

**MAV**

# Pre-Budget Submission

Federal Government 2026/27

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## January 2026

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## 1. Financial settings for Victoria's councils

Having financially strong councils is critical to delivering on shared objectives across all levels of government.

As the legislated peak body for local government in Victoria, the MAV has identified that there are currently serious risks to the financial security of Victorian councils:

- The compounding effect of state-imposed rate caps, tied to consumer price inflation, have failed to keep pace with actual cost growth.
- Expenditures have grown at 6.4% annually, outstripping revenue growth of 4.6%.
- All council groupings, including metropolitan LGAs, are unable to make full provision for asset renewal leading to significant statewide asset renewal gap
- Deteriorating underlying surpluses
- A deteriorating unrestricted cash position across most councils
- On average, rates and charges account for just 57% of total Council revenue.
- Council net capital expenditure has stagnated at around \$2.3 billion per year since 2018/19, despite population growth.

Cash holdings and “on paper” surpluses often contribute to the perception of councils as being financially strong. It is critical to understand that the headline surplus councils are required to report infrastructure contributions (from other levels of government or developer contributions) and one-off capital grants as revenue. Getting a truer picture of the operating position of councils requires looking at underlying surplus which excludes these sources.

After normalising Financial Assistance Grants, more than half of Victoria's councils in each year from 2021-22 through 2023-24 have reported an underlying deficit.

Financial Assistance Grants from the Commonwealth contribute to a major portion of council revenue streams. Each year a portion of these grants may be brought forward from one financial year to the next. To resolve the issues this creates for accounting purposes, in the table below, the MAV has recognised the revenue in the year it was allocated from, rather than the year it was received.

Year	Councils in deficit
2017-18	23%
2018-19	30%
2019-20	47%
2020-21	48%
2021-22	53%
2022-23	59%
2023-24	52%

Figure 1

While varying across council type, between 54% and 84% of council infrastructure is funded through own-source revenue. Similarly, functions vary in their level of cost recovery, but key activities are subsidised heavily by rate revenue including building regulation (58% rate-funded), parks and reserves (76%) and libraries (86%).

Councils that run at a deficit will be unable to continue to deliver the services and infrastructure their communities rely on. Already we have seen councils faced with difficult decisions about what services to provide in areas such as libraries, recreation services and early years services.

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1. Financial Assistance Grants from the Commonwealth contribute a major portion of council revenue streams. Each year a portion of these grants may be brought forward from one financial year to the next. To resolve the issues this creates for accounting purposes the MAV has recognised the revenue in the year it was allocated from rather than the year it was received.

## 2. Rate capping mechanisms, Revenue raising, Local Government Cost Index in a Victorian context

In line with practice in other states and territories, the MAV has recently proposed a MAV Local Government Cost Index (LGCI). Currently the Consumer Price Index is widely used as a general measure of cost inflation affecting Victorian councils, including most consequentially in determining the rate cap.

The CPI represents a household basket of goods and is a poor match for the types of costs councils incur. The MAV's Local Government Cost Index (LGCI) incorporates three elements:

- labour (using the Victorian Public Sector Wage Price Index)
- assets (using the Producer Price Index for Road and Bridge Construction in Victoria)
- other (using the Consumer Price Index for Melbourne)

The latest year-on-year growth for costs faced by Victorian councils is 3.3%. This uses September 2025 quarter data for the asset and other component, and June quarter data for labour as the latest available at the time of writing.

LGCI Component	YoY-Increase	Weighting
Labour	3.71%	40%
Assets	3.47%	30%
Other	2.58%	30%
<b>TOTAL</b>	<b>3.3%</b>	

Figure 2

This compares to a rate cap for 2024-25 of 2.75% and for 3.00% for 2025-26.

Using the proposed MAV LGCI we can examine the gap between council revenue bases and costs since the introduction of rate capping. To 2024-25 the LGCI has grown 44% faster than the rate cap, creating a compounding challenge for council budgets.

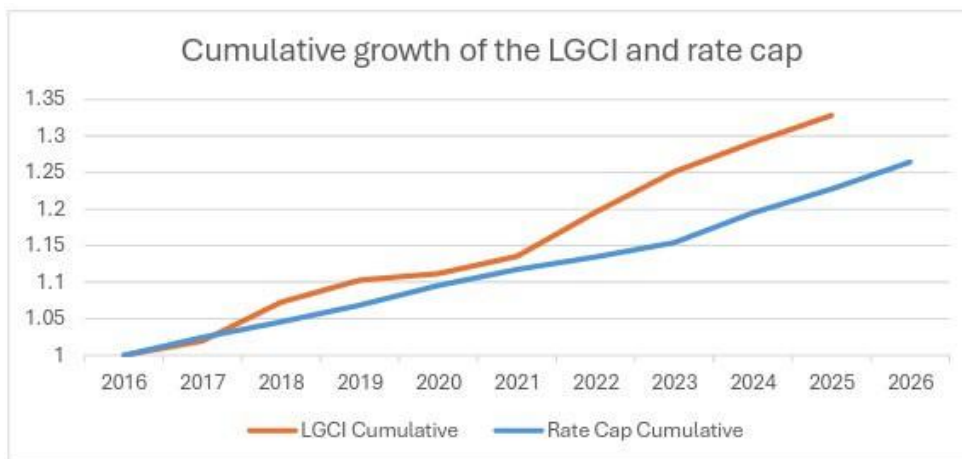


Figure 3

We also note that the 2025-26 Victorian Budget projects wages to rise faster than inflation each year from 2024-25 through 2028-29. Wages form a substantial part of council budgets, including in-house infrastructure delivery and maintenance. Rapid wage growth places further strain on council budgets that is not recognised by a CPI-based rate cap.

Cumulative impacts of the rate capping mechanism in Victoria are a growing problem for councils, communities, and the Victorian Government. We have already seen a trend of councils seeking to reassess their role in community services such as aged care and early years, as well as reduced maintenance of critical roads and assets and reduced budget allocations on new capital expenditure for growing and changing communities.

In New South Wales, where rate capping has been in place for longer, special variations have been approved for 2025 of 70% over two years, 38% over two years, and 33% over three years. An unsuccessful application for 87% over two years was also made. The previous year applications were approved for 48% over two years, 36% over two years and 33% over three years.

These large variations as well as deterioration of services and infrastructure will be an unavoidable consequence in Victoria if the rate continues to be set below cost increases.

### **The rate capping mechanism in a Victorian context**

In the MAV's submission to the statutory review of the rate capping mechanism we proposed several improvements that could be made to its current operation:

- The adoption of the MAV LGCI rather than CPI as the basis for determining the annual rate cap
- The introduction of a "catch-up" mechanism when setting the rate cap, to address projections varying from actual figures
- The consideration of a population-based mechanism to address where supplementary rates fail to keep the rate base in line with population increases
- Improving the process for applying for a rate cap variation – including a sliding scale threshold mechanism for small rural councils
- Examining the interaction of Payment in Lieu of Rates schemes with the rating system

The submission can be found in full in Attachment 1: [Submission to the review of the rate cap mechanism](#)

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### Revenue raising in Victoria:

Numerous decisions taken by the Victorian Government to raise revenue have either had direct cost impacts on Victorian council services or required them to pass state charges on to their communities.

The highest profile example is the imposition of the Emergency Services and Volunteers Fund levy, replacing the Fire Services Levy. While the local government sector supports the goal of a sustainable and transparent funding model for emergency services, the introduction of the Emergency Services and Volunteer Fund (ESVF) has resulted in significant administrative, financial, and equity challenges for councils and ratepayers.

Furthermore, the Victorian Government charges a fee on material deposited to landfill. From 2020-21 to 2025-26 the waste levy has risen by 157%. Fixed.

These increases have resulted in an estimated additional \$260 million in costs to councils from 2021-22 through 2024-25 and will result in a further \$113 million in additional costs in 2025-26.

Furthermore, the Victorian Government recently announced it plans to almost double the amount it collects from councils for cat and dog registration. We estimate this would result in additional costs of \$3.7 million annually. This either requires councils to absorb this impact or pass it on at the risk of lowering registration rates through the community.

The impact of these decisions has a cumulative cost impact on Victorian councils and ratepayers. Too often they are designed without adequate consultation with local government or justification and implemented blind to the realities of local government service planning and delivery.

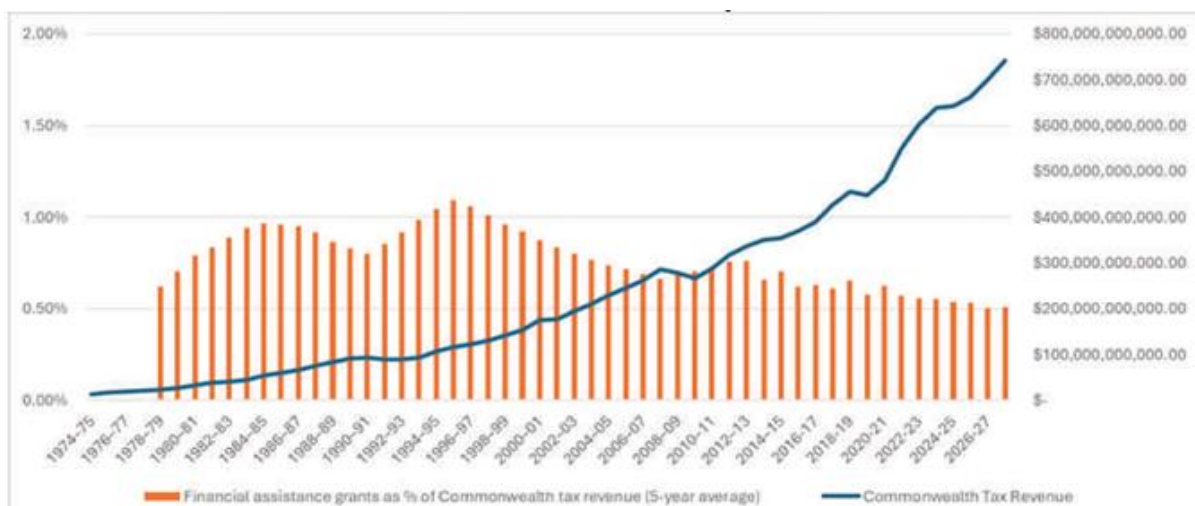
### 3. Financial Assistance Grants

In Australia over the last decade the Commonwealth has collected 81% of total tax revenue, States and Territories 15.5%, and local governments the remaining 3.5%. By comparison local governments manage 25% of public non-financial assets, States and Territories 65%, while the Commonwealth manages just 10%.

To put this in a Victorian context, for every dollar of revenue Victorian councils collect they manage \$10 of physical assets such as roads, parks, and kindergartens. For the Victorian Government this figure is \$4 for every dollar, and for the Commonwealth just \$0.40 for every dollar. Distribution of revenue between levels of government is not merely a nicety, it is a core part of Australia's fiscal framework.

#### Current System:

Financial Assistance Grants currently total about 0.5% of Commonwealth tax revenue, a historic low point. The Municipal Association of Victoria, the Australian Local Government Association, and councils and peak bodies across the country have repeatedly called on federal governments to raise Financial Assistance Grants to 1% of total Commonwealth tax revenue.



Source: MAV, data sources: Australian Bureau of Statistics – Taxation Revenue, Reserve Bank of Australia – Commonwealth Government Taxation Receipts, Department of Infrastructure, Transport, Regional Development, Communications and the Arts – Financial Assistance Grants Cash Payments & Local Government National Reports

We believe the current allocation method is reasonable – balancing the disparate needs and capacity of councils with the principle that all Australian communities should receive some funding from this source. What we need to do is grow the pie.

#### Impacts:

Increasingly Victorian councils report underlying deficits, reductions in unrestricted cash and working capital, and deteriorating asset renewal rates.

In the last decade, Victorian Council revenue has been constrained not only by the State Government imposed rate cap, but by the capacity of communities to pay for the services and infrastructure they need.

The impact of these forces is that council capital works programs are delayed and proactive maintenance reduced. This has a compounding effect as the expense to repair assets increases with the poorer condition they fall into. It also compromises the capacity of councils to support both existing communities and population targets with the physical and social infrastructure communities need to thrive.

[Several Gippsland councils](#) have recently had to consider removing sealed roads and returning them to gravel to limit maintenance costs.

More councils are faced with these service delivery dilemmas each year – which library, or maternal and child health services to cut or what early years or recreation infrastructure their communities will miss out on.

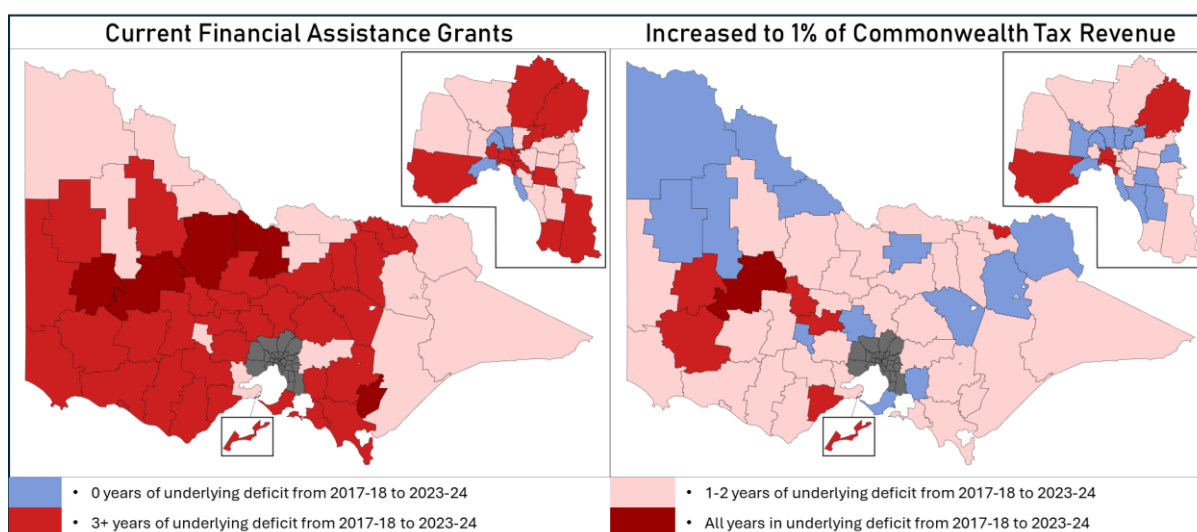
### Productivity gains by raising to 1%:

Research commissioned by the Australian Local Government Association (summary paper included) estimates that increasing Financial Assistance Grants to 1% of total Commonwealth tax revenue would support an additional 22,814 FTE of direct and indirect jobs and increase Gross Regional Product by 1.4 times the investment required.

Modelling by SGS Economics and Planning indicates that funding councils sustainably could boost Australia's GDP by up to \$7 billion.

In addition to being able to keep providing services, councils need to be regularly returning surpluses to ensure they can meet the infrastructure needs of their communities. Public infrastructure is an investment, but not a financial one. Over the course of their life the cost of council assets outweighs the revenue they bring in. Even where fees are charged, such as leisure centres, these are often set at below cost recovery to promote social benefits.

The MAV has modelled the impact of an increased pool of Financial Assistance Grants on council budgets over 7 years from 2017-18 to 2023-24.



We can see the positive impacts across the state this change would bring. If we break it down to council groups, we can see that rural shires are most reliant on Financial Assistance Grants and would benefit the most from their increase.

Council Group	Years in deficit		
	If No Financial Assistance Grants	Current Financial Assistance Grants	Financial Assistance Grants at 1%
Small Shire	98%	60%	24%
Large Shire	97%	56%	23%
Regional City	89%	56%	20%
Interface	76%	54%	27%
Metropolitan	40%	27%	12%
<b>TOTAL</b>	<b>78%</b>	<b>49%</b>	<b>20%</b>

Looking at the impact year by year however, we see the worsening picture of councils generally. In 2017-18 one in three councils would have returned a surplus without Financial Assistance Grants, now this is less than one in five.

It is important to note that currently the official figures reported by councils and assessed by the Victorian Auditor General's Office do not accurately reflect this. Councils are required to report underlying surpluses which include Financial Assistance Grants in the year they are received, rather than the year they were allocated. As the proportion of financial assistance grants brought forward from year to year varies, this has a significant impact on reported year to year results.

Year	Councils in deficit		
	If No Financial Assistance Grants	Current Financial Assistance Grants	Financial Assistance Grants at 1%
<b>2017-18</b>	65%	23%	9%
<b>2018-19</b>	66%	30%	8%
<b>2019-20</b>	81%	47%	14%
<b>2020-21</b>	81%	48%	19%
<b>2021-22</b>	84%	53%	16%
<b>2022-23</b>	85%	59%	23%
<b>2023-24</b>	82%	52%	15%

### The fiscal imbalance needs to be addressed:

The fiscal imbalance must be resolved to safeguard the financial sustainability of Victorian councils, ensuring they can continue delivering essential services and infrastructure to their communities, that sit across both state and federal electorates.

Changing the current allocation method poses a clear risk to Victorian councils. While an increase in the Financial Assistance Grant pool would benefit all, altering the distribution formula would advantage remote communities in WA, QLD, and NSW - likely leaving Victorian councils worse off. The priority should be expanding the pool, not shifting the allocation.

#### 4. Federal funding requests to 'Make Good Happen'

As the peak body for local government in Victoria, the MAV is giving voice to the needs and aspirations of communities across Victoria, and supporting Victorian councils to create cities, regions, towns and growing suburbs that are thriving, resilient and sustainable.

Together with Victoria's 79 local councils we identified five themes representing the most pressing priorities for Victorian communities:



Make Community  
Infrastructure  
Happen



Make Safer  
Roads Happen



Make Fairer  
Energy Happen



Make Resilient  
Communities  
Happen



Make Local  
Democracy Happen

The MAV campaigned on these five priorities for Victorian councils in the lead up to the 2025 federal election and remains committed to build on this successful advocacy platform, establishing a constructive relationship with the Federal Government to influence policy and funding for local solutions to meet national priorities.

## Make Community Infrastructure Happen:

### Portfolios:

- Treasurer,
- Housing,
- Infrastructure, Transport, Regional Development and Local Government,
- Regional Development, Local Government and Territories

### Funding Ask:

\$2 Billion to introduce a dedicated 'Building Connected Communities Fund' to enable Councils across Australia to deliver community infrastructure that maximises the benefit from record Federal Government investment in housing.

The Fund would see investment in areas such as community hubs for wellbeing and support services, shared learning spaces and new green spaces. It would also enable upgrades, expansion and renewal of underutilised existing council assets such as community centres and sports fields that enable communities to thrive.

### Overview:

As Federal and State Governments accelerate the provision of housing, it's essential to also fund high quality community infrastructure new and growing communities need to thrive.

In Victoria, that means investment in communities around Activity Centres and in new growth areas, extending beyond transport and enabling works such as roads, power and sewerage, to deliver infrastructure that builds connection and wellbeing. In urgently addressing housing supply across Victoria, we must also invest to build more connected communities.

Local governments across Australia will play a critical role in ensuring whole-of-community support and value as we build 1.2 million new, well-located homes over the next 4.5 years under the National Housing Accord.

Local Councils are well placed as partners to Federal and State Government and developers to step up and deliver innovative, efficient community infrastructure that will ensure the significant investment in new housing creates sustainable, liveable and desirable communities.

### Impact:

More than 30 per cent of Australia's population growth over the past decade – over one million people – was in Victoria. Our state is projected to continue to grow at the fastest rate in the country with the population expected to reach 10.3 million by 2051 (Victoria in Future 2023).

In some parts of the state, like Melbourne's West, housing supply is moving at pace while community infrastructure lags, leaving new homeowners stranded. Residents are still waiting for a shopping centre, public transport, schools and other amenities that are missing from the masterplan they bought into.

### Alignment with Government Priorities:

Investment in early years infrastructure supports key Labor Government priorities in housing, infrastructure and jobs. This program aligns with the following government priorities:

- Housing Accord

### Case study: CITY OF MELTON

*The City of Melton is the 4th fastest growing municipality in Australia.*

*A lack of fit-for-purpose, co-located accommodation in its centre was standing in the way of health and community service provision.*

*State and Federal Government funding is making Cobblebank Community Services Hub possible – an 8,000 square metre community and commercial services space in a five-storey, Five-Star Green Rating building. Due to open in 2026, the Hub will deliver services including education, employment, health, family violence prevention.*

## Make Safer Roads Happen:

### Portfolios:

- Treasurer,
- Infrastructure, Transport, Regional Development and Local Government,
- Regional Development, Local Government and Territories

### Funding Ask:

\$4 Billion for a 'repair and renewal blitz' to ensure the safety and efficiency of local roads

A dedicated 'Community Roads Repair Blitz' Fund would allow councils to address priority road repairs across Victoria to boost economic activity and productivity of the nation.

### Overview:

Funding road maintenance is essential to maintaining the overall financial sustainability of councils.

Increased traffic and growing truck numbers are increasing road maintenance and funding needs – and delayed repairs are compromising safety and productivity through last mile impact.

### Impact:

A Community Roads Repair Blitz would enable Councils to improve the condition of the 87 per cent of Victoria's road network maintained by local government.

Maintaining local roads and managing 'last mile impact' is critical to realising the benefits of State and Federal Government investment into freight network improvements.

Ensuring the maintenance blitz extends across all corners of Victoria's road network is vital to helping achieve important statewide goals including halving road deaths and reducing serious injuries by 2030.

### Alignment with Government Priorities:

Investment in roads infrastructure supports key Labor Government priorities in infrastructure and jobs. This program aligns with the following government program areas:

- Roads to Recovery
- Local Roads and Community Infrastructure Program (LRCI)
- Safer Local Roads and Infrastructure Program (SLRIP)
- Black Spot Program

*"Many councils do not have a realistic way of raising the money they need to keep their roads in good condition, especially rural and remote councils"*

**Potholes and pitfalls: How to fix local roads, Grattan Institute, 2023**

## Make Fairer Energy Happen:

### Portfolios:

- Treasurer,
- Climate Change,
- Infrastructure, Transport, Regional Development and Local Government,
- Regional Development, Local Government and Territories

### Funding Ask:

The Municipal Association of Victoria is seeking \$5 million funding from the Federal Government to develop its 'Powering Communities: Roadmap to Transition'. This initiative will support the Victorian regions hosting the transition to share in the benefit of projects to rollout across the state over the coming decade.

The Roadmap to Transition will help Councils navigate the complex, fast-moving landscape of the transition, providing a comprehensive statewide view of how local communities will be impacted to ensure best-practice community engagement is prioritised across a variety of project types.

Powering Communities is about distributing knowledge and tools to bring innovative community benefit-sharing arrangements to life based on a common understanding of how communities can be most effectively engaged as the transition is expedited.

### Overview:

Victoria is targeting net zero emissions by 2045 – five years earlier than the current national target, requiring significant increases in renewable energy generation, particularly wind and solar.

Communities must be engaged to minimise negative impacts and maximise positive value of the transition locally.

Local governments are in a unique position to help deliver locally supported outcomes but typically lack the resources required to facilitate participation in the process.

### Impact:

The Victorian Government's energy plan – Cheaper, Cleaner, Renewable: Our Plan for Victoria's Electricity Future, outlines what will be needed to reach the State Government's ambitious emission reduction targets, which are:

- Net zero emissions by 2045
- 65 per cent renewable energy by 2030
- 95 per cent renewable energy by 2035

Achieving these goals will mean significantly increasing wind and solar generation as well as storage. It also means all levels of government must work together with communities and the private sector to ensure a fair transition that protects local community interests while also fast-tracking progress on state and federal goals.

### Alignment with Government Priorities:

Investment in energy transition supports key Labor Government priorities in climate, housing, infrastructure and jobs. This program aligns with the following government priorities:

- National Net Zero 2050 Target and the Electricity & Energy Sector Plan
- Powering Australia Plan

*"It's about making sure planning is robust enough to ensure promised community benefits can be delivered not just now but ten to fifteen years down the track. This is more than just energy company logos on local footy jumpers, it's about delivering future community benefits"*

**South Gippsland Shire Former Mayor  
Cr John Schelling**

## Make Resilient Communities Happen:

### Portfolios:

- Treasurer,
- Assistant Treasurer,
- Infrastructure, Transport, Regional Development and Local Government,
- Regional Development, Local Government and Territories
- Emergency Management

### Funding Ask:

\$600 Million A dedicated 'Build to Withstand' Fund to allow Councils to conduct pre-disaster investigation works to identify and address the highest priority infrastructure for resilience upgrades.

### Overview:

While funding is available through the Disaster Recovery Funding Agreements (DRFA) to support certain relief and recovery activities, it only allows for damaged or compromised infrastructure to be returned to its existing condition. In practice, this limits or discourages any attempt to better the infrastructure to make it more resilient.

Augmenting the focus on disaster recovery to include 'building to withstand' would improve infrastructure resilience and reduce the need to fund the building back of damaged infrastructure.

Recent disasters have also highlighted the resource pressures on impacted councils to provide business as usual services to community members while responding to a disaster. When councils need to divert staff to respond to a major emergency, business as usual services and programs can be impacted. This has directly impacted community wellbeing and recovery responses to the January 2026 bushfires. Broadening of categories under DRFA to allow councils to claim costs for backfilling business as usual roles is required to address this significant issue

It's time to work together with a new approach and mindset. A patchwork, cap-in-hand approach to disaster response isn't a sustainable approach for local communities or the national economy.

### Impact:

Victorian communities are acutely aware of their increasing vulnerability to extreme weather.

For example, the Victorian federal electorate of Nicholls is the number one most at-risk electorate ranked by the Climate Council in its 'Uninsurable Nation: Australia's Most Climate Vulnerable Places' report with Indi also included in the top ten.

According to the Climate Council, 26.5% of properties in the electorate of Nicholls will be uninsurable by 2030 and in some locations around the township of Shepparton, it is 80-90%. (Climate Council, Uninsurable Nation, 2022)

Families and Local businesses in these and other vulnerable communities are proactively designing and adapting their properties to guard against extreme weather events.

Governments must adopt a similarly pre-emptive approach to protecting vital roads, bridges and community infrastructure, investing before disaster strikes to fortify against and quickly recover from extreme weather events.

### Case study: DRFA FUNDING WASHES AWAY IN HUME

*The Hume region is highly susceptible to natural disasters. Since 2019 there have been significant bushfires and two major floods in October 2022 and January 2024.*

*In the wake of the 2022 floods, DRFA funding allowed damage to be repaired and infrastructure restored to its previous condition. A lack of betterment funding, however, meant that this work did not include improved resilience measures and was damaged by floods again only fifteen months later.*

**Alignment with Government Priorities:**

Investment in build to withstand infrastructure supports key Labor Government priorities in infrastructure, jobs and emergency services. This program aligns with the following government priorities:

- National Disaster Risk Reduction Framework
- National Climate Resilience and Adaptation Strategy

## Make Local Democracy Happen:

### Portfolios:

- Treasurer,
- Home Affairs,
- Communications.
- Social Services,
- Infrastructure, Transport, Regional Development and Local Government,
- Regional Development, Local Government and Territories

### Funding Ask:

We call on the Federal Government to establish a \$4.5 million 'Local Issues, Local Solutions' Local Democracy Fund to enable the Municipal Association of Victoria to engage a range of regional and metropolitan Councils in piloting programs that will promote active democracy, better manage risk and combat disinformation.

The outcome of the pilot programs will be a comprehensive and scalable toolkit that can be rolled out to Councils across the state and nationally.

### Overview:

Councils are at the frontline of active local democracy, where national and global tensions (e.g., cultural wars, identity politics, climate action disputes) often play out locally.

When disinformation influences public opinion it fuels division, erodes trust in institutions and discourages community members from participating in local forums and events.

### Impact:

Councils are uniquely placed to counter disinformation and rebuild public trust by bringing communities together and responding on-the-ground to changes in discourse within individual communities.

Federal Government funding for a scalable toolkit will help support Councils to run places and spaces that are safe venues for the healthy debate and diversity of opinions and information that underpins our active democracy.

### Alignment with Government Priorities:

Investment in safe and cohesive communities supports key Labor Government priorities in Social Cohesion, Civic participation and Disinformation. This program aligns with the following government priorities:

- Combatting Misinformation and Disinformation Policy Framework
- Social Cohesion Strategic Framework

### Case study: DISRUPTION TO LOCAL DEMOCRACY ON THE RISE

*In recent years there has been a significant increase in the number of Council meetings that have been disrupted by groups opposing liberal democracy.*

*In 2023 alone 15 councils reported disruptions to their proceedings from one such group.*

*In a particularly disruptive incident in the City of Monash angry protesters besieged council chambers, confronting council representatives and resulting in police being called*