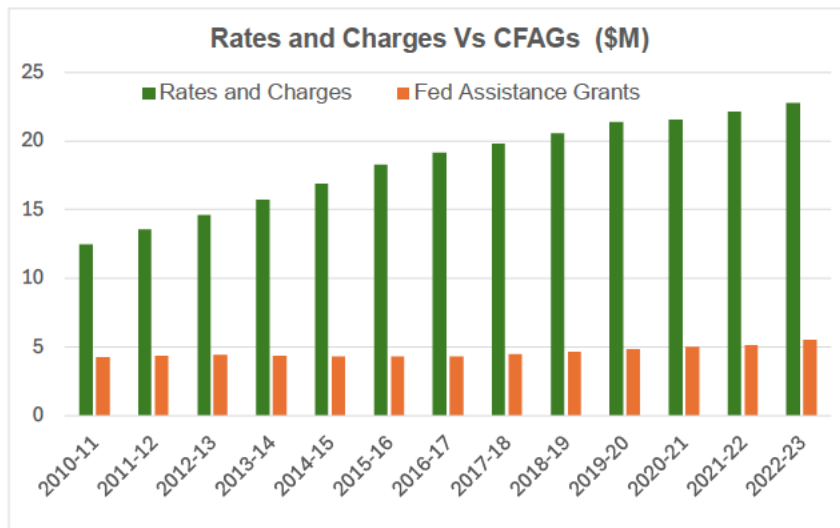


Chart 4 - Murrindindi's Rates and Charges Revenue and CFAGs- Source: [VAGO](#)

Furthermore, Murrindindi Shire Council receives significantly less per capita in annual government grant allocations compared with other small shire councils in Victoria. As shown in Chart 5 below, the recurrent grants per capita received by Murrindindi are less than half the average amount for similar small rural councils. For 2022/23 Murrindindi received less than the per capita average of all Victorian councils, clearly negating its status as a small shire warranting extra financial support.

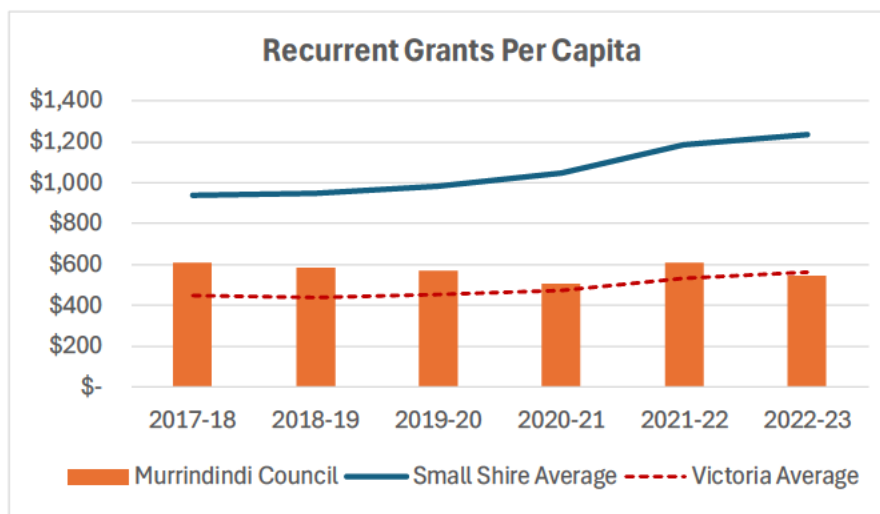


Chart 5 – Recurrent Government Grants Per Capita (Source: [Know Your Council](#))

Despite Murrindindi Shire Council being classed as a Small Shire, it continues to receive less than half the recurrent government grants per capita compared to the state's Small Shires average. Curiously, some Large Rural Shires and Regional Cities in Victoria receive much greater per capita recurrent grants than Murrindindi, indicating fundamental flaws in the system for allocating Federal Assistance Grants to Victoria's 79 councils. This contradicts the Victorian Grants Commission's (VGC) stated philosophy of providing greater grant subsidies to the more needy smaller councils like Murrindindi.

The significant shortfall in grant funding experienced by Murrindindi Shire Council year on year continues to have significantly negative financial impacts, pointing to the need of an urgent review of the fairness and equity of the grants allocation model as applied to Murrindindi. It is evident that the formulas and adjusters applied by the VGC produce perverse results, with

some councils benefiting disproportionately while others, like Murrindindi, are continually grossly underfunded. Table 2 below shows that, had Murrindindi Shire Council received its fair share of recurrent grants, reflecting the Small Shire average, it would have received an additional \$44 million over the last six years, or an extra \$10.7 million in the last financial year, which would have been adequate to support Council's true cost base and financial sustainability.

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Murrindindi Council	\$ 610.62	\$ 584.98	\$ 569.74	\$ 504.67	\$ 608.18	\$ 543.30
Small Shire Average	\$ 937.94	\$ 946.61	\$ 982.60	\$ 1,048.61	\$ 1,183.90	\$ 1,235.80
Victoria Average	\$ 449.60	\$ 440.62	\$ 453.45	\$ 471.36	\$ 534.13	\$ 564.26
Murrindindi Population	14,561	14,737	14,872	15,139	15,353	15,482
Shortfall Per Capita	\$ 327.32	\$ 361.63	\$ 412.86	\$ 543.94	\$ 575.72	\$ 692.50
Total Shortfall	\$ 4,766,116	\$ 5,329,344	\$ 6,140,054	\$ 8,234,708	\$ 8,839,029	\$ 10,721,285

Table 2: Recurrent Government Grants Per Capita (Source: [Know Your Council](#))

Murrindindi appreciates the challenges associated with a wholesale review of the formula adjusters, as this may cause unintended widespread "shocks" in CFAG distribution across the 79 Victorian councils. In the absence of a perfect model for CFAG allocation, the government should consider making corrections targeted at the handful of councils at the margins of the grants distribution curve, to compensate those councils most disadvantaged by the current system.

Unfortunately, the inequitable shortfall in recurrent funding experienced by Murrindindi Council, is also observed in the allocation of Total Government Grants, on a larger scale, further exacerbating Murrindindi's precarious financial position.

4.3 The influence of Political Representation on LGAs' Government Grant Allocations

The current system for awarding competitive grants to local councils is fundamentally flawed, as it heavily relies on the advocacy and influence of local Members of Parliament (MPs). This results in significant inequities, particularly for small rural councils like Murrindindi Shire.

Murrindindi Shire, which spans approximately 3,900 km², falls under the federal electorate of Indi and the state district of Eildon. It has only one Lower House State MP and one federal House of Representatives MP. These MPs are shared with multiple other Local Government Areas (LGAs), and neither MP is a member of the governing parties at the state or federal level. In contrast, many urban councils have multiple MPs -up to twenty- representing them across the political spectrum at both levels of government, so they have direct influence into government regardless of who wins the elections. This disparity in representation inherently disadvantages some councils, as their limited political leverage translates to fewer opportunities for advocacy and securing grants.

Appendix 1 displays the number of State and Federal Members of Parliament (Lower House only) and their political parties for each of the 79 Victorian Councils. Some LGAs enjoy the full attention of Federal MPs whose jurisdictions cover very small footprints in km² and a single LGA. This means they are fully dedicated to that one Council, can easily travel its full area in under two hours and can be easily and swiftly briefed on all key priorities and projects pertaining to that LGA. These MPs representing single LGAs or a couple of LGAs with small geographical footprints, can focus more specifically on the local needs, leading to more effective advocacy and higher numbers and value of grants.

Conversely, it is unrealistic to expect the only federal local MP representing Murrindindi Shire in the electorate of Indi, to effectively advocate for our local projects funding as well as for the other 11 diverse LGAs covering a vast area of 29,187 km².

Similarly, the State district of Eildon (Liberal) covers an area of 10,061 km² encompassing all or part of the municipalities of Murrindindi Shire Council, Mansfield Shire Council, Unincorporated Land, Whittlesea City Council, Nillumbik Shire Council and Yarra Ranges Shire Council.

This imbalance in political representation of LGAs results in undesirable outcomes due to the allocation of critical funding being in large part determined on advocacy by the local MPs, their political connections and influence, rather than real need or equity. The VAGO report on Total Government Grants for Victoria indicates that LGAs represented by Labor MPs tend to receive more grants.

Consequently, small shires like Murrindindi consistently receive fewer and lower-value grants, facing disproportionate financial sustainability challenges. The current process undermines the principles of fair and equitable resource distribution, leaving some councils struggling to meet their communities' needs.

4.4 Inequities and bias in grant allocations

It would be fair for the public to assume that councils experiencing population growth receive a proportional growth in funding than those LGAs whose population has declined. This is not the case. An analysis of the Total Government Grants Received (VAGO) overlayed with population numbers (ABS) over a period from 2018 to 2023 shows that some councils have received significant increases in total grant funding despite having lost large numbers of residents.

Council Area	MPs	Total Grants Received 2018	Total Grants Received 2023	\$ Increase 2018-23	Population Growth 2018-23
Brimbank City Council	16	\$ 30,912,000	\$ 43,607,000	\$ 12,695,000	- 10,931
Boroondara City Council	10	\$ 18,609,000	\$ 24,668,000	\$ 6,059,000	- 4,849
Banyule City Council	6	\$ 15,697,000	\$ 24,366,000	\$ 8,669,000	- 43
Hobsons Bay City Council	6	\$ 15,409,000	\$ 21,531,000	\$ 6,122,000	- 1,412
Knox City Council	6	\$ 27,980,000	\$ 34,717,000	\$ 6,737,000	- 693
Mitchell Shire Council	10	\$ 17,324,000	\$ 39,939,000	\$ 22,615,000	9,167
Moira Shire Council	4	\$ 17,038,000	\$ 25,784,000	\$ 8,746,000	865
Benalla Rural City Council	2	\$ 8,359,000	\$ 19,178,000	\$ 10,819,000	371
Murrindindi Shire Council	2	\$ 9,783,000	\$ 16,326,000	\$ 6,543,000	921

Table 3 – LGAs, Number of Federal and State MPs, value of total government grants received in 2018 and 2023, increase in value of grants, population growth or decline.

Table 3 above displays a selection of councils with their respective total government grants received 6 years apart. As can be seen, five councils who have seen a reduction in population (in a few cases a drastic decline), presumably experiencing lower demand for services and infrastructure upgrades, have collectively received an additional \$40.2 million in grants. Again,

Murrindindi Shire Council has received a lower proportional increase in grants despite its 6% population growth, further exacerbating the funding gap and undermining its financial sustainability.

The issue here is not just of scarce government funding, but inappropriate distribution of the funding pool. Therefore, a major part of the solution to the financial sustainability of local government must consider how the current pool of funding is actually allocated to ensure the more needy LGAs receive their fair share, as well as an overall increase in the total grant funding pool. It would logically follow that a chronically underfunded council like Murrindindi should get a significant lumpsum in catch-up grants in the spirit of restorative justice.

4.5 Grant Funding the right projects

An important consideration for the allocation of government funding both at the state and federal levels, is the systemic preference for funding flashy new assets for ribbon cutting and photo opportunities, rather than funding basic infrastructure renewals, maintenance, ongoing community programs and opportunities for growth. Small rural councils like Murrindindi lack the resources to operate and maintain new facilities, fund the co-contribution required for new assets, or prepare business cases and complex grant funding applications. Hence we cannot compete fairly for large grants. A more equitable funding program would recognise the basic funding needs of small councils delivering modest services and cost-effective solutions. This should provide larger pools of funding to cover the cost of renewing basic infrastructure such as roads, bridges, libraries and maternal and child health centres, rather than \$50-100 million dollar leisure centres or galleries in already well-serviced areas.

4.6 Renewal Burden

The shortfall in income and grant funding, and the inability to generate true operating surpluses severely impact the ability for small rural councils to adequately fund their future asset renewal needs.

Chart 6 below shows that assets under the ownership and/or management of Murrindindi Shire Council are deteriorating at a faster rate than they can be renewed. This is already resulting in higher maintenance costs. Over time this gap in renewal expenditure will have a flow-on effect with the lowering of service levels provided by these assets, heightened safety risks, a greater likelihood of asset failure, and greater future expenditure required for intervention and renewal.

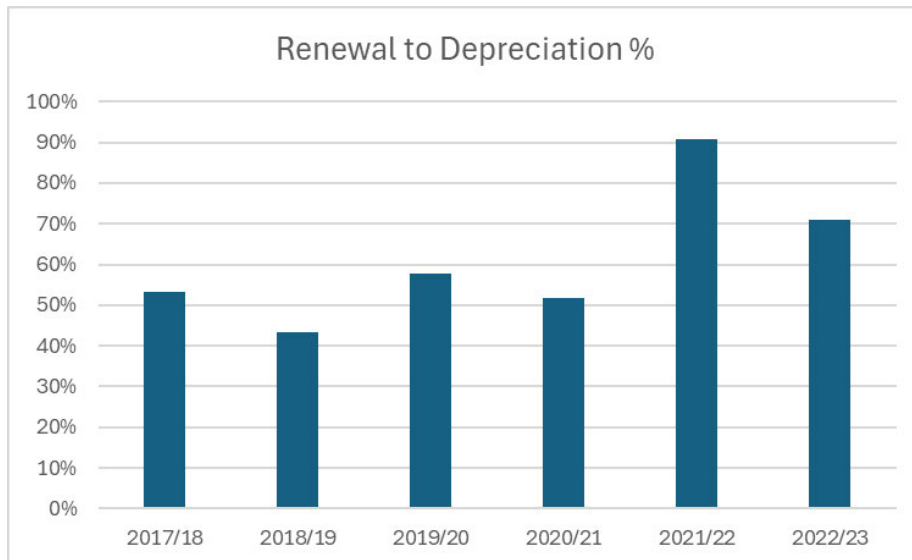


Chart 6 – Murrindindi Shire Council renewal spend as a percentage of asset depreciation
(Source: Murrindindi Shire Council Annual Reports 2017/18 to 2022/23)

It is important to note that the increased renewal expenditure in 2021/22 and 2022/23 in the chart above reflects increases in Commonwealth funding received by Council for the renewal of road infrastructure, particularly bridges. It demonstrates Council's dependency on, and significant difference made by, external funding to arrest asset decline.

The Victorian Rate Cap has stripped the ability of Victorian councils to proactively address these asset renewal challenges.

For instance, Murrindindi Shire was one of the most severely impacted municipalities by the 2009 Black Saturday bushfires, with tragic loss of life and significant property losses, including many Council assets. Due to the scale of the disaster, the Victorian Government established the Victorian Bushfire Reconstruction and Recovery Authority to direct the re-building process. For Murrindindi Shire this rebuilding resulted in the expansion of many former assets and the gifting of many new assets leading to a significant increase in the Council's asset base. Chart 7 below shows Murrindindi's cumulative asset renewal funding gap and the growth in that gap from 2030, as the bushfire-related assets renewal requirement starts to have impact.

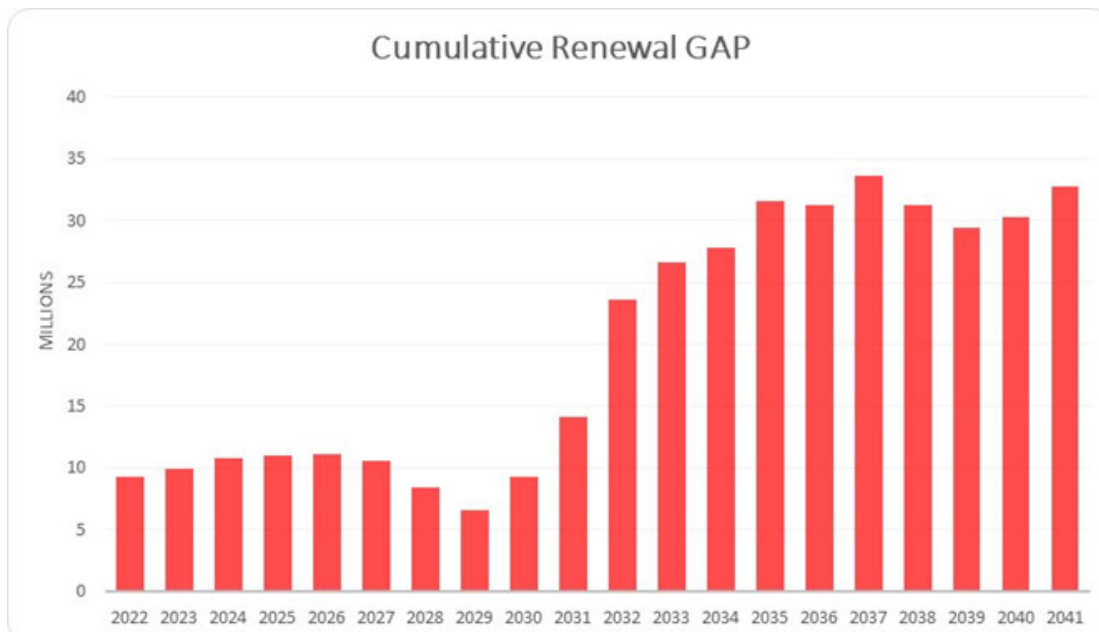


Chart 7 - Murrindindi Shire Council's cumulative renewal gap and impact of new and gifted assets
(Source: Murrindindi Shire Council Asset Management System)

Recognising this impact, in 2012 Council proactively embarked on a strategy of annual rate rises, with the aim of allocating a portion of this increase each year to an Infrastructure Reserve to help meet its future renewal challenges. The introduction of the Rate Cap by the State Government in 2016 brought Council's renewal funding strategy to a premature end, reducing the capacity of Council to take proactive steps to address this looming financial challenge.

Without the ability to raise funds to progressively apply to the Infrastructure Reserve, and with Council needing to continually fund annual asset renewal requirements, there is no capacity to meet future renewal needs without further financial support or removing assets from servicing the needs of the community, reducing overall liveability in the Shire.

5. Cost Shifting

The limits on rural councils' revenue raising are also exacerbated by the additional costs imposed on them via the decisions of other levels of government.

Local government is expected to comply with new government policies and regulations, and to provide an ever-increasing range of social, environmental and economic services and infrastructure to support and enhance the wellbeing of their communities. It is widely accepted that this expectation is impacting negatively on the financial sustainability of the sector.

Councils often become the service provider of last resort, when other levels of government or the private sector fail to provide adequate services or where services are transferred to local government without the necessary funds, or the ability of councils to raise the necessary funds, to sustain them.

Victorian Councils have long highlighted the effects of cost-shifting through the failure of the State to adequately fund the costs of services such as libraries, maternal and child health and school crossing supervision, with the net cost to councils increasing over time as the real value of funding diminishes.

Similarly, there is a well-documented failure to provide appropriate indexation of fees and charges prescribed under State legislation, for services undertaken by local government, such as statutory planning and building control, where the set fees fail to reflect the true cost to councils of providing these services.

Even the Commonwealth Government's decision to increase the Superannuation Guarantee Levy has to be absorbed within existing revenues. Unlike businesses, rate capping precludes councils from passing on these costs or raise additional revenue to cover them. This contributes to unsustainable cost pressures and the further erosion of essential services that Council can provide.

Whilst these are often mentioned, there are many specific examples of cost-shifting in relation to the transfer of responsibility for services or assets, that are specific to individual councils. Cumulatively they represent a significant cost impost and contribute to the deterioration in the underlying financial position.

Example 1 – Road Maintenance

Murrindindi Shire Council undertakes maintenance on behalf of the State Department of Transport and Planning (DTP) on roadsides and medians along State-controlled roads in all urban townships in the Shire. These works include mowing, garden maintenance, litter removal and street sweeping. The annual cost to Council for these works is currently \$94,108. Council receives an annual contribution from DTP of just \$11,000, or 12% of the total cost to Council. This contribution increased from an annual amount of \$9,500 in 2019. There has been no increase to this amount since. This type of cost shift reduces our capacity to maintain our assets.

Example 2 – Building Insurance

Council provides building insurance cover for many building assets under the ownership of the Crown via the Department of Environment, Energy and Climate Action (DEECA). Council often has no other role in the management or operations of these assets, which include public halls, sporting facilities and recreational assets typically managed by community committees under delegation from the Crown (DEECA). The cost of building insurance is prohibitive and often out of reach for these volunteer committees. The value of these assets (\$26.8 M) represents 15.3% of the total value of building assets insured by Council. For 2023/24 this component equates to \$99,080 in premium cost. Despite these assets being under the responsibility of the State, there is no contribution provided to Council toward this cost.

Example 3 – Boat Ramps

Changes in policy of other levels of government are another way in which costs are continually shifted to councils. Following a project to raise the height of the Eildon Dam Wall in 2005, the consortium that undertook the works agreed with the Water Storage Manager (Goulburn Murray Water) to build a new boat ramp adjacent to the Wall as a legacy for the community. As there had been community interest to manage the facility, GMW approached Council to use its powers under the Local Government Act 1989 to form a Committee of Management to manage the ramp operations and maintenance, using the proceeds from ramp parking fees. In order to facilitate this committee arrangement, Council agreed to take a license over the facility. This arrangement continued successfully over many years with proceeds from parking fees used by the Committee to fund maintenance and leverage grant funding to expand the ramps facilities.

In 2019 the Victorian Government introduced legislation to abolish boat launching/parking fees for boat ramp use across Victoria. It provided compensation equivalent to just one year's fee proceeds. Without a means of raising revenue, the Committee disbanded. This has left Council managing and maintaining an asset it doesn't own, without a source of income to

cover its costs, which amount to between \$25,000 and \$50,000 per annum depending on seasonal water levels in the lake.

Example 4 – A Hidden Rate Cut

Government policy restricts councils from increasing their total rates revenue in line with property improvements, pushing costs onto local governments. This hidden cap prevents councils from capturing additional revenue needed to support enhanced services and infrastructure demands resulting from property capital improvements, straining their financial sustainability even when ratepayers improving their property have the capacity to pay, and indeed do pay higher rates than the pre-capital improvement amount. However, under the current rules, this marginal increase must be offset, so the other rate payers will receive an imperceptible reduction in their respective rates, in order to restrain the total rates revenue across the municipality. Most ratepayers perceive no value out of this arrangement, are unaware of this peculiar rule, which they find hard to comprehend when told, as the general expectation is that councils increase the total rates revenue pool following capital improvements such as extensions, renovations, new sheds or outbuildings. Lifting this hidden rates cut would not increase the rates burden on the broader rate payers, and it would enable councils to better align their revenue with the actual capital improved values, ensuring a fairer and more sustainable funding model.

6. Alternative Revenues

For rural councils, unlike their metropolitan and regional counterparts, there are few alternative 'own sourced' revenue raising options outside of rates and charges. A recent study commissioned by Rural Councils Victoria into alternative revenue streams for rural councils, concludes:

*"While rural councils have the opportunity to pursue a range of new or 'boutique' revenue sources, none of these are likely to generate income flows of sufficient magnitude to materially improve local government finances. The solution to the long term financial sustainability of councils is likely to require improved access to national tax revenues"*⁵

Borrowing is a prudent way to fund infrastructure projects, spreading costs over the generations that benefit from them. However, increasing underlying deficits reduce unrestricted cash, diminishing a council's ability to borrow. For small rural councils, this is especially challenging as they struggle to generate surpluses. As FinPro highlights:

*"Borrowings are not a sustainable solution for councils that have underlying deficits and with little or no growth as they will only work to further deteriorate financial sustainability."*⁶

And further:

*".. shire councils have limited ability to increase revenues to fund loan repayments which would then need to be funded by rates revenue, impacting their ability to fund service provision into the future."*⁷

⁵ Alternative Sources of Revenue, Rural Councils Victoria, 2022, page 5

⁶ FinPro 2024 Page ii

⁷ FinPro 2024 page 14

7. Conclusion

Despite its proximity to metropolitan Melbourne, Murrindindi Shire faces significant challenges in attracting investment, businesses and jobs due to a lack of essential services and enabling infrastructure. For instance, the Kinglake Ranges have no water or sewer connection, and all Murrindindi Shire townships lack the critical mass needed for cost-effective and sustainable services, with the largest town, Alexandra, having only 2,800 people. Further, the shire's ageing and dispersed population, combined with high visitation rates, and more frequent natural disasters, creates extra demands for local government services and infrastructure that are becoming increasingly difficult to fund.

Whilst operating efficiently and frugally, including sharing resources and services with adjoining councils, Murrindindi's fiscal capacity is constrained by Federal and State funding mechanisms that restrict Council's revenue raising capacity. Benchmarked performance measures of financial sustainability and community satisfaction with service delivery show that Murrindindi falls below the average standards achieved by similar Councils.

Underlying operating deficits, the depletion of discretionary cash reserves and a widening asset renewal gap have undermined the Council's financial sustainability and its capacity to meet the current and needs of its communities. Failures in State and Federal Government policies to recognise the true cost base of local government, the financial impact of shifting services and costs on to local councils and the outdated, restrictive and flawed funding models, deprive some councils like Murrindindi, of its fair share of tax revenues. This is self-defeating, as it diminishes the capacity of Council to implement State and National priorities.

The current system of grant allocation, influenced heavily by local MPs' advocacy and political affiliations, is inequitable and fails to address the genuine needs of all LGAs. Smaller councils, particularly those in large, sparsely populated areas like Murrindindi Shire within the Eildon (State) and Indi (Federal) electorates, are disadvantaged due to their limited political representation and vast territories. To rectify this imbalance, grants should be allocated based on thorough needs assessments and ground-truthing, ensuring fair and equitable distribution of resources that truly reflect the unique challenges and requirements of each LGA.

8. Recommendations

Murrindindi Shire Council proposes the following recommendations for consideration by the Committee:

1. Arrest the progressive starving of Councils' rate revenue by setting rate caps that reflect the actual annual cost escalation for local government goods and services.
2. Increase, through a gradual adjustment, the rates cap to also redress the cumulative rate funding shortfall to date based on the actual historic cost escalation index for local government goods and services.
3. Provide greater flexibility in the rate cap setting mechanism to recognize the financial risks individual councils face, rather than the current one-size-fits-all approach.
4. Amend the rate cap guidelines to allow councils to increase the total rates revenue pool in line with capital improvements made to properties, lifting the current restriction that only permits rates to increase up to the rate cap set by the government or through lot subdivisions.
5. Review the methodology used by the State Grants Commission to allocate the Commonwealth Financial Assistance Grants, to recognise the limited income generating options of small rural councils, and their higher cost base due to lower population density.
6. Establish a more equitable funding program that prioritises the renewal and maintenance of basic infrastructure over the construction of new, high-profile assets. This program should provide sufficient funding to small rural councils to support essential services and cost-effective solutions
7. Design grant allocation guidelines that consider the unique challenges of smaller and rural councils like Murrindindi, such as limited resources, maintaining extensive infrastructure over large areas with limited population bases. Lift the burden of application processes for smaller councils to ensure they receive adequate support.
8. Establish an independent body tasked with evaluating and publicly reporting on the integrity of the state and federal grant allocation process for local government, to ensure that funding provides the best value for money and reaches the most deserving and disadvantaged councils, based on objective criteria of fairness and equity.
9. Advocate for the recognition of the true cost base of local government in the establishment of the Commonwealth funding pool for financial assistance grants, and for this to include an adjustment to redress the quantum of the cumulative funding shortfall to date and appropriate indexation based on the revised cost index.
10. Advocate for an increase in the total Commonwealth funding pool for local government and the maintenance or expansion of the current funding streams that support asset renewal – Roads to Recovery, Bridge Renewal Program, Local Roads and Community Infrastructure Program.
11. Advocate for the creation of an extra Commonwealth funding pool quarantined for rural councils to help address the financial challenges associated with the disproportionate effect of climate change and contribute to the significant out-of-pocket costs of natural disasters. This could comprise a third component of the Federal Assistance Grants in addition to the General Purpose and Local Roads Grants.

Appendix 1

a) Federal Electorates and number of LGAs represented.

Electorate	Size km²	Federal MP	Federal Party	Number of LGAs	LGAs
Wills	46	Peter Khalil	Labor	1	Merri-bek
Aston	113	Mary Doyle	Labor	1	Knox
Scullin	116	Andrew Giles	Labor	1	Whittle sea
Calwell	265	Maria Vamvakinou	Labor	1	Hume
Holt	266	Cassandra Fernando	Labor	1	Casey
Lalor	493	Joanne Ryan	Labor	1	Wyndham
Corio	773	Richard Marles	Labor	1	Greater Geelong
Goldstein	50	Zoe Daniel	Independent	2	
Kooyong	55	Monique Ryan	Independent	2	
Cooper	60	Ged Kearney	Labor	2	
Chisholm	65	Carina Garland	Labor	2	
Deakin	79	Michael Sukkar	Liberal	2	
Bruce	95	Julian Hill	Labor	2	
Jagajaga	104	Kate Thwaites	Labor	2	
Fraser	106	Daniel Mulino	Labor	2	
Gellibrand	124	Tim Watts	Labor	2	
Dunkley	152	Jodie Belyea	Labor	2	
Isaacs	155	Mark Dreyfus	Labor	2	
Gorton	540	Brendan O'Connor	Labor	2	
La Trobe	748	Jason Wood	Liberal	2	
Flinders	871	Zoe McKenzie	Liberal	2	
Casey	2,466	Aaron Violi	Liberal	2	
Higgins	41	Michelle Ananda-Raja	Labor	3	
Macnamara	41	Josh Burns	Labor	3	
Menzies	184	Keith Wolahan	Liberal	3	
Hawke	1,842	Sam Rae	Labor	3	
Melbourne	40	Adam Bandt	Greens	4	
Hotham	83	Clare O'Neil	Labor	4	
McEwen	2,670	Rob Mitchell	Labor	4	
Corangamite	5,441	Libby Coker	Labor	4	
Bendigo	5,496	Lisa Chesters	Labor	4	
Gippsland	33,182	Darren Chester	National	4	
Maribyrnong	64	Bill Shorten	Labor	5	
Nicholls	14,768	Sam Birrell	National	5	
Ballarat	4,322	Catherine King	Labor	6	
Monash	8,879	Russell Broadbent	Liberal / Ind	7	
Wannon	33,419	Dan Tehan	Liberal	9	
Indi	29,187	Helen Haines	Independent	12	
Mallee	81,962	Anne Webster	National	12	

b) The Federal Seat of Indi and corresponding State Districts and LGAs

LGA	State District	State MP Party	State MP	Federal Electorate	Federal MP Party	Federal MP
Indigo Shire Council	Benambra	Liberal	Bill Tilley	Indi	Independent	Helen Haines
Towong Shire Council	Benambra	Liberal	Bill Tilley	Indi	Independent	Helen Haines
Wodonga City Council	Benambra	Liberal	Bill Tilley	Indi	Independent	Helen Haines
Mansfield Shire Council	Eildon	Liberal	Cindy McLeish	Indi	Independent	Helen Haines
Murrindindi Shire Council	Eildon	Liberal	Cindy McLeish	Indi	Independent	Helen Haines
Unincorporated Land (victoria)	Eildon	Liberal	Cindy McLeish	Indi	Independent	Helen Haines
Whittlesea City Council	Eildon	Liberal	Cindy McLeish	Indi	Independent	Helen Haines
Benalla Rural City Council	Euroa	Nationals	Annabelle Cleeland	Indi	Independent	Helen Haines
Strathbogie Shire Council	Euroa	Nationals	Annabelle Cleeland	Indi	Independent	Helen Haines
East Gippsland Shire Council	Gippsland East	Nationals	Tim Bull	Indi	Independent	Helen Haines
Alpine Shire Council	Ovens Valley	Nationals	Tim McCurdy	Indi	Independent	Helen Haines
Unincorporated Land (victoria)	Ovens Valley	Nationals	Tim McCurdy	Indi	Independent	Helen Haines
Wangaratta Rural City Council	Ovens Valley	Nationals	Tim McCurdy	Indi	Independent	Helen Haines

c) The State District of Eildon and LGAs covered.

LGA	State District	State MP Party	State MP
Murrindindi Shire Council	Eildon	Liberal	Cindy McLeish
Mansfield Shire Council	Eildon	Liberal	Cindy McLeish
Unincorporated Land (victoria)	Eildon	Liberal	Cindy McLeish
Whittlesea City Council	Eildon	Liberal	Cindy McLeish
Nillumbik Shire Council	Eildon	Liberal	Cindy McLeish
Yarra Ranges Shire Council	Eildon	Liberal	Cindy McLeish

d) Number of Members of Parliament (lower House) by LGA.

Lower House MPs Per LGA Council Area	Victoria State Government					Subtotal MPs	Federal Government					Subtotal MPs	TOTAL MPs
	Labor	Liberal	Nats	Greens	Indep		Labor	Liberal	Nats	Greens	Indep		
Alpine Shire Council			1			1					1	1	2
Ararat Rural City Council	1		1			2		2				2	4
Ballarat City Council	3					3	3					3	6
Banyule City Council	3					3	3					3	6
Bass Coast Shire Council	1					1		1				1	2
Baw Baw Shire Council		1				1		1				1	2
Bayside City Council		2				2						2	4
Benalla Rural City Council			1			1					1	1	2
Boroondara City Council	2	3				5	2				3	5	10
Borough of Queenscliffe	1					1	1					1	2
Brimbank City Council	8					8	8					8	16
Buloke Shire Council			1			1			1			1	2
Campaspe Shire Council			2			2			2			2	4
Cardinia Shire Council	5	3				8		8				8	16
Casey City Council	8	2				10	7	3				10	20
Central Goldfields Shire Council	1					1			1			1	2
Colac Otway Shire Council		1				1		1				1	2
Corangamite Shire Council	1	2				3		3				3	6
Darebin City Council	3					3	3					3	6
East Gippsland Shire Council			2			2			1		1	2	4
Frankston City Council	3					3	3					3	6
Gannawarra Shire Council			1			1			1			1	2
Glen Eira City Council	5	3				8	5				3	8	16
Glenelg Shire Council		1	1			2		2				2	4
Golden Plains Shire Council	6					6	6					6	12
Greater Bendigo City Council	2		1			3	3					3	6
Greater Dandenong City Council	9					9	9					9	18
Greater Geelong City Council	7					7	7					7	14
Greater Shepparton City Council			3			3			3			3	6
Hepburn Shire Council	2					2	2					2	4
Hindmarsh Shire Council			1			1			1			1	2
Hobsons Bay City Council	3					3	3					3	6
Horsham Rural City Council			1			1			1			1	2
Hume City Council	7					7	7					7	14
Indigo Shire Council		1				1					1	1	2
Kingston City Council	5	1				6	6					6	12
Knox City Council	2	1				3	3					3	6
Latrobe City Council			4			4		2	2			4	8
Loddon Shire Council	3		1			4			4			4	8
Macedon Ranges Shire Council	2					2	2					2	4
Manningham City Council		2			1	3		3				3	6
Mansfield Shire Council		1				1					1	1	2
Maribyrnong City Council	3					3	3					3	6
Maroondah City Council	1	2			1	4		4				4	8
Melbourne City Council	2			5		7	4			3		7	14
Melton City Council	7					7	7					7	14
Merri-bek City Council	3			2		5	4			1		5	10
Mildura Rural City Council			1			1			1			1	2
Mitchell Shire Council	2		3			5	4		1			5	10
Moira Shire Council			2			2			2			2	4
Monash City Council	6					6	6					6	12
Moonee Valley City Council	2			1		3	3					3	6
Moorabool Shire Council	5					5	5					5	10
Mornington Peninsula Shire Council	1	3				4	1	3				4	8
Mount Alexander Shire Council	4					4	4					4	8
Moyness Shire Council		1	1			2		2				2	4
Murrindindi Shire Council		1				1					1	1	2
Nillumbik Shire Council	5	3				8	6	2				8	16
Northern Grampians Shire Council	1		1			2			2			2	4
Port Phillip City Council	1	2		2		5	4			1		5	10
Pyrenees Shire Council	3					3	1	1	1			3	6
South Gippsland Shire Council			2			2		1	1			2	4
Southern Grampians Shire Council			1			1		1				1	2
Stonnington City Council		1		1		2	2					2	4
Strathbogie Shire Council			2			2			1		1	2	4
Surf Coast Shire Council	1	2				3	2	1				3	6
Swan Hill Rural City Council			3			3			3			3	6
Towong Shire Council		1				1					1	1	2
Unincorporated Land (victoria)	1	2				4		2				2	4
Wangaratta Rural City Council			1			1					1	1	2
Warrambol City Council		1				1		1				1	2
Wellington Shire Council			3			3		1	2			3	6
West Wimmera Shire Council			1			1			1			1	2
Whitehorse City Council	7	1			2	10	3	5			2	10	20
Whittlesea City Council	6	2				8	7				1	8	16
Wodonga City Council		1				1					1	1	2
Wyndham City Council	5					5	5					5	10
Yarra City Council	1			2		3	1			2		3	6
Yarra Ranges Shire Council	1	4				5		5				5	10
Yarriambiack Shire Council			2			2			2			2	4
Total	161	51	45	13	4	274	155	54	34	7	23	274	548