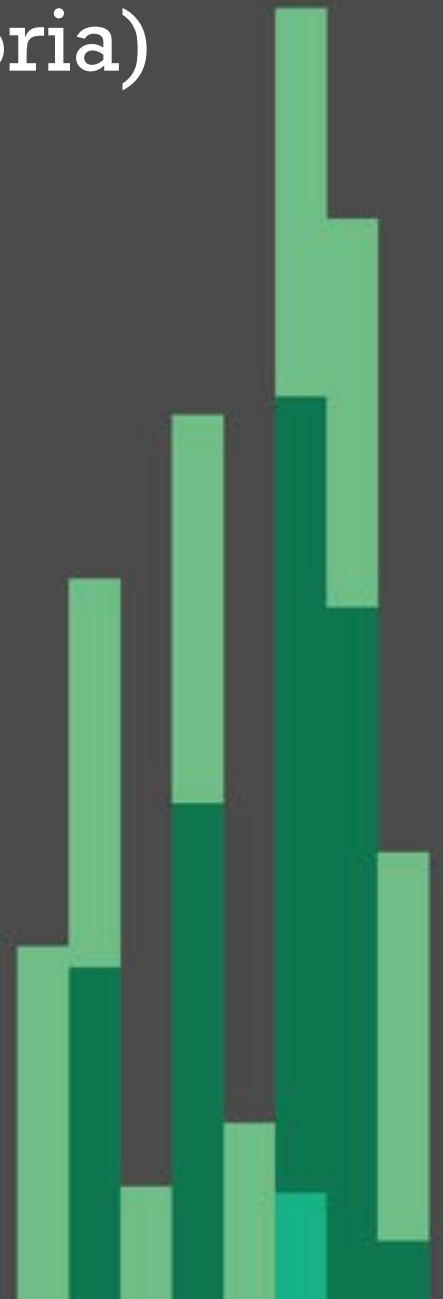


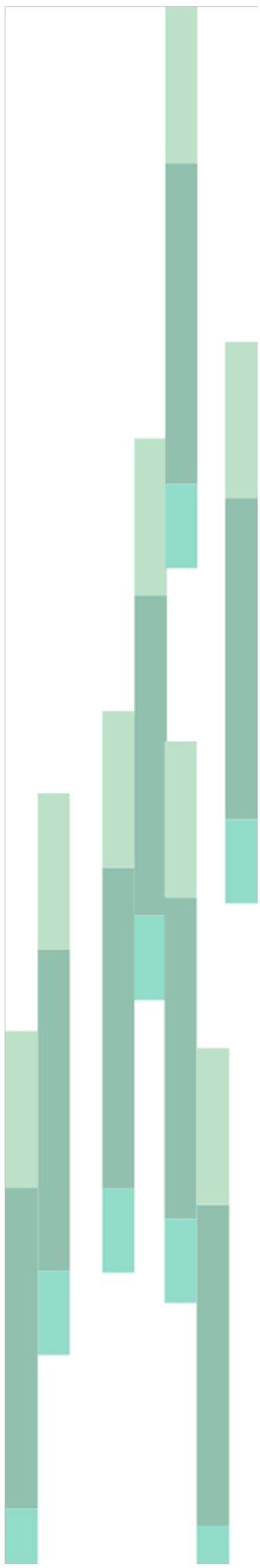
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Victorian  
Independent  
Remuneration  
Tribunal

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Allowance payable to  
Mayors, Deputy Mayors  
and Councillors (Victoria)  
Annual Adjustment  
Determination 2024





*Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019* (Vic)

Part 3—Determinations for annual adjustments in relation to Mayors, Deputy Mayors and Councillors.

## Allowance payable to Mayors, Deputy Mayors and Councillors (Victoria) Annual Adjustment Determination 2024

A. Pursuant to section 23B(1) of the *Victorian Independent Remuneration Tribunal and Improving Parliament Standards Act 2019* (Vic) (VIRTIPS Act), the Tribunal determines to make the following adjustments to the *Allowance payable to Mayors, Deputy Mayors and Councillors (Victoria) Determination No. 01/2022*.

A.1 Delete clauses 7 to 9 and Tables 1 to 10 and replace them with the following:

### 7. Value of the base allowance for Mayors

7.1 The values of the base allowances for Mayors are:

- (a) from 1 July 2024 until 17 December 2024, the values set out in Table 1
- (b) from 18 December 2024 until 17 December 2025, the values set out in Table 2
- (c) from 18 December 2025, the values set out in Table 3.

**Table 1: Value of the base allowance for Mayors, by Council allowance category, 1 July 2024 until 17 December 2024**

Council allowance category	Value of allowance (\$ per annum)
Category 1	84,498
Category 2	109,114
Category 3	134,954
Category 4 – Melbourne City Council	269,909

**Table 2: Value of the base allowance for Mayors, by Council allowance category, 18 December 2024 until 17 December 2025**

Council allowance category	Value of allowance (\$ per annum)
Category 1	86,722
Category 2	111,987
Category 3	138,506
Category 4 – Melbourne City Council	277,014

**Table 3: Value of the base allowance for Mayors, by Council allowance category, from 18 December 2025**

Council allowance category	Value of allowance (\$ per annum)
Category 1	88,945
Category 2	114,857
Category 3	142,057
Category 4 – Melbourne City Council	284,116

## 8. Value of the base allowance for Deputy Mayors

8.1 The values of the base allowances for Deputy Mayors are:

- (a) from 1 July 2024 until 17 December 2024, the values set out in Table 4
- (b) from 18 December 2024 until 17 December 2025, the values set out in Table 5
- (c) from 18 December 2025, the values set out in Table 6.

**Table 4: Value of the base allowance for Deputy Mayors, by Council allowance category, 1 July 2024 until 17 December 2024**

Council allowance category	Value of allowance (\$ per annum)
Category 1	42,248
Category 2	54,558
Category 3	67,477
Category 4 – Melbourne City Council	134,955

**Table 5: Value of the base allowance for Deputy Mayors, by Council allowance category, 18 December 2024 until 17 December 2025**

Council allowance category	Value of allowance (\$ per annum)
Category 1	43,360
Category 2	55,994
Category 3	69,252
Category 4 – Melbourne City Council	138,507

**Table 6: Value of the base allowance for Deputy Mayors, by Council allowance category, from 18 December 2025**

Council allowance category	Value of allowance (\$ per annum)
Category 1	44,473
Category 2	57,429
Category 3	71,028
Category 4 – Melbourne City Council	142,058

## 9. Value of the base allowance for Councillors

9.1 The values of the base allowances for Councillors from 1 July 2024 are the values set out in Table 7.

**Table 7: Value of the base allowance for Councillors, by Council allowance category, from 1 July 2024**

Council allowance category	Value of allowance (\$ per annum)
Category 1	27,291
Category 2	34,028
Category 3	40,769
Category 4 – Melbourne City Council	61,153

A.2 In clause 10.1, delete '\$45.90' and '\$5,738' and replace with '\$47.50' and '\$5,937.50', respectively.

B. This Determination commences on 1 July 2024.

C. The *Allowance payable to Mayors, Deputy Mayors and Councillors (Victoria) Determination No. 01/2022* as varied is available on the Tribunal's website.



Warren McCann

*Chair*

Victorian Independent  
Remuneration Tribunal



Laurinda Gardner

*Member*

Victorian Independent  
Remuneration Tribunal

Date: 1 July 2024

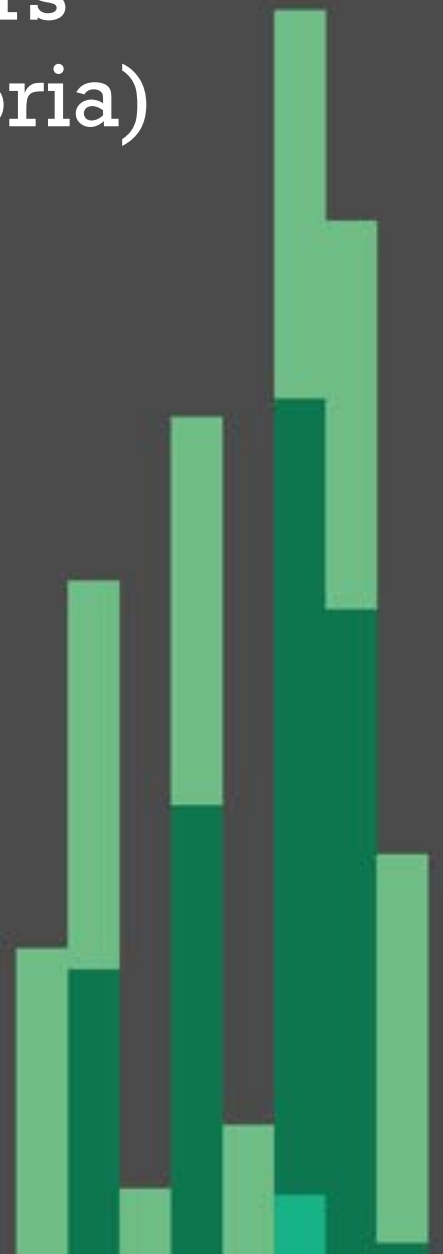
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Victorian  
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Remuneration  
Tribunal

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Allowance payable to  
Mayors, Deputy Mayors  
and Councillors (Victoria)  
Annual Adjustment  
Determination 2024

Statement of Reasons





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# Abbreviations and glossary



Term or abbreviation	Definition
2023 Local Government Annual Adjustment Determination	<i>Allowance payable to Mayors, Deputy Mayors and Councillors (Victoria) Annual Adjustment Determination 2023</i>
2024 Local Government Annual Adjustment Determination	<i>Allowance payable to Mayors, Deputy Mayors and Councillors (Victoria) Annual Adjustment Determination 2024</i>
ABS	Australian Bureau of Statistics
Comprehensive Determination	<i>Allowance payable to Mayors, Deputy Mayors and Councillors (Victoria) Determination No. 01/2022</i>
Council member	A Mayor, Deputy Mayor or Councillor
CPI	Consumer Price Index
DTF	Department of Treasury and Finance
EA	Enterprise Agreement
ESC	Essential Services Commission
FWC	Fair Work Commission
GDP	Gross Domestic Product
GGS	General Government Sector
GSP	Gross State Product
MP	Member of the Parliament of Victoria
RBA	Reserve Bank of Australia
Tribunal	Victorian Independent Remuneration Tribunal
VAGO	Victorian Auditor-General's Office
Victorian Budget	<i>Victorian Budget 2024-25</i>
VPS	Victorian Public Service
VIRTIPS Act	<i>Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019 (Vic)</i>
Wages Policy	<i>Wages Policy and the Enterprise Bargaining Framework</i>
WPI	Wage Price Index

# Summary



The Victorian Independent Remuneration Tribunal has made a Determination providing for an annual adjustment to the values of the allowances payable to Mayors, Deputy Mayors and Councillors (Council members).

The Tribunal's determination increases the base allowance payable to each Council member by 3.5 per cent from 1 July 2024 as set out below:

Allowance Category	Value of base allowance from 1 July 2024 (\$ p.a.)		
	Mayor	Deputy Mayor	Councillor
Category 1	84,498	42,248	27,291
Category 2	109,114	54,558	34,028
Category 3	134,954	67,477	40,769
Category 4	269,909	134,955	61,153

The Determination also applies to the future phase-in of increases to the base allowances for Mayors and Deputy Mayors, which will apply from 18 December 2024 and 18 December 2025.

The Tribunal has also decided to increase the value of the Remote Area Travel Allowance by 3.5 per cent. This allowance compensates eligible Council members for time spent on long distance travel to Council meetings or functions. From 1 July 2024, the Remote Area Travel Allowance will be \$47.50 per day for eligible Council members, up to a maximum of \$5,937.50 per annum.

This Statement of Reasons outlines the Tribunal's consideration of the following factors set out in legislation:

- the Victorian Government's wages policy
- the financial position and fiscal strategy of the State of Victoria
- current and projected economic conditions and trends
- submissions received in relation to the proposed Determination.

The Tribunal noted recent economic data that showed subdued economic growth rates, although nominal wages growth has picked up in response to tight labour market conditions and high inflation. Despite a mixed economic outlook, several

indicators suggest an improved outlook for economic growth and growth in real wages. While not directly relevant to Council members, the Tribunal noted the Fair Work Commission's 2024 decision to increase the National Minimum Wage and modern award minimum wages by 3.75 per cent.

The Tribunal considered the current *Wages Policy and the Enterprise Bargaining Framework* (Wages Policy) in light of the current fiscal circumstances of the State of Victoria, but notes that the policy does not apply to local Councils.


Several submissions received by the Tribunal called for substantive increases to Councillor allowances to reflect the work and time commitment of Councillors and to attract high-quality candidates. One submission called for no increase to allowances given the additional benefits available and the non-monetary benefits of Council service.

The Tribunal was also mindful of:

- recent annual remuneration adjustments for comparable local government roles in other Australian jurisdictions, ranging from 2.5 per cent to 5 per cent
- the Victorian Government's rate cap of 2.75 per cent for all Councils in 2024-25
- its 2024 Annual Adjustment Determination of salaries and allowances for Members of the Parliament of Victoria (MPs), where the Tribunal determined to increase MP salaries by 3.5 per cent
- the overall financial performance of local Councils reflected in the most recent audit of the local government sector by the Victorian Auditor-General's Office (VAGO), which observed that Councils' balance sheets remain strong and that their financial health is sound over the short-term.

For ease of reference, the Tribunal has also published on its website a consolidated version of the Comprehensive Determination, incorporating changes made by the 2022, 2023 and 2024 annual adjustments.

# 1 Context



The Tribunal is required to make an annual adjustment to the values of the allowances payable to Council members set in a Determination under the *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019* (Vic) (VIRTIPS Act).<sup>1</sup>

In performing its functions and exercising its powers, the Tribunal must act independently and impartially and is not subject to the control or direction of any person, including the Minister responsible for the Tribunal.<sup>2</sup>

The Determination in effect is the *Allowance payable to Mayors, Deputy Mayors and Councillors (Victoria) Determination No. 01/2022* (Comprehensive Determination), which was made in March 2022.<sup>3</sup> The Comprehensive Determination set a base allowance for every Council member in Victoria, the value of which varies according to role (Mayor, Deputy Mayor or Councillor) and the allowance category to which a Council has been assigned. It also set the eligibility criteria for, and value of, a Remote Area Travel Allowance payable to Council members for the time spent travelling for Council meetings or functions.

The Tribunal has made two subsequent annual adjustments to the values set in the Comprehensive Determination in December 2022 and June 2023. The Tribunal also decided in the *Allowance payable to Mayors, Deputy Mayors and Councillors (Victoria) Annual Adjustment Determination 2023* (2023 Local Government Annual Adjustment Determination) that future annual adjustments should commence at the same time as Determinations made by the Tribunal for other groups.<sup>4</sup>

The Tribunal is required to include a statement of reasons in a Determination.<sup>5</sup> This Statement of Reasons relates to the *Allowance payable to Mayors, Deputy*

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<sup>1</sup> VIRTIPS Act, s 23B.

<sup>2</sup> VIRTIPS Act, s 5.

<sup>3</sup> Victorian Independent Remuneration Tribunal (2022a).

<sup>4</sup> Victorian Independent Remuneration Tribunal (2023a), p. 15.

<sup>5</sup> VIRTIPS Act, s 24(3).

*Mayors and Councillors (Victoria) Annual Adjustment Determination 2024* (2024 Local Government Annual Adjustment Determination).

This Determination takes effect on 1 July 2024.

## 1.1 The Tribunal's approach

Before making a Determination, the VIRTIPS Act requires the Tribunal to:<sup>6</sup>

- publish notice of its intention to make a Determination
- include details about the proposed Determination in the public notice
- give any affected person or class of persons a reasonable opportunity to make a submission in relation to the proposed Determination.

The Tribunal published notice of its intention to make a Determination on its website in March 2024, and subsequently on the Victorian Public Notices website. Local Government Victoria, part of the Department of Government Services, sent a bulletin to all Councils advising of the notice. The notice contained a summary of the matters the Tribunal was required to consider and called for submissions by 24 April 2024.

Chapter 2 of the Statement of Reasons sets out how the Tribunal considered legislative matters, namely:<sup>7</sup>

- any statement or policy issued by the Government of Victoria which is in force with respect to its wages policy (or equivalent) and the remuneration and allowances of any specified occupational group
- the financial position and fiscal strategy of the State of Victoria
- current and projected economic conditions and trends
- submissions received in relation to the proposed Determination.

Chapter 3 contains the Tribunal's decision and conclusions.

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<sup>6</sup> VIRTIPS Act, s 24(1).

<sup>7</sup> VIRTIPS Act, s 24(2).

# 2 Factors considered



This chapter summarises the legislative and other factors that the Tribunal has considered in determining its adjustment to allowances payable to Council members.

Detailed analysis of current and projected economic conditions, the Victorian Government's financial position and Wages Policy are set out in Appendix A.

## 2.1 Current and projected economic conditions and trends

The Tribunal's discussion of current and projected economic conditions has been informed by a range of sources, including:

- the latest data on key economic indicators published by the Australian Bureau of Statistics (ABS)
- statements by the Reserve Bank of Australia (RBA)
- the latest Commonwealth and Victorian budgets.

### **Economic growth is subdued, as cost-of-living pressures weigh on household consumption**

Economic growth has slowed in Australia and Victoria in recent years and remains below its long-run average. In the year to March 2024, growth in Australian real Gross Domestic Product (GDP) was 1.1 per cent, while growth in Victorian State Final Demand was 1.5 per cent. GDP growth in the March quarter 2024 was driven by consumption,<sup>8</sup> while Victorian economic activity has been supported by business investment and population growth.<sup>9</sup>

The RBA expects Australian GDP growth to pick up from late 2024, but to remain below its long-run (excluding the pandemic) average of 2.9 per cent.<sup>10</sup> Similarly,

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<sup>8</sup> ABS (2024a).

<sup>9</sup> DTF (2024b).

<sup>10</sup> RBA (2024).

growth in Victoria is expected to pick up, with Gross State Product (GSP) projected to increase by 2.5 per cent in 2024-25.<sup>11</sup>

## **Inflation has moderated, but remains above the RBA's target**

Headline inflation outcomes in Australia and Victoria have recently moderated, with the All Groups Consumer Price Index (CPI) for Australia and Melbourne both increasing by 3.6 per cent in the year to March 2024, largely due to slower growth in the prices of goods.<sup>12</sup>

Both the RBA and Commonwealth Treasury expect inflation to moderate and return to the RBA's target range of 2 to 3 per cent in coming years, with Commonwealth Treasury expecting this to occur sooner owing to measures announced in the Commonwealth budget.<sup>13</sup> The *Victorian Budget 2024-25* (Victorian Budget) forecast Melbourne CPI growth will slow to 2.75 per cent in 2024-25.<sup>14</sup>

## **Nominal wages growth has picked up, while real wages growth is low**

Nominal wages growth has picked up due to a tight labour market and high inflation and is around its highest level in over a decade, with the Australian Wage Price Index (WPI) increasing by 4.1 per cent in the year to March 2024.<sup>15</sup>

Wages growth has also picked up in Victoria, with WPI increasing at an annual rate of 3.6 per cent, although this is the lowest among the states.<sup>16</sup> The public sector WPI has increased more slowly than the private sector WPI in Victoria (2.5 per cent compared to 3.9 per cent for the year to March 2024).<sup>17</sup>

Real wages grew by 0.5 per cent over the year to March 2024 in Australia, whilst remaining unchanged for Victoria over the same period.<sup>18</sup>

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<sup>11</sup> DTF (2024b).

<sup>12</sup> ABS (2024c).

<sup>13</sup> RBA (2024); Commonwealth of Australia (2024).

<sup>14</sup> DTF (2024b).

<sup>15</sup> ABS (2024f).

<sup>16</sup> ABS (2024f).

<sup>17</sup> ABS (2024g).

<sup>18</sup> ABS (2024f); ABS (2024c).

The RBA forecasts Australian WPI growth to slow to 3.6 per cent by June 2025. Real wages are expected to grow in both Victoria and Australia, as nominal wages growth outpaces inflation.<sup>19</sup>

## 2.2 Financial position and fiscal strategy of the State of Victoria

In the Victorian Budget, the Victorian Government announced a range of strategies to improve the State's financial position.

The Victorian Government reiterated its existing fiscal strategy and added a new step 5:

- Step 1 – Creating jobs, reducing unemployment and restoring economic growth
- Step 2 – Returning to an operating cash surplus
- Step 3 – Returning to operating surpluses
- Step 4 – Stabilising debt levels
- Step 5 – Reducing net debt as a proportion of GSP.

The general government sector (GGS) recorded an operating cash surplus of \$4.2 billion in 2022-23 and the Government is expecting a return to an operating surplus in 2025-26 (consistent with steps 2 and 3).<sup>20</sup>

Net debt for the GGS was \$115 billion at 30 June 2023, and is forecast to be around \$188 billion by 30 June 2027. However, net debt as a proportion of GSP is expected to stabilise at around 25 per cent from June 2026 (consistent with steps 4 and 5).<sup>21</sup>

## 2.3 Wages Policy

The Tribunal is required by the VIRTIPS Act to consider the State Government's Wages Policy, but notes that it does not apply to local governments, which have the ability to negotiate their own enterprise agreements (EAs).

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<sup>19</sup> RBA (2024).

<sup>20</sup> DTF (2024b), p. 4.

<sup>21</sup> DTF (2024b), p. 6.



In April 2023, the Treasurer of Victoria announced the introduction of a new Wages Policy, which provides for increases to wages and conditions under public sector EAs. In particular, the Wages Policy stipulates that:<sup>22</sup>

- increases in wages and conditions will be funded at a rate of growth of 3 per cent per annum over the life of the agreement
- in addition to annual wage increases, a separate lump sum cash payment will be available, equivalent to an additional 0.5 per cent of overall agreement costs.

The Government and the Community and Public Sector Union have reached in-principle agreement on a new 2024 Victorian Public Service (VPS) EA, under the framework provided by the Government’s Wages Policy. This EA provides for:

- annual salary increases of 3 per cent over the life of the agreement
- a once-off lump sum payment of \$5,600 (pro-rata for part-time and eligible casual employees) for all non-executive employees
- an additional once-off payment of \$1,000 is also payable to eligible shift workers
- an increase in the lump sum payment (from 1 per cent to 1.5 per cent of base salary) paid to employees at the top of their grade who have met their progression criteria.

## 2.4 Matters raised in submissions

The Tribunal received five written submissions, which have been published on the Tribunal’s website in line with its submission policy.

Two submissions were from current Councillors, one submission was from Mount Alexander Shire Council on behalf of the Councillor group, and the remaining two submissions were from members of the public who asked not to be identified.

Four submissions called for substantive increases to Councillor allowances to reflect the amount of work undertaken by, and time commitment of, Councillors and to attract high calibre candidates. For example, Mount Alexander Shire Council considered that increasing Councillor allowances would improve diversity:

*Our Councillors believe that to better encourage diversity, women, parents, younger people and high calibre candidates to run for Council, the base rate should be increased markedly.*

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<sup>22</sup> Industrial Relations Victoria (2024).

Of the submissions supporting increases to Councillor allowances, one submission also called for Mayoral and Deputy Mayoral allowances to be either frozen or linked to wage increases for Council workers, and another submission proposed a reduction in these allowances. These submissions considered the current values of the allowances for Mayors and Deputy Mayors were too high compared to Councillor allowances.

One Councillor suggested that there should be no increase to the allowances for Mayors, Deputy Mayors and Councillors because of the additional benefits available outside of the allowance, including reimbursement of expenses. The Councillor also spoke to the non-monetary benefits of being a Councillor, noting:

*After all you are not forced to be a Councillor it's a position that you want to do to help your community.*

The submission from another Councillor noted the differences between rural and metropolitan Councils, including differences in the geographic size of Councils and the associated time commitment for Councillors, and the larger role rural Councils have in the community as an employer and service provider. The submission suggested there be a maximum of three Council categories and a substantive increase in allowances for Category 1 Councillors.

In response to this submission, and without commenting on its merit or otherwise, the Tribunal notes that an examination of relativities across allowances for different types of Council members is not appropriate in the context of an annual adjustment Determination. Rather, relativities are best considered in the next comprehensive Determination of Council member allowances, at which time the Tribunal will be required to conduct a review of the roles and responsibilities of Council members.

Two submitters proposed that community satisfaction with the performance of local Councils be a consideration in setting allowances. The Tribunal does not assess the performance of any individual Council member or group of Council members when making its Determinations. The Tribunal's Comprehensive Determination noted that issues of performance are more appropriately considered via the electoral system, given that:<sup>23</sup>

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<sup>23</sup> Victorian Independent Remuneration Tribunal (2022a), p. 56.

*The cycle of four-yearly [local government] elections provides a mechanism for voters to hold Council members to account for their performance.*

One submission suggested the Tribunal should consider EAs reached by Councils and the average budgetary position of each Council when adjusting allowances.

The existing category structure enables allowances to be set with reference to the variation in Councils' circumstances. While further tailoring might better reflect an individual Councils' financial position, it would also introduce additional complexity to a system of allowances that makes up a relatively low proportion of Council expenditure.

## 2.5 Other relevant considerations

### Adjustments to allowances in other jurisdictions

Table 2.1 summarises the adjustments that have been made to allowances for Council members in other Australian jurisdictions in 2024, where available. Adjustments range from 2.5 per cent in the Northern Territory to up to 5 per cent for some Queensland Councils.

**Table 2.1: Adjustments to allowances for Council members in other Australian jurisdictions**

Jurisdiction	Adjustment from 1 July 2024 (unless otherwise stated) (%)
New South Wales	3.75
Queensland	3 – 5 <sup>(a)</sup>
South Australia	TBA <sup>(b)</sup>
Western Australia	4
Tasmania	TBA <sup>(c)</sup>
Northern Territory	2.5

Notes: (a) The Local Government Remuneration Commission undertook a review of Council remuneration categories in 2023, which resulted in a new category structure which will take effect on 1 July 2024. The Commission observed that, in most cases, maximum remuneration levels increased by 3-5 per cent compared to existing levels, with regional and rural Councils receiving larger increases than metropolitan Councils. (b) Allowances are automatically indexed on the first, second and third anniversaries of the relevant periodic local government elections to reflect changes in the Adelaide CPI. The next adjustment will be effective from November 2024. As an indicator, over the year to the March quarter 2024, the Adelaide CPI rose by 4.3 per cent. (c) Allowances are automatically indexed on 1 November each year in line with the annual change in the Wage Price Index for Tasmania. As an indicator, over the year to the March quarter 2024, this measure increased by 4.9 per cent.

Sources: ABS (2024c); ABS (2024f); Local Government Association of South Australia (2023); Local Government Remuneration Commission (Queensland) (2023), p. 6; Local Government Remuneration Tribunal (New South Wales) (2024), p. 3; Northern Territory Remuneration Tribunal (2024), p. 3; Office of Local Government (Tasmania) (2023), p. 1; Salaries and Allowances Tribunal (Western Australia) (2024), p. 3.

## Tribunal's 2024 Annual Adjustment Determination of MP salaries and allowances

As a reference point, the Tribunal's *Members of Parliament (Victoria) Annual Adjustment Determination 2024* increased the value of salaries payable to MPs by 3.5 per cent, effective from 1 July 2024.<sup>24</sup>

## Council rate cap for 2024-25

In December 2023, the Victorian Government announced a rate cap of 2.75 per cent for the 2024-25 financial year, on the recommendation of the Essential Services Commission (ESC). This is the maximum amount by which a Council can increase general rates and municipal charges in 2024-25.<sup>25</sup> Councils had until 31 March 2024 to apply to the ESC for a higher rate cap if it did not meet their needs.<sup>26</sup> There were no applications for a higher cap for the 2024-25 financial year.<sup>27</sup>

## Council financial performance

Each year, the Victorian Auditor-General's Office (VAGO) conducts an audit of the local government sector, including an assessment of Councils' financial performance. In March 2024, VAGO published its report for the 2022-23 financial year.<sup>28</sup> VAGO observed that Councils' balance sheets remain strong and that their financial health is sound over the short-term. However, VAGO also noted that Councils face longer term challenges, including:

- variability in government funding
- constraints on their ability to generate own-source revenue (rate caps)
- increased costs due to inflation
- increased demand for services due to population growth.

## Annual Wage Review Decision 2023-24

The Fair Work Commission's (FWC) *Annual Wage Review 2023-24* decision increased the National Minimum Wage and all modern award minimum wages by 3.75 per cent with effect from 1 July 2024.<sup>29</sup>

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<sup>24</sup> Victorian Independent Remuneration Tribunal (2024a).

<sup>25</sup> State Government of Victoria (2023).

<sup>26</sup> ESC (2024a).

<sup>27</sup> ESC (2024b).

<sup>28</sup> VAGO (2024).

<sup>29</sup> FWC (2024), pp. 60-61.

# 3 Tribunal's decisions

## 3.1 Base allowance

Having regard to all considerations from Chapter 2, the Tribunal has decided to increase the values of all base allowances by 3.5 per cent from 1 July 2024. This adjustment is broadly in line with movements in prices and wages, Wages Policy and adjustments to allowances in other jurisdictions. It also aligns with the Tribunal's adjustment to MP salaries.

The Tribunal's Determination also applies to the future phase-in of increases to the base allowances for Mayors and Deputy Mayors which will apply from 18 December 2024 and 18 December 2025.

Tables 3.1 – 3.3 set out the new base allowance values, incorporating the phased increases and 3.5 per cent annual adjustment rate.

**Table 3.1: Value of the base allowance for Mayors**

Council allowance category	Value of base allowance (\$ per annum)		
	1 July 2024	18 Dec 2024	18 Dec 2025
Category 1	84,498	86,722	88,945
Category 2	109,114	111,987	114,857
Category 3	134,954	138,506	142,057
Category 4	269,909	277,014	284,116

**Table 3.2: Value of the base allowance for Deputy Mayors**

Council allowance category	Value of base allowance (\$ per annum)		
	1 July 2024	18 Dec 2024	18 Dec 2025
Category 1	42,248	43,360	44,473
Category 2	54,558	55,994	57,429
Category 3	67,477	69,252	71,028
Category 4	134,955	138,507	142,058

Table 3.3: Value of the base allowance for Councillors

Council allowance category	Value of base allowance (\$ per annum)
	1 July 2024
Category 1	27,291
Category 2	34,028
Category 3	40,769
Category 4	61,153

## 3.2 Remote Area Travel Allowance

Taking into account the legislative factors it is required to consider and the other factors to which the Tribunal has referred in determining the increase to the base allowance, the Tribunal has also determined to apply a 3.5 per cent increase to the value of the Remote Area Travel Allowance.

From 1 July 2024, the Remote Area Travel Allowance will be \$47.50 per day for eligible Council members, up to a maximum of \$5,937.50 per annum.

## 3.3 Conclusion

This Statement of Reasons explains the Tribunal’s considerations in making the 2024 Local Government Annual Adjustment Determination.

Before making the Determination, the Tribunal published notice of its intention to make a Determination and called for submissions in March 2024. The Tribunal considered each submission it received and expresses its appreciation to all those who made submissions or otherwise participated in the process and assisted the Tribunal to perform its functions.

In accordance with the VIRTIPS Act, the Tribunal has made an annual adjustment to the values of the allowances payable to Council members, taking into account a range of legislative and other considerations.

This Determination adjusts the value of the base allowance payable to each Council member by 3.5 per cent. The Determination also adjusts the value of the Remote Area Travel Allowance by the same percentage.

The Determination will take effect on 1 July 2024.

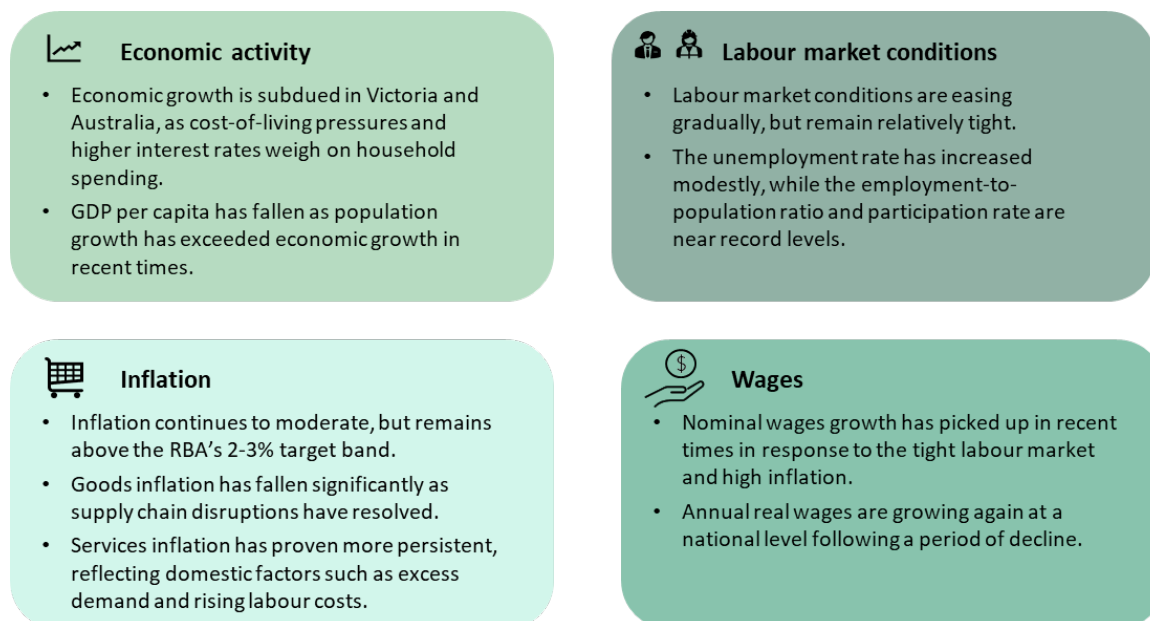
# Appendix A – Detailed economic and financial considerations



## A.1 Current economic conditions

Figure A.1 provides a high-level overview of current economic conditions, which are described in further detail in the coming sections.

Figure A.1: Overview of conditions in the Australian and Victorian economies, June 2024

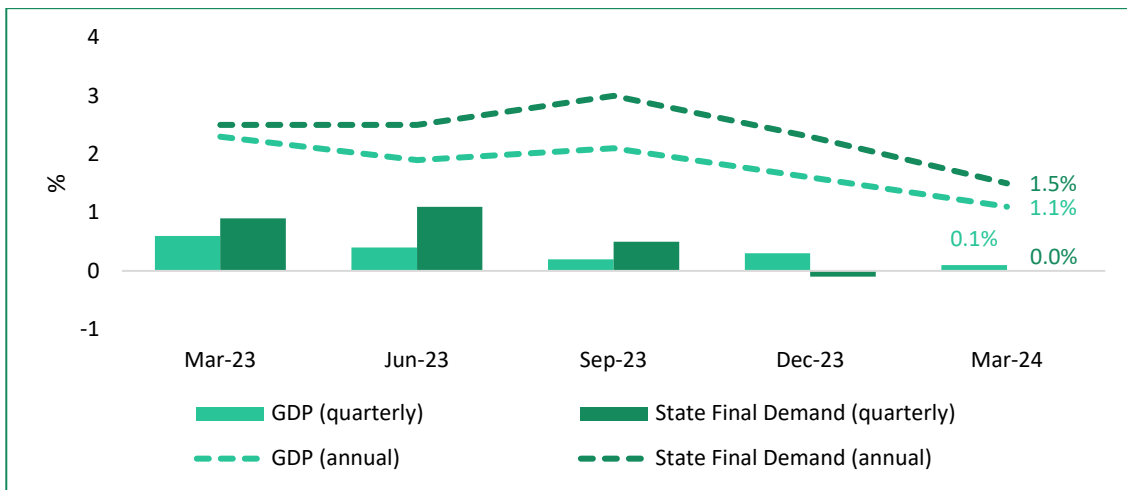


### Economic growth is subdued as cost-of-living pressures and higher interest rates weigh on household consumption

Economic growth has slowed in Australia and Victoria from the high levels associated with the recovery from the COVID-19 pandemic.

Australia’s real Gross Domestic Product (GDP) rose 0.1 per cent over the March quarter 2024 and 1.1 per cent through the year. Excluding the pandemic period, this was the weakest annual growth since the early 1990s. Victoria’s State Final Demand held steady in the March quarter 2024 and rose 1.5 per cent through the year (Figure A.2). The latter is well below its long-run (excluding the pandemic period) average growth rate of 3.5 per cent.<sup>30</sup>

**Figure A.2: Quarterly and annual growth in real GDP and Victorian State Final Demand, March quarter 2023 to March quarter 2024**



Source: ABS (2024a).

According to the ABS, the ‘weak’ GDP result in the March quarter 2024 reflects subdued domestic demand, with increased consumption offset by falling investment. The ABS noted that its latest release included upward revisions to recent data on household consumption, which has been stronger than previously indicated. Despite this, growth in household consumption remains subdued by historical standards and continues to be driven by spending on essentials.<sup>31</sup>

The Victorian Budget observed that growth in the Victorian economy over 2023-24 has been supported by strong business investment and population growth. Meanwhile, growth in household consumption has been subdued amid ongoing pressure on household budgets from high inflation and higher interest rates.<sup>32</sup>

Population growth has rebounded significantly since Australia’s international borders were re-opened in early 2022 and has exceeded economic growth rates in recent times.<sup>33</sup> As a result, real GDP per capita has declined or held steady for

<sup>30</sup> ABS (2024a). Throughout this chapter, unless referring to an observation made by the RBA, long-run (excluding the pandemic) average refers to the average over the period from 2000 to 2019 (inclusive) as calculated by the Tribunal.

<sup>31</sup> ABS (2024a).

<sup>32</sup> DTF (2024b), p. 18.

<sup>33</sup> ABS (2023).



five consecutive quarters, falling 0.4 per cent in the March quarter 2024 and 1.3 per cent through the year.<sup>34</sup>

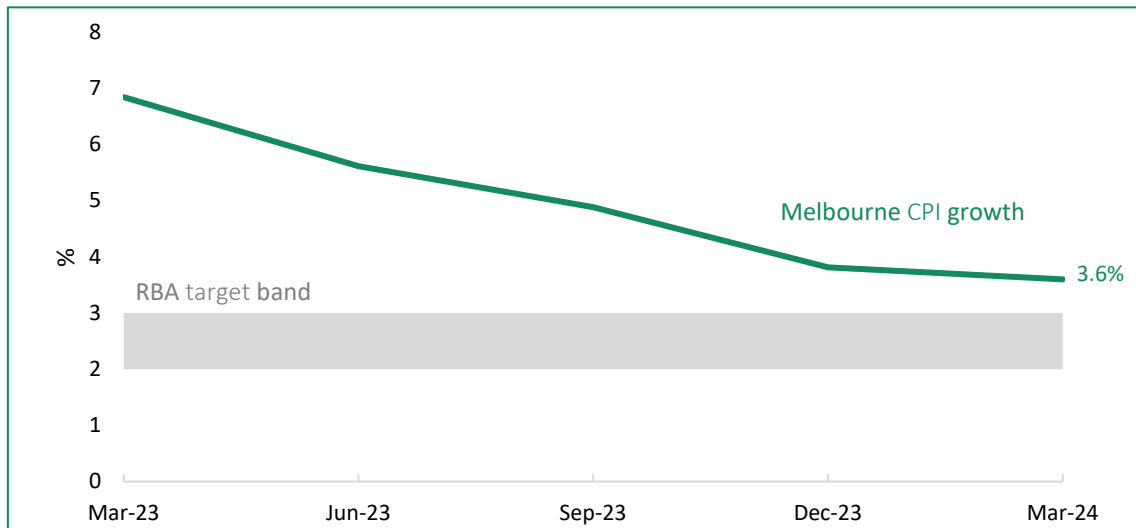
ABS data shows that GDP per hour worked — a measure of labour productivity — held steady in the March quarter 2024, after growing over the second half of 2023. This recent growth follows a period of five quarters in which labour productivity declined.<sup>35</sup> The RBA observed that an improvement in productivity outcomes had been expected, partly due to strong business investment, though it noted that growth was weaker than expected in the December quarter 2023.<sup>36</sup>

### Inflation has moderated, but remains high

Headline inflation has moderated in Victoria and Australia more broadly but remains above the RBA's 2 to 3 per cent target band.

ABS data show that annual growth in the All Groups Consumer Price Index for Melbourne (Melbourne CPI) declined to 3.6 per cent in the March quarter 2024, well below the peak of 8 per cent recorded in the December quarter 2022. However, a larger than expected quarterly rise (1 per cent) saw the annual inflation rate decline more slowly than in previous quarters (Figure A.3).

Figure A.3: Annual growth in the Melbourne CPI, March quarter 2023 to March quarter 2024



Source: ABS (2024c).

<sup>34</sup> ABS (2024a).

<sup>35</sup> ABS (2024a).

<sup>36</sup> RBA (2024), pp. 29, 44.

Movements in the Melbourne CPI were consistent with national outcomes, with the Australian CPI rising 1 per cent in the March quarter 2024 and 3.6 per cent through the year. Measures of Australian underlying inflation, which reduce the impact of irregular or temporary price changes, also continue to ease. Annual trimmed mean inflation — the RBA’s preferred measure of underlying inflation — fell to 4 per cent in the March quarter 2024, having decreased for five consecutive quarters since peaking at 6.8 per cent in the December quarter 2022.<sup>37</sup>

The ABS’ monthly Australian CPI indicator has risen for two consecutive months, from 3.4 per cent in February 2024 to 3.6 per cent in April 2024.<sup>38</sup> Eight out of the 11 CPI groups also recorded increases over that period, indicating that inflationary pressures remain elevated and broad-based.

The RBA’s latest *Statement on Monetary Policy* (May 2024) and the Victorian Budget both noted that the recent moderation in inflation outcomes in Australia and Victoria has been largely due to slower growth in the prices of goods. ABS data shows that goods inflation has fallen sharply since its peak in mid-2022, consistent with the easing of global supply chain pressures. By contrast, services inflation peaked later and is declining more gradually.<sup>39</sup>

### **Labour market conditions are gradually easing, but remain tight**

Conditions in the Australian and Victorian labour markets have been ‘tight’ in recent years but are gradually easing.

In its May 2024 *Statement*, the RBA observed that the easing in the national labour market had been slower than expected, with much of the easing occurring through declines in average hours worked and job vacancies. On the other hand, it noted that the Australian unemployment rate — a key indicator of spare capacity in the labour market — had increased only modestly.<sup>40</sup>

In its latest *Labour Force* release (May 2024), the ABS observed that Australia’s employment-to-population ratio and participation rate remain much higher than their pre-pandemic levels. According to the ABS:<sup>41</sup>

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<sup>37</sup> ABS (2024c).

<sup>38</sup> ABS (2024e).

<sup>39</sup> ABS (2024c).

<sup>40</sup> RBA (2024), p. 28.

<sup>41</sup> ABS (2024d).

*Together with elevated levels of job vacancies, this suggests the labour market remains relatively tight, though less [tight] than in late 2022 and early 2023.*

The Australian participation rate also remains near record high levels, while the Australian unemployment rate rose modestly over the past year to be 4 per cent in May 2024.<sup>42</sup>

A similar scenario is unfolding in the Victorian labour market. According to the Victorian Budget, the State's labour market remains 'strong', with the share of working-age Victorians in employment and labour force participation remaining near record levels. Nonetheless, it also noted that employment growth has eased from the relatively high levels observed in previous years.<sup>43</sup> Since the release of the Victorian Budget, ABS data show that the Victorian unemployment rate increased to 4.4 per cent in May 2024 to be the highest of the states and territories.<sup>44</sup>

## **Nominal wages growth has picked up**

Nominal wages growth has picked up in recent years in response to the tight labour market and high inflation, and is currently around its highest level in over a decade. Annual growth in the Australian Wage Price Index (WPI) was 4.2 per cent in the December quarter 2023 (the highest growth rate since early 2009), before moderating slightly to 4.1 per cent in the March quarter 2024.<sup>45</sup>

The RBA has observed that wages growth appears to have peaked for workers on individual arrangements, whose wages are the most responsive to economic conditions. By contrast, it noted that wages growth is continuing to strengthen for enterprise agreements (EAs), which are slower to respond to economic conditions.<sup>46</sup> Data from the Commonwealth Department of Employment and Workplace Relations shows that the average annualised wage increase for agreements approved in the December quarter 2023 was 4.3 per cent.<sup>47</sup>

Award wages and the National Minimum Wage have also grown in recent years. In its *Annual Wage Review 2023-24*, the Fair Work Commission (FWC) increased

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<sup>42</sup> ABS (2024d).

<sup>43</sup> DTF (2024b), p. 27.

<sup>44</sup> ABS (2024d).

<sup>45</sup> ABS (2024f).

<sup>46</sup> RBA (2024), p. 29.

<sup>47</sup> Department of Employment and Workplace Relations (Commonwealth) (2024), p. 7.

the National Minimum Wage and all modern award minimum wages by 3.75 per cent with effect from 1 July 2024.<sup>48</sup>

Wages growth has also picked up in Victoria, although to a lesser extent than in Australia as a whole. The Victorian WPI rose 3.6 per cent over the 12 months to the March quarter 2024, the lowest growth among the states, and has grown slower than the national WPI since mid-2023 (Figure A.4).<sup>49</sup>

**Figure A.4: Annual WPI growth (all sectors), Victoria and Australia, March quarter 2023 to March quarter 2024**



Source: ABS (2024f).

The public sector in Victoria (which comprises the Victorian Government, local governments and Australian Government agencies operating in Victoria)<sup>50</sup> has experienced lower wages growth than the private sector in recent years, in a reversal of the pre-pandemic trend. Over the 12 months to the March quarter 2024, public sector wages grew by 2.5 per cent, compared with 3.9 per cent in the private sector.<sup>51</sup> The Victorian Government's submission to the FWC's *Annual Wage Review 2023-24* observed that a relevant factor in this regard is the influence of the prevalent pay setting method in each sector (EAs in the public sector, individual arrangements in the private sector).<sup>52</sup>

Nationally, broader measures of employee earnings have generally grown faster than base wages. Depending on the specific measure, this may reflect compositional factors (e.g. increases in full-time employment and hours worked),

<sup>48</sup> FWC (2024), p. 8.

<sup>49</sup> ABS (2024f).

<sup>50</sup> ABS (2024g).

<sup>51</sup> ABS (2024f).

<sup>52</sup> DTF (2024c), p. 8.

and/or the use of other forms of compensation (e.g. bonuses) to attract and retain employees in a tight labour market. For example, ABS data shows that:

- average compensation per employee (also known as Average Earnings from the National Accounts) grew by 5 per cent over 2023<sup>53</sup>
- average weekly ordinary time earnings for full-time Australian adults grew by 4.5 per cent over the 12 months to November 2023<sup>54</sup>
- the Australian WPI including bonuses rose 4.2 per cent over the 12 months to the March quarter 2024.<sup>55</sup>

### **Real wages are growing again following a period of decline due to high inflation**

While nominal wages are growing at the fastest pace in some time, real wages have declined considerably since early 2021, and have only recently started growing again.

The Australian headline inflation rate consistently exceeded annual WPI growth from mid-2021 to mid-2023, resulting in falling real wages. However, as inflation and nominal wages growth have moderated and strengthened, respectively, real wages have stabilised and begun to grow again. At the national level, real wages grew by 0.5 per cent over the 12 months to the March quarter 2024. By contrast, real wages in Victoria were unchanged over the same period and have not grown in annual terms since early 2021 (Figure A.5).

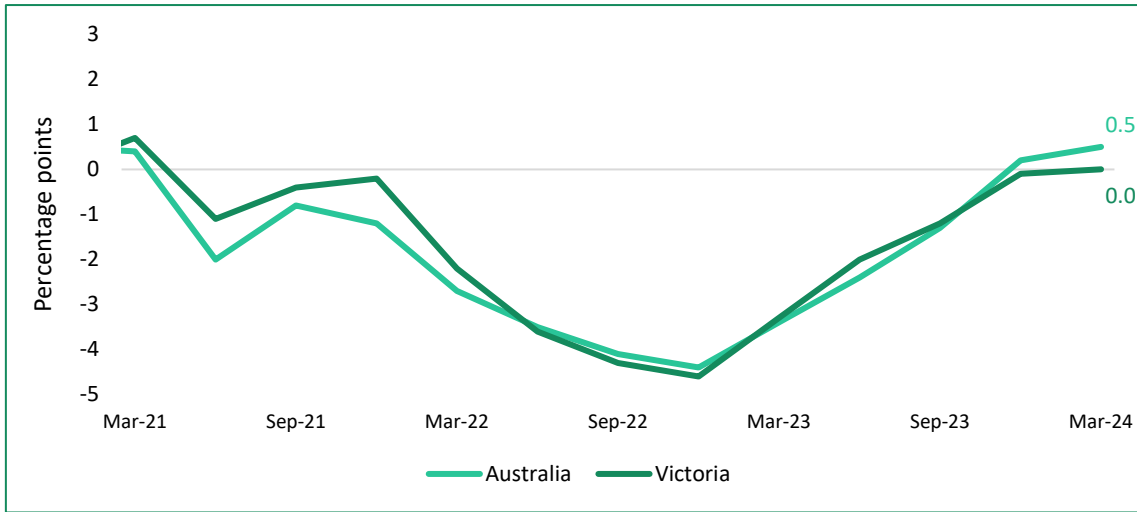
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<sup>53</sup> ABS (2024a).

<sup>54</sup> ABS (2024b).

<sup>55</sup> ABS (2024f).

Figure A.5: Difference between annual CPI and WPI growth rates, Australia and Victoria, March quarter 2021 to March quarter 2024



Note: Positive/negative values indicate that annual WPI growth for that period was higher/lower than annual CPI growth for the same period. Victorian figures calculated on basis of changes in the Melbourne CPI and Victorian WPI. Sources: ABS (2024c); ABS (2024f).

## A.2 Economic outlook

The Tribunal’s understanding of the outlook for the Australian and Victorian economies has been informed by the latest forecasts and analysis from the RBA and the federal and Victorian budgets.

Key forecasts are reproduced in Tables A.1 and A.2, followed by more detailed analysis.

**Table A.1: Selected RBA and Commonwealth Treasury<sup>(a)</sup> forecasts for the Australian economy**

Indicator	Source	June 2024	Dec 2024	June 2025	Dec 2025	June 2026
Real GDP <sup>(b)</sup>	RBA	1.2	1.6	2.1	2.3	2.4
Population <sup>(b)</sup>	RBA	2.0	1.5	1.4	1.4	1.4
CPI <sup>(b)</sup>	RBA	3.8	3.8	3.2	2.8	2.6
	Treasury	3.5	N/A	2.8	N/A	2.8
Trimmed mean <sup>(b)</sup>	RBA	3.8	3.4	3.1	2.8	2.6
Employment <sup>(b)</sup>	RBA	2.1	1.4	1.2	1.3	1.4
	Treasury	2.3	N/A	0.8	N/A	1.3
Unemployment rate <sup>(c)</sup>	RBA	4.0	4.2	4.3	4.3	4.3
	Treasury	4.0	N/A	4.5	N/A	4.5
WPI <sup>(b)</sup>	RBA	4.2	3.8	3.6	3.4	3.3
	Treasury	4.0	N/A	3.3	N/A	3.3
Labour productivity <sup>(b)</sup>	RBA	1.8	0.8	1.3	1.2	1.1

Notes: (a) Commonwealth Treasury forecasts are presented to one quarter of one per cent and have been rounded up to one decimal place. (b) Percentage change through the year. (c) Average rate in the quarter.

Sources: RBA (2024), p. 51; Commonwealth of Australia (2024), p. 53.

**Table A.2: Victorian Budget forecasts for the Victorian economy**

Indicator	2023-24	2024-25	2025-26	2026-27	2027-28
Real Gross State Product <sup>(a)</sup>	2.00	2.50	2.75	2.75	2.75
Population <sup>(b)</sup>	2.30	1.80	1.70	1.70	1.70
Melbourne CPI <sup>(a)</sup>	4.00	2.75	2.50	2.50	2.50
Employment <sup>(a)</sup>	3.25	1.00	1.75	1.75	1.75
Unemployment rate <sup>(c)</sup>	4.00	4.25	4.50	4.75	4.75
Victorian WPI <sup>(a)</sup>	3.75	3.75	3.25	3.25	3.25

Notes: (a) Percentage change in year-average terms compared with the previous year. (b) Percentage change over the year to 30 June. (c) Year average.

Source: DTF (2024b), p. 18.

## Economic growth is forecast to pick up in coming years, driven by a recovery in household spending

The RBA expects economic growth to remain subdued in the near-term, before picking up from late 2024 as the recovery in real incomes leads to a pick-up in household consumption. Annual growth in real GDP is forecast to be 1.2 per cent in June 2024, before increasing to 2.1 per cent in June 2025 and 2.4 per cent in June 2026.<sup>56</sup> Nonetheless, growth is expected to remain below the long-run (excluding the pandemic period) average of 2.9 per cent.

The Victorian Budget forecast Victoria's real GSP to grow by 2 per cent in 2023-24, before picking up to 2.5 per cent in 2024-25. Similar to the national outlook, the pick-up in growth is expected to be driven by household consumption, which is

<sup>56</sup> RBA (2024), pp. 43, 51.

forecast to contribute 1.5 percentage points to GSP growth in 2024-25. On the other hand, public demand — which includes spending and capital expenditure by the Victorian Government — is expected to make a broadly flat contribution to growth, consistent with a moderating investment pipeline (see section A.3).<sup>57</sup>

The RBA is forecasting population growth to moderate over the next couple of years and return to its pre-pandemic average, and to grow more slowly than real GDP from late 2024 onwards.<sup>58</sup> Were this to eventuate, it would support a recovery in real GDP per capita.

In terms of productivity, the RBA expects growth to pick up further and stabilise around its long-run (excluding the pandemic) average, but notes that the outlook is highly uncertain. In particular, it observed that a return to the lower rates of business dynamism and competition that were associated with weak productivity outcomes in the 2010s would similarly weigh on growth going forward.<sup>59</sup>

### **Inflation is forecast to continue easing in the medium-term, with a return to target expected in the next 6–18 months**

The latest inflation forecasts published by the RBA, which preceded the federal budget, have national CPI growth rising in the near-term due to temporary factors such as rising petrol prices and the unwinding of energy rebates. Despite this, the RBA's medium-term inflation outlook remains largely unchanged, with annual CPI growth expected to return to the 2 to 3 per cent target band by late 2025.<sup>60</sup>

By comparison, the federal budget expects headline inflation to return to target by mid-2025, and potentially by the end of 2024. Specifically, the Commonwealth Treasury forecast annual CPI growth to be 3.5 per cent in June 2024, before declining to 2.75 per cent in June 2025 (compared with 3.8 per cent and 3.2 per cent, respectively, by the RBA).<sup>61</sup>

The Victorian Budget forecast annual growth in the Melbourne CPI to average 4 per cent in 2023-24, before easing to 2.75 per cent in 2024-25. The Department of Treasury and Finance (DTF) noted that the pace of easing will be determined

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<sup>57</sup> DTF (2024b), pp. 23-24, 26.

<sup>58</sup> RBA (2024), pp. 50-51.

<sup>59</sup> RBA (2024), pp. 44-45.

<sup>60</sup> RBA (2024), pp. 45-46.

<sup>61</sup> Commonwealth of Australia (2024), p. 53.



largely by the outlook for services inflation, which is expected to continue to decline more slowly than goods inflation.<sup>62</sup>

## **Labour market conditions are expected to continue easing gradually**

The easing in labour market conditions is expected to continue, with the RBA forecasting employment growth to slow and fall below growth in the working-age population for a time. This is expected to drive further easing in the national unemployment rate, which is forecast to rise to 4.2 per cent by the end of 2024, before stabilising around 4.3 per cent — a level considered consistent with full employment — from mid-2025. Labour force participation is expected to decline slightly due to cyclical factors, but to remain high by historical standards.<sup>63</sup>

The Commonwealth Treasury's outlook for the national labour market is broadly consistent with the RBA's. Of note, Treasury is forecasting a sharper slowdown in employment growth, and consequently a larger increase in the unemployment rate, which it expects to reach 4.5 per cent by mid-2025.<sup>64</sup>

In relation to the Victorian labour market, the Victorian Budget similarly forecast employment growth to slow from an average of 3.25 per cent in 2023-24 to 1 per cent in 2024-25. The unemployment rate is expected to average 4.25 per cent in 2024-25, before increasing to 4.5 per cent in 2025-26.<sup>65</sup>

## **Wages growth is expected to moderate as the labour market eases**

The RBA has observed that nominal wages growth appears to have peaked for the current cycle, with growth forecast to moderate gradually over the coming years. In particular, annual growth in the Australian WPI is forecast to be 4.2 per cent in June 2024, before declining to 3.6 per cent by June 2025.<sup>66</sup> The federal budget forecast a slightly faster decline in wages growth, with national WPI growth expected to be 4 per cent in June 2024 and 3.3 per cent in June 2025.<sup>67</sup>

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<sup>62</sup> DTF (2024b), p. 29.

<sup>63</sup> RBA (2024), pp. 44, 51.

<sup>64</sup> Commonwealth of Australia (2024), p. 53.

<sup>65</sup> DTF (2024b), p. 18.

<sup>66</sup> RBA (2024), p. 51.

<sup>67</sup> Commonwealth of Australia (2024), p. 53.

The Victorian Budget forecast annual growth in the Victorian WPI to average 3.75 per cent in each of 2023-24 and 2024-25, before returning to 3.25 per cent from 2025-26.<sup>68</sup> The Tribunal notes that, at the time of making this Determination, the Victorian Government was negotiating several major public sector EAs under its revised wages policy, which provides for higher wage outcomes than previously (see section A.4). Consistent with the experience in other states, the commencement of those agreements is likely to boost public sector wages growth, which has been relatively subdued compared with the private sector.

Real wages are expected to grow over the coming years in both Victoria and Australia, as nominal wages growth is forecast to moderate more slowly than inflation. For example, the RBA is forecasting real wages (in annual terms) to rise 0.4 per cent in June 2024, hold steady in December 2024, and then resume growing from June 2025.<sup>69</sup>

### **There are risks to the economic outlook, particularly around inflation**

In its May 2024 *Statement*, the RBA concluded that the risk that inflation takes longer than expected to return to target had increased since February 2024. In particular, it noted that the stronger-than-expected inflation outcome in the March quarter 2024 could indicate that domestic inflationary pressures are ‘stickier’ than currently assumed. This could be the case, for example, if the assumed pick-up in productivity growth does not eventuate, leading to higher input costs for businesses that may then be passed on to consumers.

Geopolitical tensions have also increased the risk of further supply shocks, according to the RBA, which could lead to a rebound in goods inflation. The RBA observed that a prolonged period of high inflation would risk ‘de-anchoring’ inflation expectations, requiring further interest rate rises and a period of higher unemployment to return inflation to target.<sup>70</sup>

On the other hand, the RBA noted that there is a risk that aggregate demand could be weaker than expected, such as if the recent weakness in household consumption were to persist. While noting that this could see inflation return to target more quickly than expected, the RBA also observed that it would likely come

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<sup>68</sup> DTF (2024b), p. 18.

<sup>69</sup> RBA (2024), pp. 44, 51.

<sup>70</sup> RBA (2024), pp. 5, 48-49.

at the expense of its employment objective (i.e. it would lead to higher unemployment).<sup>71</sup>

On the whole, while the RBA judged the risks to Australia's economic outlook to be 'broadly balanced', it assessed that the costs associated with the upside risks to inflation are greater than the costs associated with the downside risks.<sup>72</sup>

The Victorian Budget cited similar risks in relation to the Victorian economy, including uncertainty around the outlooks for household consumption and inflation.<sup>73</sup>

## A.3 Financial position and fiscal strategy of the State of Victoria

The Tribunal's understanding of the financial position and fiscal strategy of the State of Victoria has been informed by the Victorian Budget and the latest *Auditor-General's Report on the Annual Financial Report of the State of Victoria* (November 2023).

### The 2024-25 Budget builds on previous savings and efficiency measures

In the *Victorian Budget 2023-24*, the Victorian Government announced a range of strategies to improve the State's financial position and manage debt. These included the introduction of a temporary COVID-19 Debt Levy to offset the cost of measures introduced by the Victorian Government in response to the COVID-19 pandemic. The *Victorian Budget 2023-24* also included a range of savings and efficiency measures to be implemented across the public sector, including targeted reductions in the number of VPS staff.<sup>74</sup>

The Victorian Government has announced that it will 'progressively return its capital program towards pre-pandemic levels' by the end of 2027-28.<sup>75</sup> Government infrastructure investment is forecast to peak at \$24 billion in 2023-24, before declining to around \$16 billion in 2027-28. Overall, government infrastructure investment is expected to average \$19.3 billion per annum over the

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<sup>71</sup> RBA (2024), pp. 48-49.

<sup>72</sup> RBA (2024), p. 5.

<sup>73</sup> DTF (2024b), pp. 36-37.

<sup>74</sup> DTF (2023a), p. 6; DTF (2023c), p. 20.

<sup>75</sup> DTF (2024b), p. 6.

forward estimates, compared to an average of \$21.3 billion per annum reported in the *2023-24 Budget Update*.<sup>76</sup>

The Victorian Budget also added a new step to the Victorian Government's fiscal strategy, which was first outlined in the *Victorian Budget 2020-21* in response to the COVID-19 pandemic:<sup>77</sup>

- Step 1 – Creating jobs, reducing unemployment and restoring economic growth
- Step 2 – Returning to an operating cash surplus
- Step 3 – Returning to operating surpluses
- Step 4 – Stabilising debt levels
- Step 5 (new) – Reducing net debt as a proportion of GSP.

### **A return to an operating surplus is expected in 2025-26, but net debt is forecast to continue rising**

The Victorian Government achieved step 2 of its fiscal strategy in 2022-23, with the general government sector (GGS) recording an operating cash surplus of \$4.2 billion. A smaller cash surplus of \$0.4 billion is forecast for 2023-24, followed by larger surpluses in future years.<sup>78</sup>

Operating deficits of \$4.6 billion and \$2.2 billion are forecast for the GGS in 2023-24 and 2024-25, respectively, before an expected return to surplus in 2025-26. This would be the first surplus since 2018-19, with larger surpluses forecast for 2026-27 and 2027-28.<sup>79</sup> The Victorian Budget noted that these surpluses will fund an increasing share of the Victorian Government's capital program, reducing the amount of new borrowing required and helping to stabilise and reduce net debt.<sup>80</sup>

Net debt for the GGS was \$115 billion (20.2 per cent of GSP) at 30 June 2023, and is forecast to be around \$136 billion (22.3 per cent of GSP) at 30 June 2024. Net debt as a proportion of GSP is expected to stabilise at around 25 per cent from June 2026, consistent with achieving steps 4 and 5 of the fiscal strategy. However,

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<sup>76</sup> DTF (2024b), pp. 6, 53; DTF (2023b), p. 17.

<sup>77</sup> DTF (2024b), pp. 3-4.

<sup>78</sup> DTF (2024b), p. 53.

<sup>79</sup> DTF (2024a); DTF (2024b), p. 53.

<sup>80</sup> DTF (2024b), p. 4.

debt is forecast to continue rising in nominal terms, and is expected to be around \$188 billion by 30 June 2027.<sup>81</sup>

## VAGO has identified risks to Victoria’s fiscal outlook

Each year, VAGO issues a report on the Annual Financial Report of the State of Victoria. The most recent such report, released in November 2023, examined Victoria’s 2022-23 Annual Financial Report.

The report identified several emerging risks to Victoria’s fiscal outlook. Three of these — employee expenses, interest expenses and infrastructure spending — are set out in Box A.1.

### Box A.1: Emerging risks to Victoria’s fiscal outlook as identified by VAGO, November 2023



#### Employee expenses

- Employee costs are the State’s single largest operating expense, accounting for around 36 per cent of general government sector expenditure in 2022-23.
- Employee costs increased by 45 per cent between 2017-18 and 2022-23.
- The government determined that workforce transition, including staff reductions, is required to achieve its targeted cost reductions. If these initiatives are not implemented and realised as planned, future employee expenses may be greater than estimated.
- The prevailing economic environment of high inflation, a tight labour market and high wages growth may compound the challenge.



#### Interest expenses

- Most of Victoria’s debt is fixed-rate debt issued at a low interest rate.
- \$39 billion of debt needs to be refinanced by June 2027, which will likely be at a significantly higher interest rate.
- Interest expenses on new and refinanced debt are expected to increase significantly over the coming years, from \$1.6 billion in 2023-24 to \$5.5 billion in 2026-27.



#### Infrastructure spending

- As at November 2023, the total estimated investment (TEI) of 89 existing and completed major capital projects had increased by \$11 billion (11 per cent).
- Of the 101 new, existing or completed projects analysed by VAGO:
  - 28 projects had a TEI increase of more than 10 per cent
  - 12 projects had a TEI increase of more than 50 per cent.
- VAGO noted that further TEI increases would lead to more unplanned debt unless the government’s capital program was curtailed.

Sources: VAGO (2023a), pp. 20-25; VAGO (2023b), pp. 8-9.

<sup>81</sup> DTF (2024b), p. 53.

## A.4 Wages Policy

The *Wages Policy and the Enterprise Bargaining Framework* (Wages Policy) sets out the parameters within which Victorian public sector employers are required to bargain and make EAs. Box A.2 outlines the key features of the current Wages Policy, which was introduced by the Victorian Government in April 2023.

### Box A.2: Victorian Public Sector Wages Policy — key features

The Victorian Public Sector Wages Policy has three pillars:

#### Pillar 1: Wages

- Increases in wages and conditions will be funded at a rate of growth of 3 per cent per annum over the life of the agreement. In practice, this means that employee wages and conditions will be allowed to grow at this rate.
- In addition to annual wage increases, a separate lump sum, cash payment will be available equivalent to an additional 0.5 per cent of overall agreement costs which for the purposes of this policy means a per annum amount calculated on wages and wage-related conditions.

#### Pillar 2: Best Practice Employment Commitment

- Public sector agencies may make a Best Practice Employment Commitment which outlines measures to operationalise elements of the Government's Public Sector Priorities<sup>(a)</sup> that reflect good practice within Government and can be implemented operationally or without significant costs.

#### Pillar 3: Additional strategic changes

- Additional changes to allowances and other conditions (not general wages) will only be allowed if Government agrees that the changes will address key operational or strategic priorities for the agency, and/or one or more of the Public Sector Priorities and provided the associated costs are funded through appropriate cash offsets or a government approved funding strategy.

Note: (a) The Public Sector Priorities are: 'deliver exceptional services and value for Victorians', 'a professional and responsive public sector', 'government as a fair and best practice employer'.

Source: Industrial Relations Victoria (2024).

## There is in-principle agreement on a new Victorian Public Service EA

Non-executive VPS employees are covered by an EA. The current EA, the *Victorian Public Service Enterprise Agreement 2020*, nominally expired in March 2024, but remained in operation while a new agreement was being negotiated.

Prior to the making of this Determination, the Secretary of the Department of Premier and Cabinet announced that the Victorian Government and the Community and Public Sector Union had reached in-principle agreement on the

core terms and conditions that will form part of a new VPS EA.<sup>82</sup> However, at the time of making this Determination, VPS staff had yet to vote on the agreement. If approved, the agreement will also need to be lodged with the FWC for approval.

The draft agreement provides for:

- annual salary increases of 3 per cent over the life of the agreement, effective from 1 May each year
- a once-off lump sum payment of \$5,600 (pro-rata for part-time and eligible casual employees) for all non-executive employees, regardless of classification, who are employed on 28 June 2024
- an additional once-off payment of \$1,000 (also calculated on a pro-rata basis) will also be payable to eligible shift workers employed on 1 October 2024
- an increase to the lump sum payment (from 1 per cent to 1.5 per cent of base salary) paid to employees at the top of their grade or value range who are assessed as having met their progression criteria.

Under the draft agreement, VPS staff would also retain access to annual progression payments and the mobility payment.

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<sup>82</sup> Email from Jeremi Moule, Secretary of the Department of Premier and Cabinet, to VPS staff (2024), 9 April.

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