

Infrastructure pressures affecting Victorian councils

The Municipal Association of Victoria (MAV) surveyed Victorian councils in September 2022 to gain a better understanding of the challenges the sector is facing in infrastructure and capital works program delivery. A representative sample of close to half of Victoria's councils responded.

Implications for councils and communities

The challenges and costs councils face in delivering key infrastructure are increasing.

This can mean delays or reductions in scope of infrastructure programs, as well as needing to cut other services to fund the increased costs. It can also lead to cost-of-living pressures on households.

Key findings:

- The cost of delivering infrastructure, and construction in particular, has increased rapidly over 2021-22.
- Over 80% of councils are experiencing weaker response to tenders from industry
- Services, materials, and skill shortages are leading challenges
- Infrastructure pipelines in Victoria and Australia are exceeding the capacity of industry to deliver
- Local government's asset to revenue ratio is substantially different to other levels of government. Councils have large assets to manage, yet significant constraints on revenue (including imposed limits on own-sourced revenue such as the rate-cap and statutory fees).
- Flexibility around how grant funding can be used and increases to untied grants are seen by councils as the most promising response to these challenges

Next steps

The findings lend weight to continued MAV advocacy on issues such as:

- increasing the quantum of funding available for Financial Assistance Grant,
- ongoing under-investment from State and Federal government in key programs such as early years infrastructure,
- the severe skill shortages facing local government, and
- the impact of restrictions on own-source revenue through the rate cap.

There's scope for MAV to work with councils to identify what changes would be most helpful in funding guidelines and conditions. This would allow a more developed proposal to be put forward to the Victorian and Commonwealth governments.

A proposal for how to better use funding may be attractive to State Government. For example, the data shows that councils are not facing significant challenges delivering smaller-scale projects, such as walking and cycling infrastructure. Data from a representative survey undertaken through our active transport project indicates that close to 90 per cent of Victorian councils are planning walking and bike riding infrastructure projects to meet the continued increase in walking and cycling for recreation and transport.

It is critical to note that there are areas where the amount of funding is still insufficient. This is a combination of historical shortfalls and new policy initiatives, that are often unfunded and/or underfunded, adding increased burden. Across Victoria we expect at least \$750 million in infrastructure investment is needed to meet current demand for kindergarten services, without including the increased demand of a 30-hour per week 4-year-old pre-prep program. Councils are the largest owner of early years infrastructure. Most buildings where the services are delivered are 40 or more years old. Councils estimate the total value of their early years infrastructure to be upwards of \$3.4 billion with annual maintenance costs over \$25 million.

There is an opportunity to work with councils that have found success in changing their approach to help transfer those lessons more broadly. This could take the form of a forum or a write-up of several case-studies.

Current actions being undertaken by councils

Many councils are already taking pro-active steps to meet these infrastructure challenges. With 79 councils in Victoria, there are great opportunities to learn from one another what works and how to best implement a given approach.

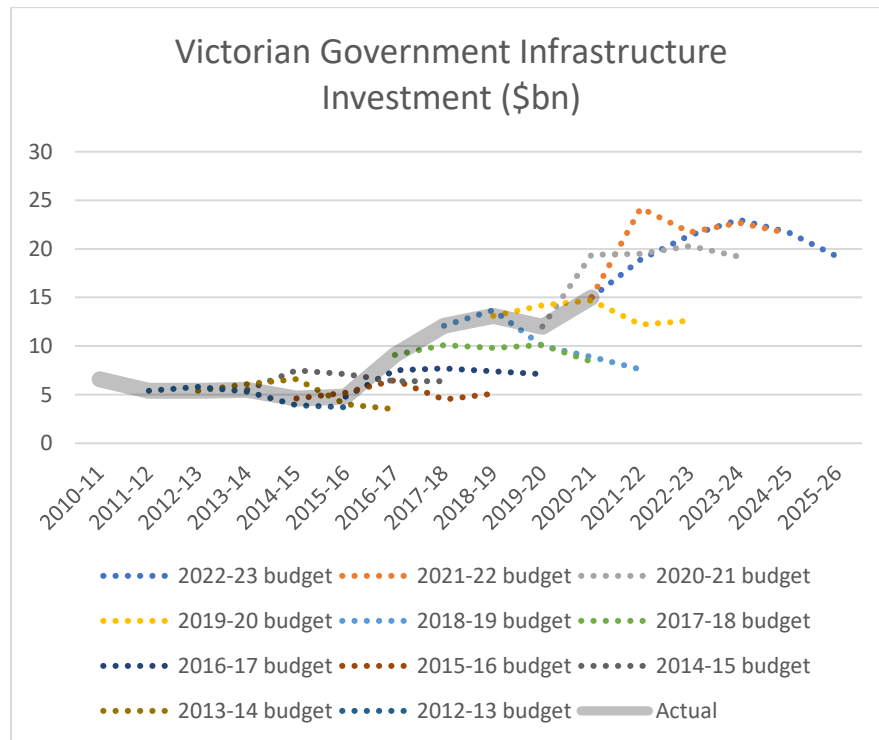
Approaches being taken by councils include:

- Reviewing re-prioritising, and down-sizing CapEx programs
- Investigating pre-purchase of materials as an option
- Using consultants to supplement in-house expertise
- More rigorous community consultation to avoid delays and issues once projects commence
- Increasing budget contingencies
- Longer-term capital works planning
- Making projects more stageable
- Advocacy to the Department of Education and Training for increased funding through the Building Blocks Partnerships and Grants

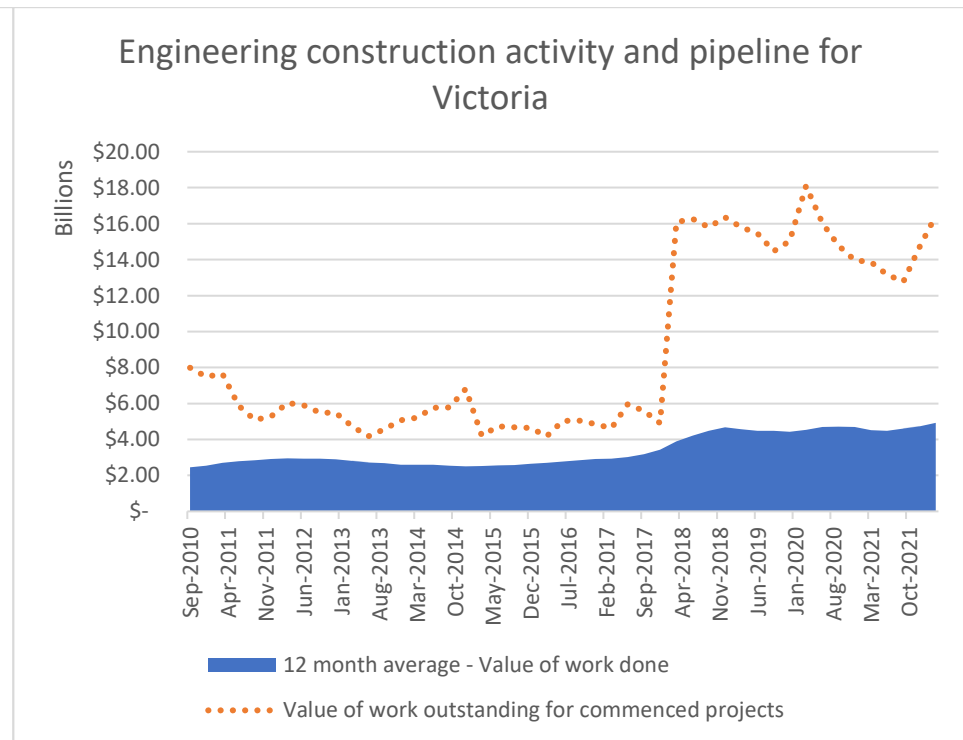
Broader context

The challenges facing councils reflect, and are driven by, the broader infrastructure context in Victoria and Australia. Victoria has seen record levels of investment in infrastructure. Outstanding commitments for engineering construction, roughly defined as construction activity without a roof, dwarfs even the activity already seen. Infrastructure Australia projects that demand will significantly outstrip the capacity of the Australian infrastructure industry over the coming years. These factors point to the probability that the challenges facing councils will remain or even worsen in coming years.

Infrastructure challenges hit local government harder than other levels of government due to managing large asset bases compared to their revenue. In 2020-21 for every dollar in revenue, Victorian councils managed \$9.56 in property, plant, infrastructure and equipment assets. By comparison the Victorian government managed \$2.69 for every dollar in revenue, and the Commonwealth Government \$0.35.



Data Source: Budget Paper 2, Victorian Government

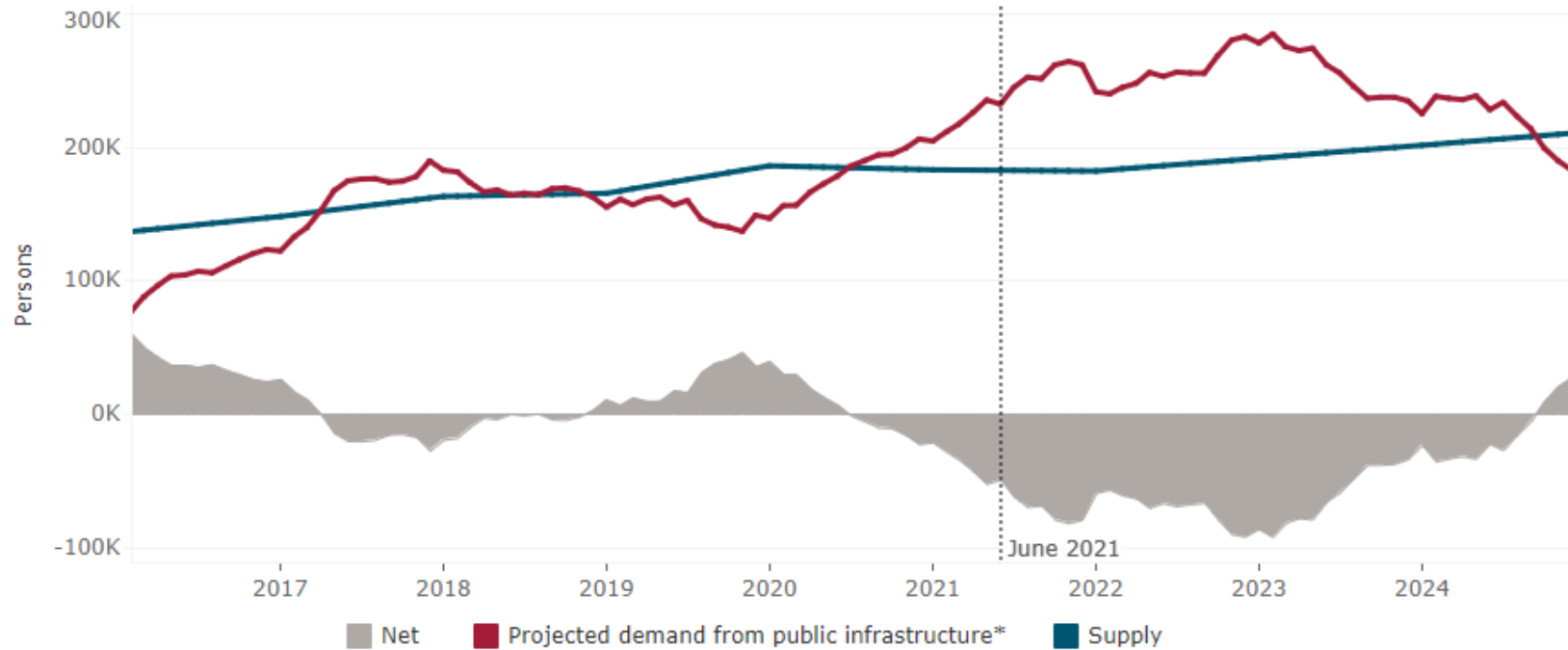


Data Source: 8762.0 Engineering Construction Activity, ABS

Public infrastructure projected workforce

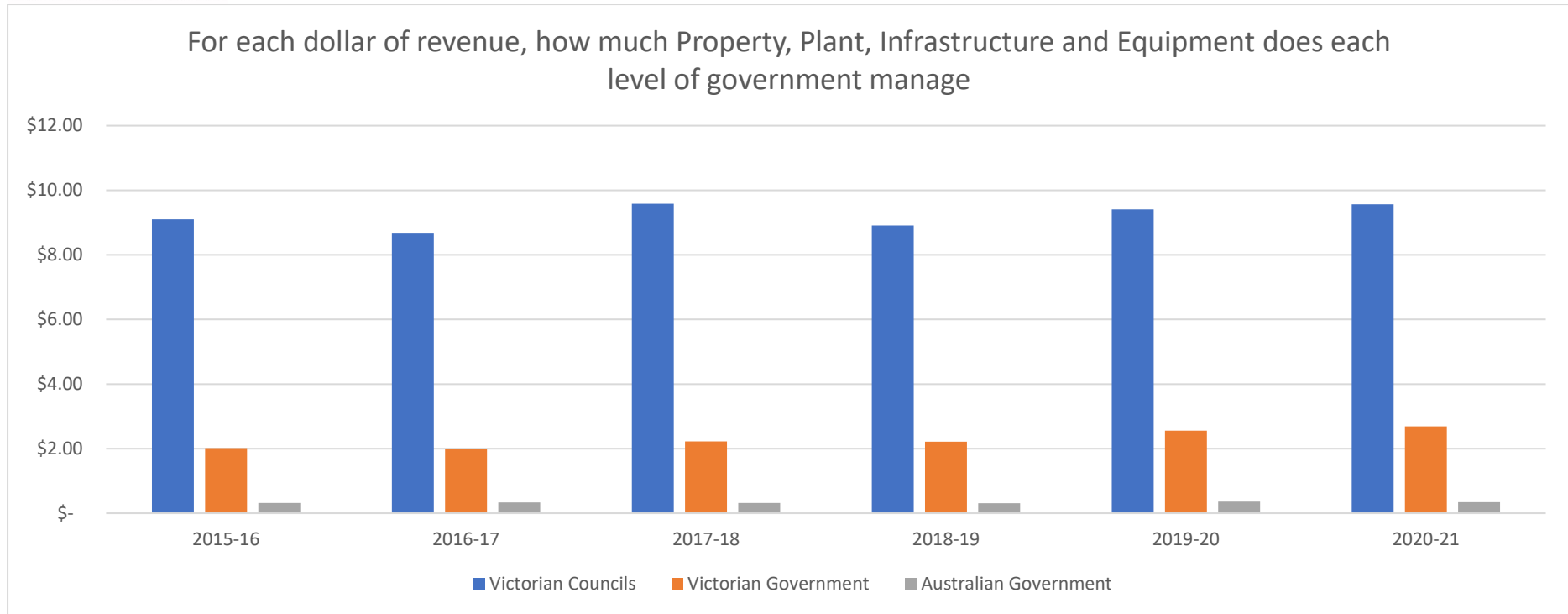
Supply vs demand over time

Click on the chart to change the selected date



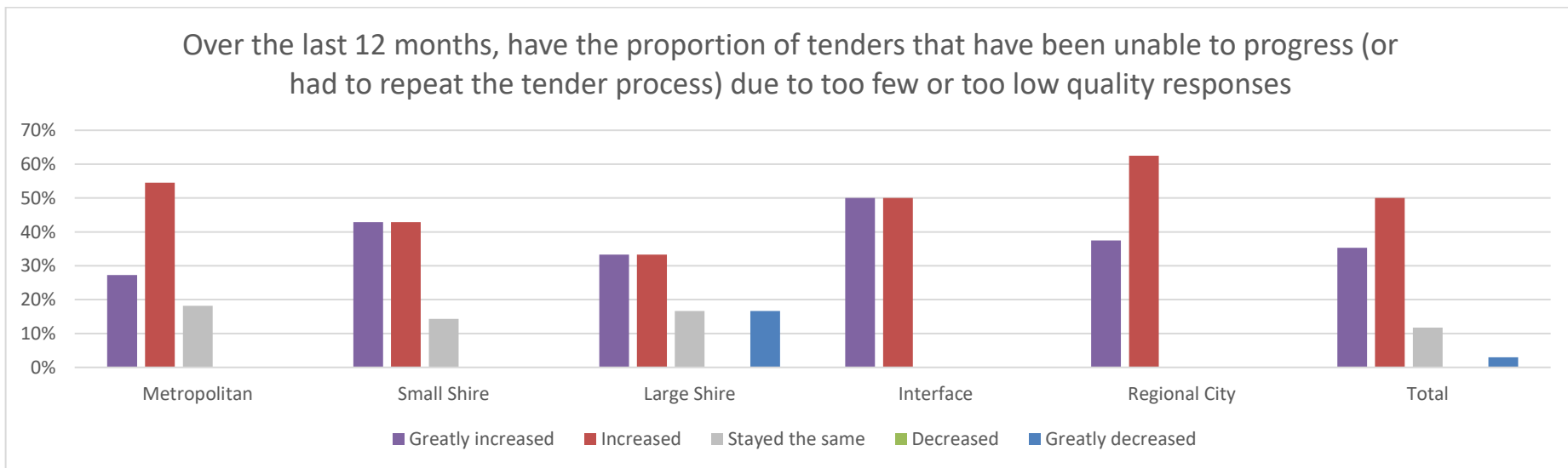
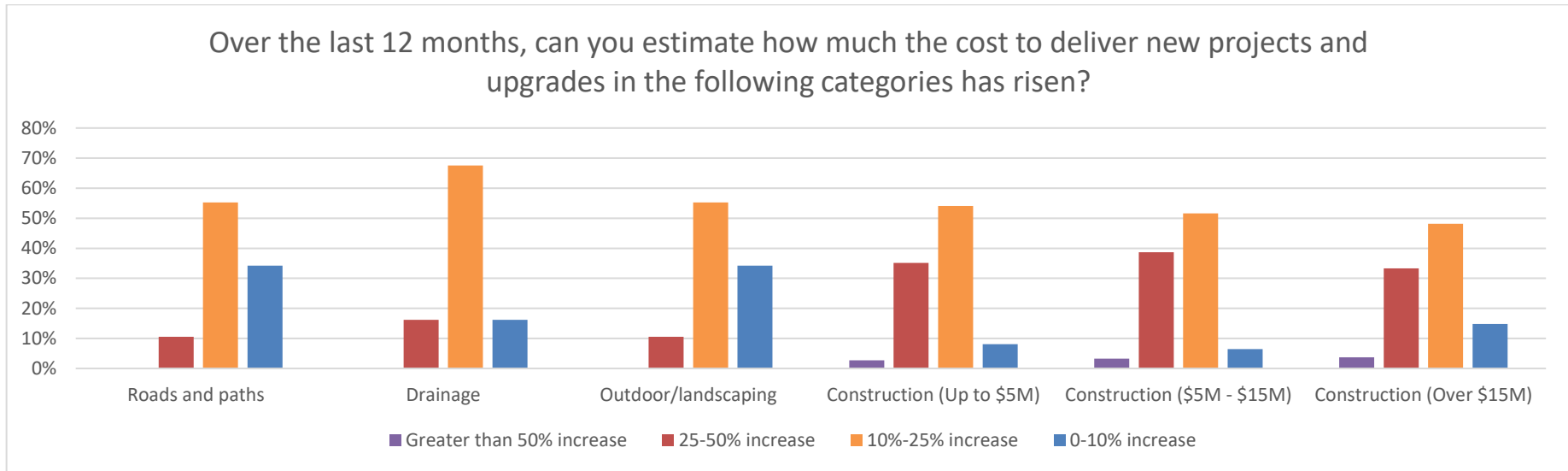
*Note: the visibility of forward infrastructure spending is limited by available data. Only publicly known projects are included, and therefore generally occur within the forward estimates. As a result, future expenditure is likely to be larger than forecast beyond the forward estimates as new policies are announced. Increased clarity of the long-term pipeline is highly desired to support this understanding.

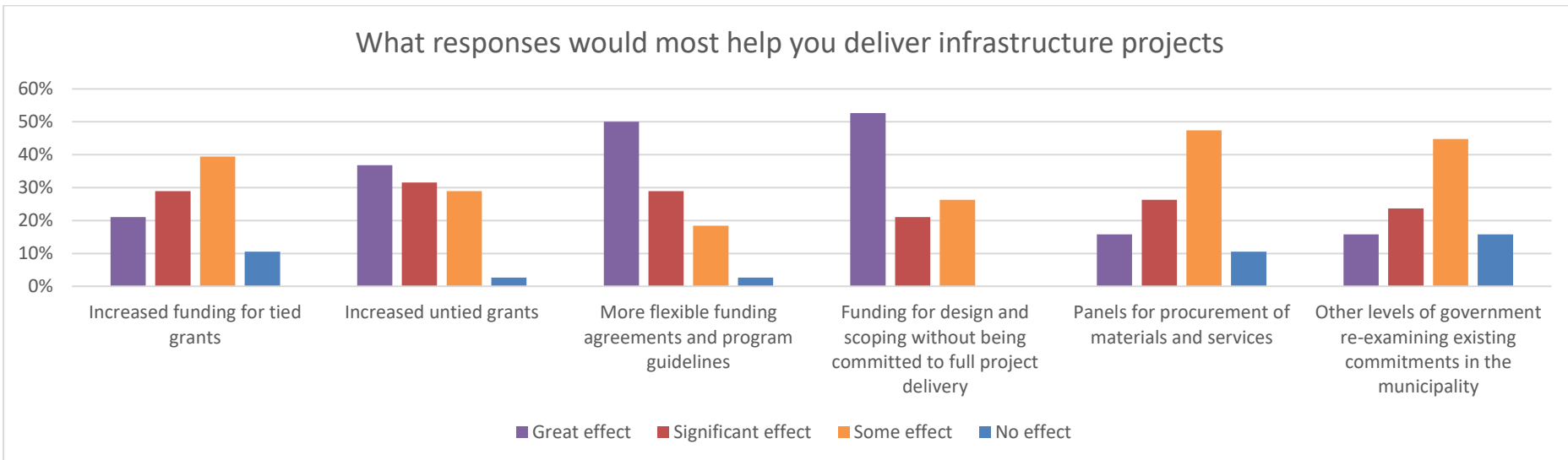
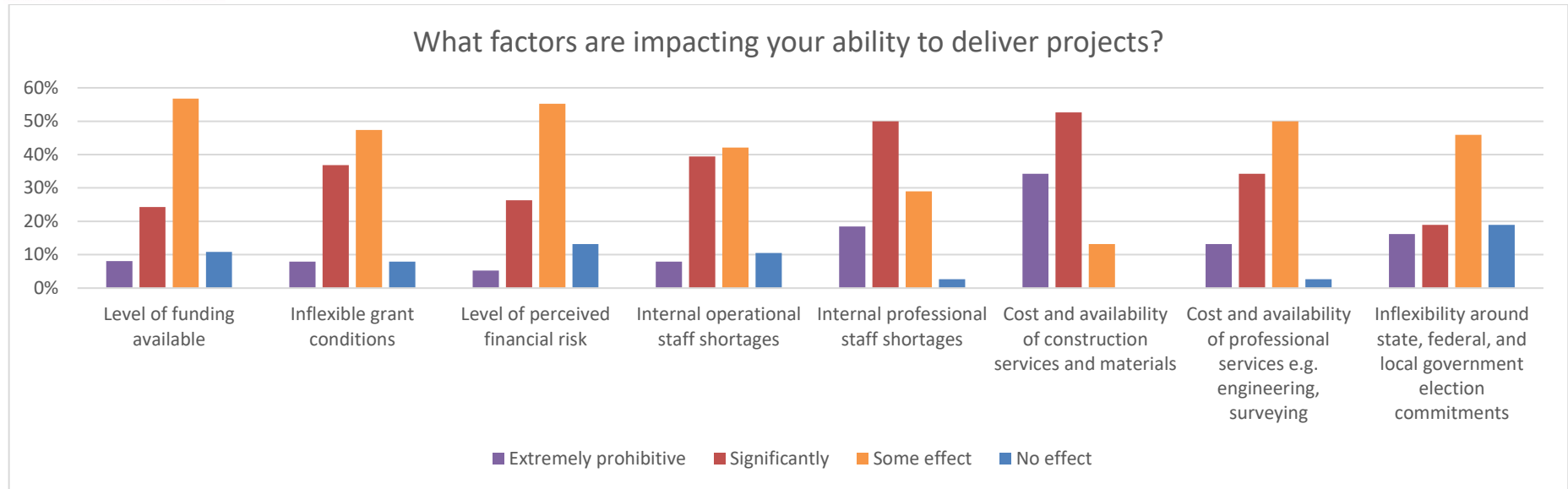
Source: Public Infrastructure Workforce Supply Dashboard, Infrastructure Australia



Data sources: Local Government Finance Audits, Victorian Auditor General’s Office, Victorian Government Financial Reports (General Government Sector), Commonwealth Government Final Budget Outcomes (General Government Sector). *Note: Australian Government figures include all non-financial assets rather than just PPIE and thus are somewhat inflated.

Survey results





Estimated cost increases over last 12 months

