

28 June 2024

Georgie Purcell MP  
Chair - Legislative Council Economy and Infrastructure Committee  
Inquiry into Local Government funding and services  
Parliament House  
Spring Street  
EAST MELBOURNE, VIC 3002  
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Dear Ms Purcell,

**RE: INQUIRY INTO LOCAL GOVERNMENT FUNDING AND SERVICES**

Thank you for the opportunity to make a submission to the *Inquiry into Local Government funding and services*.

Pyrenees Shire covers approximately 3,500 square kilometres, and a dispersed population of 7,500 with the main towns being Avoca and Beaufort, and many small communities including Snake Valley, Raglan, Waterloo, Landsborough, Moonambel, Redbank, Amphitheatre, Natte Yallock, Evansford, Waubra, Lexton. With a population growth of around 1.7% pa, the main economic sectors are agriculture, viticulture, construction, and tourism.

The shire has a rich cultural history incorporating parts of four Registered Aboriginal Parties (RAPs) areas, and three Catchment Management Authorities (CMAs), and a large portion of the shire comprises state forest.

Council is very susceptible to **natural disasters** having been impacted by major flood events in 2011, 2016 and 2022, major fire events in 2019 and 2024, and prolonged drought periods during the early 2000s. Planning, response, and recovery from natural disasters has placed Pyrenees in a financially susceptible position in recent years with changing **disaster recovery funding** arrangements. Council seeks that **urgent attention** be given to address the administratively complex DRFA funding arrangements which significantly disadvantages small rural councils. The burden of proof on impacted councils is onerous, costly, and unnecessarily bureaucratic.

Council is responsible for a **local road network** comprising 2000km, around 150 bridges and 150 major culverts. Approximately 35-40% of Council's total annual expenditure is used in the maintenance, management, renewal, and upgrade of these road assets which provide critical transport links important for our communities and economy. While Council is responsible for a range of other assets including public buildings, swimming pools, community hubs and recreation assets, the road related assets have the most significant financial demand on Council's budget.

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Council is heavily reliant on federal and state grants to enable it to deliver critical services and meet its long-term asset renewal demand. Our annual budget revenue \$25M comprises around 50% from rates and service charges. Most of the remaining revenue comes from government grants.

**Rate capping** has imposed further limitations on Councils ability to deliver services in an environment where the rate of inflation exceeds rate increases. While Pyrenees has previously successfully applied for and implemented rate cap variations to assist in funding road renewal works, the **cost and effort associated with a variation application is significant** and the task onerous. This is evidenced by the lack of instances where councils have taken up the option.

Pyrenees Shire Council's rate revenue for the 2023/24 FY was significantly impacted by errors in the certified **valuations**. A higher than usual number of ratepayer valuation appeals were lodged after they received their rate notices. Review of these valuations by the Valuer General resulted in adjustments to valuations resulting in rate payments being returned to ratepayers and leaving a **shortfall in rates** to Council for the 2023/24FY of around \$100,000, equivalent to approximately 1% off Council's annual rate revenue. A further implication of this error in valuation is the year-on-year compounding effect. The maximum estimated effective rate revenue for the 2024/25FY contained in Councils adopted Budget represents just 1.7% increase and not the desired full rate cap of 2.75%. Given the prescribed rate calculation methodology, Council has no ability to recoup this lost revenue which will inevitably result in service reduction to our communities.

Employee costs are the biggest expense for Pyrenees, which is not surprising as services require people to deliver them. For Pyrenees the annual salary increases applicable for the 2024/25FY of 3% which were negotiated in good faith through the **Enterprise Agreement** negotiation process are however unsustainable in the long term if this trend is to continue without eventually impacting on staff numbers and services.

On the other hand, the **non-indexation of grants** has also impacted council, and forced council to consider service cuts as a result.

Several reviews and reports into the sustainability of small rural councils including the Wheelan Report, and more recently the Grattan Institute Report have identified that i) the inability to raise revenue (other than through rates and charges), ii) the maintenance and renewal of large number of assets, and iii) dispersed small population base are the key factors impacting on small rural council sustainability. The only way to adequately resolve the sustainability crisis is for **additional direct untied grants**.

The Commonwealth Financial Assistance Grants (**FAGs**) are the core funding program for local government distributed through a well-established formula that is generally supported by the sector. The total pool of funds however is inadequate and a substantial **increase in the pool** is considered the most effective way address small rural council financial sustainability. Other mechanisms also exist and additional Roads to Recovery (**R2R**) funding and the provision of Local Road and Community Infrastructure Program (**LRCIP**) funding have been two very welcome programs which enable asset renewal and other critical infrastructure works to be undertaken.

Importantly the **straightforward reporting and administration** associated with these funds are also critical elements to ensure the task of administration is minimised but sufficient to ensure an appropriate level of accountability.

There are many other matters relevant to the inquiry that are addressed in submissions made by others including FinPro, MAV, Rural Councils Victoria, and the Greater Ballarat Alliance of Councils (GBAC) that are also relevant to and supported by Pyrenees Shire Council. We would be happy to elaborate on any matter raised in this submission.

Yours sincerely,



Jim Nolan  
Chief Executive Officer