

20 May 2024

Mr Luke Gosling OAM MP

Chair

Inquiry into Local Government Sustainability

House of Representatives Standing Committee on Regional Development, Infrastructure and Transport

Dear Chair

### **Local government sustainability Inquiry – City of Stonnington Submission**

The City of Stonnington welcomes the opportunity to provide a submission to the Inquiry into Local Government Sustainability (the inquiry).

The information provided seeks to address key elements of the Terms of Reference, specifically, the main challenges facing the financial sustainability and funding of local government from the perspective of the financial and regulatory settings for councils in Victoria.

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### **1. Context - the City of Stonnington**

The City of Stonnington (Stonnington) is located in Melbourne's inner south-east, alongside the Birrarung / Yarra River, covering an area of 25.63 square kilometres. Stonnington is close to the centre of Melbourne and takes in the suburbs of Armadale, Kooyong, Malvern, Malvern East, Prahran, Toorak and parts of Glen Iris, South Yarra and Windsor. Stonnington is situated on the traditional land of the Wurundjeri Woi Wurrung and Bunurong people.

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The estimated resident population for 2022 was 106,310; it is anticipated that the municipality will experience population growth of approximately 20.23 per cent from 2023 to 2036. Stonnington has a culturally and economically diverse population. The housing stock ranges from some of Melbourne's finest mansions to large blocks of public housing, an indication of the community's contrasting lifestyles, needs and expectations.

Local government has operated in the area for more than 160 years. The first municipal election was held in Prahran in 1856. Stonnington was formed in June 1994 through the amalgamation of the cities of Malvern and Prahran.

### *1.1 Stonnington Draft 2024-25 Budget*

Stonnington's 2024-25 draft Budget is currently being consulted with our community and will outline that Stonnington's medium to long term financial capacity is its most acute risk. This includes the pressures of:

- meeting community service expectations
- innovation and improving customer service offerings
- meeting considerable and onerous statutory obligations
- responding to unplanned externalities
- funding depreciating infrastructure assets
- delivering new infrastructure and services, and
- achieving social, economic and environmental aspirations.

Stonnington's financial capacity has been, and will continue to be, eroded by the combination of State Government prescribed revenue limitations, the cost of regulatory compliance, and other external cost pressures.

A 'business as usual' approach will not be sufficient to meet the rate capping challenge, and changes by the Victorian State Government to other charging models. Stonnington has a long-running commitment to long-term financial stability but is increasingly challenged by the tightening economic conditions impacting both Council and our Community.

## ***2. The financial sustainability and funding of local government; the changing infrastructure and service delivery obligations of local government***

Stonnington consider that the current revenue and regulatory regime for councils in Victoria is too inflexible. Councils are unable to:

- ensure financial sustainability
- protect our community from liveability and service erosion
- make capital works and investment plans and forecasts.

Councils in Victoria are not empowered by the State Government to make strategic rating and charging decisions to benefit the community, or to respond to changing circumstances; councils are also limited in the extent to which they can partner with the State and Federal governments to provide community services and infrastructure.

### *2.1 The rate cap*

The rate cap was introduced by the Victorian Minister for Local Government (the Minister) in 2015 to limit annual increases in rate revenue. Each year the Minister sets the rate cap amount based on the forecast Consumer Price Index and advice from the Essential Services Commission (ESC).

- For the 2024-25 financial year, the Minister has set the rate cap at 2.75 per cent, consistent with the Department of Treasury and Finance forecast inflation for 2024-25. Over the twelve months to the December 2023 quarter, the CPI rose 4.1%.

- The RBA forecast inflation for 2024-25 is above 3% in all quarters.
- The gap between the rate cap and actual CPI since 2021-22 has cost Stonnington **\$19.7 million** in foregone rates revenue.
  - This figure does not account for the cost to council of providing services and undertaking investments having increased more than CPI; this only considers lower rating revenue.

It is possible to apply for an exemption to the rate cap, however, applications are cost and resource intensive (many councils engage consultants to complete applications), and applications must demonstrate “how the views of ratepayers and the community have been taken into account in proposing the higher cap”. This is an extremely high bar for councils to clear. For example, in NSW, community engagement is, rather, focused on “evidence that the community is aware of the need for and extent of a rate rise.” Since the introduction of the rate cap, 5 councils have had their application for a higher rate cap declined.

If the rate cap is to be maintained, it is proposed that alternative models are considered by the Victorian Government.

- A calculated Local Government Cost Index would be a more appropriate measure for setting future rate cap advice to the Minister.
  - In New South Wales, using a methodology which considers the actual Base Cost Change for councils (3.9% for 2023-24 to 2024-25), the rate peg has been set at a minimum of 4.5% for 2024-25, significantly higher than the 2.75% cap in Victoria.
  - If a base service charge is not adopted, it is proposed that the RBA inflation forecast rather than the Victorian Department of Treasury and Finance inflation forecast is adopted by ESC given their forecasts have more closely aligned to actual inflation since 2021-22.
- Councils with very low relative rates could be allowed to re-base their rates to, for example, a median level amongst like councils. As an example, Stonnington has the second-lowest average rates per rateable property amongst 22 like metro councils (see Figure 1 below). Stonnington had relatively low rates before the rates cap was introduced and has been wedged subsequently. Being afforded flexibility to apply a one-off or graduated increase to a reasonable mid-range base rate would better ensure the medium-term fiscal sustainability of Stonnington, and better enable it to partner with the State and Federal governments in areas of mutual policy intent and benefit.

## *2.2 Cost shifting*

Federal and State Governments have undertaken a series of policy decisions which have resulted in significant cumulative cost for local councils including Stonnington.

- Glen Eira City Council commissioned a cost shifting report in 2022 and estimated that around 10% of their annual Budget (~\$18 million per year) was attributable to costs that have been imposed by the State and Federal Governments.
- An analysis by the Local Government Association of Queensland in 2024 revealed that cost shifting to Queensland Councils has increased 378 percent in the past 20 years.<sup>1</sup>
- A 2023 Local Government NSW report showed that \$1.36 billion worth of costs are shifted onto the sector each year (\$460.67 per ratepayer), made up largely of emergency service contributions, waste levies, and library subsidies.<sup>2</sup>

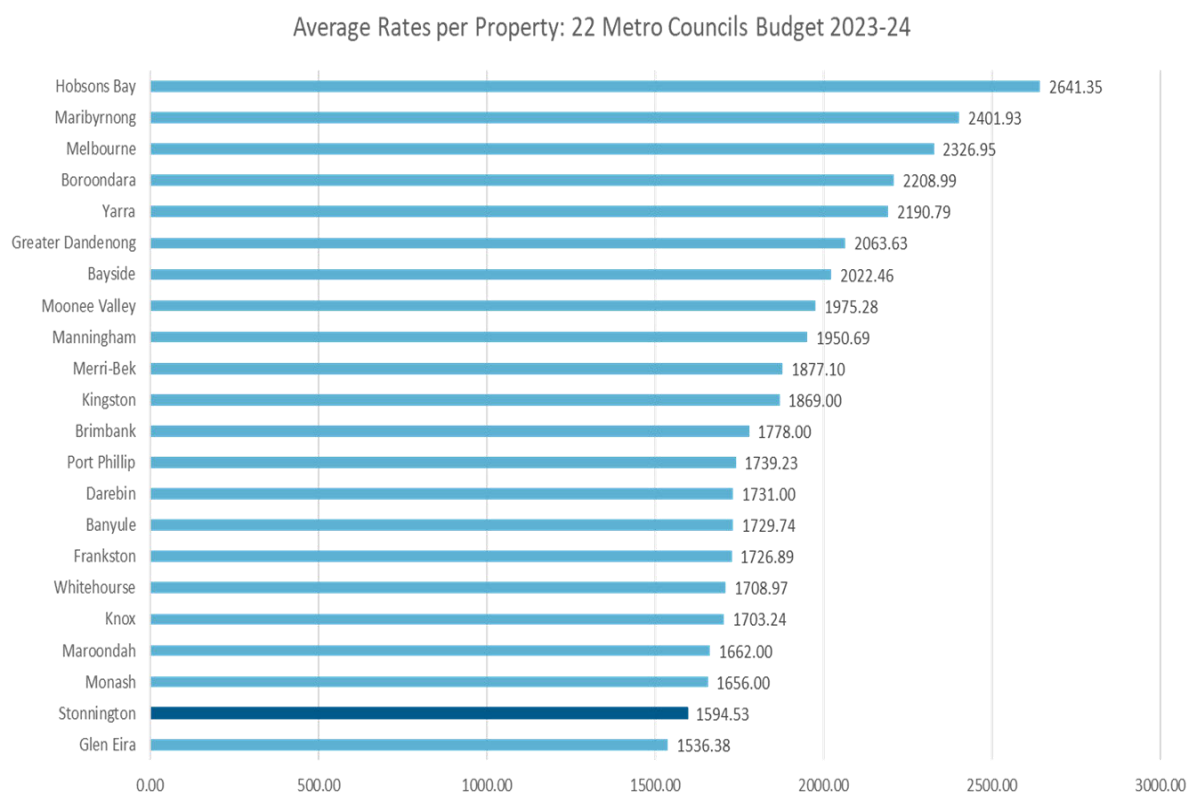
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<sup>1</sup> [LGAQ – CONNECT . INNOVATE . ACHIEVE](#)

<sup>2</sup> [ML Report-LGNSW-Annual Cost Shifting.pdf](#)

Recent, non-exhaustive examples of cost shifting in Stonnington are outlined in Table 1 below.

**Figure 1: Average rates per property, Melbourne Metro Councils**



**Table 1 – examples of cost shifting in Stonnington, and impacts**

Policy area	Financial Impact in Stonnington (indicative)	Comment
Loss of statutory planning application fees under new planning laws related to the Victorian Government Housing Statement and the Development Facilitation Program	>\$350,000 per year	<p>Planning applications for developments that are considered a Significant Economic Development or Significant Residential Development with affordable housing can be considered by the Victorian Planning Minister as the Responsible Authority and bypass Council.</p> <p>For non-government school building planning applications greater than \$3 million, the Minister is the Responsible Authority.</p> <p>Under the Development Facilitation Program, introduced during COVID-19, shovel-ready priority projects that will meet certain criteria will be assessed by the</p>

Policy area	Financial Impact in Stonnington (indicative)	Comment
		<p>Minister under an accelerated assessment.</p> <p>Councils now forego the planning application fees associated with developments.</p> <p>State Government has no funding arrangement in place for staff or resourcing from Councils, but Council is requested to provide resources and expertise to support assessments.</p>
Cladding remediation	\$870,000 in 2020-2023	From 2020-2023, Stonnington self-funded cladding remediation activities where combustible cladding is present. A State support partnership program was not introduced until November 2023, and now partly covers the cost of remediation works.
Libraries	<p>~\$20,000 in 2023 in lost indexation</p> <p>Previous annual increases to grant funding from State government have been approx. 2.7%.</p> <p>Stonnington received \$777,908 last year and again this year. With 2.7% applied it should have been around \$798,911 this year.</p>	<p>In Victoria, councils currently provide around 83% of operational funding to cover the cost of library services<sup>3</sup>. Historically, library funding was shared 50:50 funded by state and local government.</p> <p>There is no legislative requirement for councils to provide libraries.</p>
Maternal and Child Health (MCH)	Stonnington covers 70% of the total service cost, to maintain an acceptable level of service to the community.	The funding arrangement for MCH is 50:50 between State and Local Government. However, in practice, State-wide, councils cover 60% of service costs on average. <sup>4</sup>
Vaccination	In 2022-23 Stonnington subsidised the delivery of the National Immunisation	Councils are statutorily required through the <i>Public Health and Wellbeing Act 2008</i> to provide immunisations to children in their municipalities under the age of 18

<sup>3</sup> [Cost pressures | Vic Councils](#)

<sup>4</sup> [Councils look to reverse State cost shifting | MAV website](#)

Policy area	Financial Impact in Stonnington (indicative)	Comment
	Program by approximately 46%.	years of age. While GPs and other health providers are fully funded to provide these vaccines, Councils are subsidising their delivery of National Immunisation Program vaccines to preschool children and secondary school students to increasing extents.

There are also significant regulatory and compliance initiatives to which Council must adhere - for example, Gender Impact Assessments, Fair Access Policies, Health and Wellbeing Strategies and a detailed Local Government Performance Reporting Framework. This compliance significantly adds to operational costs, and additional funding is not provided to councils to develop or implement strategies. Stonnington is supportive of initiatives which improve workplace conditions, lead to more impactful policy development and which promote outcomes for the community, but also acknowledges the significant impact that regulatory compliance has on our business. Current estimates for the capital investment and upgrades required for Stonnington to comply with the new Fair Access Policy for its sports and recreation facilities is over \$60.0 million in new funding.

The portfolio of services provided by Councils is driven by a combination of statutory, legislative and regulatory obligations, historical precedent, and community demand. Without a change to the revenue and regulatory settings for Councils, and genuine partnership between all three levels of Government in assessing the core required functions of local Government, fewer non-statutory services will be able to be delivered for the community. For example, councils are not legislatively required to provide libraries, but do so out of convention and dedication to community service provision. Recent exits from childcare, aged care and aquatic facilities by councils may be the beginning of a longer exit out of non-legislated services due to cost shifting.

### *2.3 Asset management*

ESC assess that local government sector financial health has remained sound since the introduction of the rate cap. The financial analysis done by ESC and Local Government Victoria (LGV) is point-in-time and does not consider forward estimates and declining surpluses in a broader context than current-year. There is also no gap analysis done by ESC or LGV which considers infrastructure underinvestment, and the condition rating of assets across councils.

Councils across Australia raise approximately 3 per cent of the total taxation collected by all levels of Government in Australia, but are entrusted with the maintenance of more than 30 per cent of all Australian public assets including roads, bridges, parks, footpaths and public buildings. The Municipal Association of Victoria estimates that for every \$1 of revenue earned by local governments, \$10 is spent on infrastructure maintenance. This is as compared to \$4 for every \$1 for the Victorian Government, and \$0.40 for every \$1 for the Commonwealth.

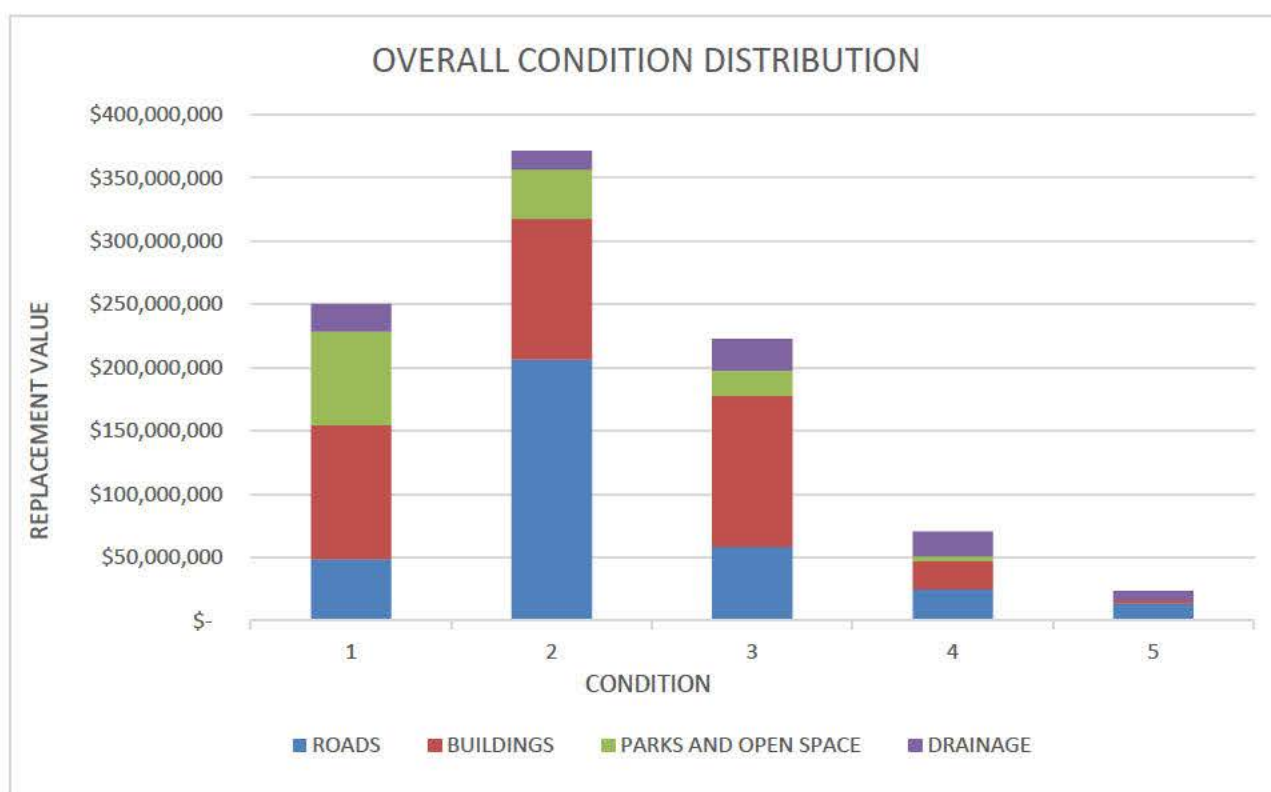
Many councils have significant constraints which are leading to a lack of investment, and they are unable to undertake new major capital projects. The Victorian Auditor General noted that spending on asset expansion, renewal, upgrade or replacement may not be



keeping pace with the needs of the community.<sup>5</sup> The Australian Local Government Association estimated in its 2021 National State of the Assets report that nearly 1 in 10 of all local government assets need significant attention, and 3 in every 100 assets may need to be replaced<sup>6</sup>. Stonnington manages \$3.28 billion of community assets, including land, buildings, infrastructure assets such as roads, footpaths, bridges, underground drainage pipes, and pits. With no change to revenue flexibility for Stonnington, we are only able to manage required asset renewals and upgrades, and we will be unable to undertake new investment in infrastructure or capital projects.

Stonnington considers that assets at a condition of 3 or below are acceptable, on a scale of 1-5. Whilst Council's infrastructure assets are largely in a satisfactory condition (at a Condition level of 2), a commitment to invest equivalent to depreciation expenditure on existing infrastructure renewals each year is required to ensure acceptable asset conditions are maintained. We have a backlog of around \$95 million of immediate works to return assets to acceptable condition, which must be programmed over 10 years due to lack of funding capacity. Across Roads, Drains, Parks and Open Space and Buildings, there are a number of assets in the municipality which are being managed back from Condition 4 and 5. None of these data are captured by ESC, LGV, or the Victorian Auditor-General when assessing the financial health of councils.

**Figure 2: 2024 Condition distribution of assets in Stonnington**



A number of important metrics in the Stonnington Budget show the risks to our asset base from financial constraints:

- **Capital Replacement Ratio (CRR)**
  - Compares the rate of spending on new infrastructure, property, plant and equipment with its depreciation. A CRR higher than 1 indicate that spending

<sup>5</sup> [Results of 2022-23 Audits: Local Government | Victorian Auditor-General's Office](#)

<sup>6</sup> [ALGA NSotA SummaryReport2021.pdf](#)

is faster than the depreciating rate. Stonnington targets 150% for the CRR, to ensure spending on asset renewal is greater than the rate at which it is depreciating.

- Historically, Stonnington has been able to maintain a CRR above 150%. However, this is expected to decline below target in coming years due to financial pressure.

Performance measure	Target	Budget 2023-24	Forecast Actual 2023-24	Budget 2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
CRR	>150%	356%	299%	171%	127%	129%	111%	118%	115%

- **Liquidity - Working Capital Ratio (WCR)**

- Measures the excess of current assets above current liabilities. This calculation recognises that although Council has current assets, some of those assets are already committed to the future settlement of liabilities in the following 12 months and are therefore not available for discretionary spending.
- It is prudent for Council to retain a working capital ratio that exceeds 100% per cent.

Performance measure	Target	Actual 2021-22	Actual 2022-23	Forecast Actual 2023-24	Target 2024-25	Target projection 2025-26	Target projection 2026-27	Target projection 2027-28
WCR	100%	200%	192%	125%	108%	100%	109%	122%

- **Liquidity – Unrestricted Cash ratio (UCR)**

- Is the proportion of unrestricted cash as a percentage of current liabilities for Council. Unrestricted cash means all cash, cash equivalents and financial assets, within the meaning of the Australian Accounting Standards, other than restricted cash.
- The accepted target for the UCR is greater than 50%. Stonnington has historically had high unrestricted cash ratios but is forecasting a decrease in coming years.

Performance measure	Target	Actual 2021-22	Actual 2022-23	Forecast Actual 2023-24	Budget 2024-25	Target projection 2025-26	Target projection 2026-27	Target projection 2027-28
UCR <sup>7</sup>	50%	-10.03%	82.20%	58.00%	64.00%	57.00%	67.00%	81.00%

Without greater revenue flexibility, Councils will be unable to upgrade assets to the standard expected by their communities.

### **3. The role of the Australian Government in addressing issues raised in relation to the above**

#### **3.1 Untied Funding – the Financial Assistance Grant**

Even for those local councils which are not subject to the Victorian Government rate cap or the NSW Government rate peg, limited levers are available to raise revenue to meet the increasing cost of providing services. The Federal Government has significantly more

<sup>7</sup> Under the Local Government Performance Reporting Framework (LGPRF), the UCR does not include Council's significant holdings of Term Deposits with maturity over 90 days (which are classed as other Financial Assets). These data will not therefore reflect the most recent Stonnington Annual Report 2022-23. This ratio includes Term Deposits and is reflected in Stonnington's Draft Budget 2024-25.



mechanisms to raise and distribute funding which will provide critical services to the community, via councils.

Stonnington would support a review into the level and design of federal funding to Local Government to ensure that funding is sufficiently reflecting macroeconomic conditions, including:

- the significantly increased cost to councils over time of providing services and building and maintaining infrastructure in an inflationary environment and since the Financial Assistance Grant (FA Grants) indexation pause and COVID-19 pandemic
- the challenge for rate-capped Councils to co-fund federal initiatives, and
- significant improvements to the Commonwealth Budget bottom line, reflected by a \$22.0 billion surplus in the 2022-23 Budget year, and a forecast \$9.3 billion surplus in the 2023-24 year.

Facilitating councils to access more Federal funding will provide certainty to communities about service provision and capital investment.

While 'Budget Repair' was underway in the Commonwealth, the indexation of FA Grants was paused from 2014-17 as a savings measure. While indexation has resumed, it has not made up for the shortfall experienced by councils over the indexation pause. It has also not reflected the costs to councils of supporting the Commonwealth's COVID-19 response. Councils offered rates relief to support taxpayers during COVID – Stonnington provided a 2% rate relief for all ratepayers in 2020-21. Councils also absorbed significant costs during this period, including in staffing (noting Local Government employees were not eligible for JobSeeker) and funding the operational costs of Federal Government facilities (for example, the Prahran Town Hall COVID-19 testing and vaccination centre).

We are experiencing a challenging cost of living crisis where access to Government services is increasingly critical for many families. The Federal Budget is now in a markedly improved position, with the Final Budget Outcome for 2022-23 reporting a \$22 billion surplus, even accounting for a 100% pre-payment of \$3.2 billion of FA Grants. 95% of revenue upgrades were returned to the bottom line in 2022-23. While paying down debt is important for long-term financial sustainability for the Commonwealth, a review to consider the settings for Local Government funding and consider how increased revenue could be provided to Councils to provide services for the community and make up for the shortfalls of the past decade would be welcome.

### *3.2 Roads Funding*

In 2023 the Grattan Institute identified that local governments needed an additional \$1 billion per year to effectively maintain their roads.<sup>8</sup> Stonnington in 2024-25 is expecting to spend around \$3.5 million on road works, against federal grant income of \$298,000.

The Commonwealth Government has committed to increase Roads to Recovery funding from \$500 million per year to \$1 billion per year, which is very welcome. However, a council must commit an amount of own source revenue equal to their total Roads to Recovery program to road maintenance, which is extremely challenging especially for rate-capped councils, who do not have the capacity to raise additional revenue for works.

While the Independent Strategic Review of the Infrastructure Investment Program recommended a standard funding split of 50:50 for all new projects undertaken jointly

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<sup>8</sup> [Potholes and pitfalls: How to fix local roads \(grattan.edu.au\)](https://grattan.edu.au/potholes-and-pitfalls-how-to-fix-local-roads)

between the Australian and State/Territory/Local Governments<sup>9</sup>, Councils maintain more than 75 percent of Australia's roads; rate-capped Victorian councils are responsible for 87 per cent of the state's entire road network, approximately 132,420 kilometres in total.<sup>10</sup> Considering the design of Roads to Recovery grant or provision of new road funding, given the greater access to growth taxation that the Commonwealth enjoys, would be welcome to support councils to upgrade infrastructure to meet growing community needs.

### *3.3 Pre-payment of FA Grants*

The FA Grant is paid in quarterly instalments to state and territory governments, and since 2009-10, at least some portion of the grant for the next financial year has been pre-paid before the end of the previous financial year. Since at least 2017-18, this was around 50% of the grant. For the past two budget years, approximately 75% and then 100%, respectively, of the grant has been prepaid.

State and local governments have no control or forewarning over prepayment of the grant, which impacts budgeting. The Queensland audit office found in its 2023 'Local Government 2022 financial audit report' that pre-paying FA Grants has "masked operating deficits that councils would have otherwise incurred"<sup>11</sup>. From the Queensland Audit report:

"Because these grants are untied and councils do not have any specific obligations to meet, under accounting principles, councils reported these amounts as revenue in 2021–22. This meant that some councils that would have reported an operating deficit this year, instead reported an operating surplus. Receiving a large portion of the FA grant in advance may seem advantageous for some councils. However, these funds need to be set aside to fund operations throughout 2022–23."

For Stonnington, the most recent prepayment brought approximately \$800,000 'forward' unexpectedly into the 2022-23 financial statements, compared to the 2022-23 Budget which was prepared on the presumption of a 50% prepayment. Against a reported operating surplus of approximately \$15 million in the 2022-23, this represents 5%. Both the ESC and the Victorian Auditor General's Office use council underlying surpluses and revenue as a measure of financial health.

While Stonnington welcomes this federal funding, we consider that timing impacts must be taken into account when assessing the financial health and sustainability of local Governments.

## **4. Summary and recommendations**

Stonnington thank the committee for the opportunity to provide input to this important inquiry, at a critical juncture for Local Government.

We recommend that the Federal Government:

- Explore, using the National Cabinet, means to encourage State Governments to empower councils through providing councils greater revenue flexibility. This will allow councils to better partner with Federal and State Governments to deliver critical services and infrastructure to the community.
- Undertake a detailed assessment of the core services of local, state and federal Governments, which considers and addresses the magnitude of cost shifting to local Government, and its impact on service delivery to communities.

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<sup>9</sup> [Independent Strategic Review of the Infrastructure Investment Program - Executive Summary | Department of Infrastructure, Transport, Regional Development, Communications and the Arts](#)

<sup>10</sup> [Maintaining Local Roads | Victorian Auditor-General's Office](#)

<sup>11</sup> [Local government 2022 \(Report 15 – 2022–23\) \(qao.qld.gov.au\)](#)

- Undertake a review into the level and design of federal funding to Local Government, including consideration of a one-off top up payment, to ensure that funding is sufficiently reflecting macroeconomic conditions, including:
  - the significantly increased cost to Councils over time of providing services and building and maintaining infrastructure in an inflationary environment and since the Financial Assistance Grant indexation pause and COVID-19 pandemic
  - the challenge for rate-capped Councils to co-fund federal initiatives, including road funding, and
  - significant improvements to the Commonwealth Budget bottom line, reflected by a \$22 billion surplus in the 2022-23 Budget year, and a forecast \$9.3 billion surplus in the 2023-24 year.

Please contact Jen Church, Senior Advocacy Officer, at [REDACTED] should you require further information.

Yours sincerely

[REDACTED]

**Dale Dickson PSM**  
Chief Executive Officer