

HUME CITY COUNCIL

Response to inquiry into Local Government Funding and Fiscal Sustainability 2025



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Hume City Council recognises the rich Aboriginal heritage within the municipality and acknowledges the Wurundjeri Woi-wurrung, which includes the existing family members of the Gunung-Willam-Balluk clan, as the Traditional Custodians of this land.

Council embraces Aboriginal and Torres Strait Islander living cultures as a vital part of Australia's identity and recognises, celebrates and pays respect to Elders past, present and future.

1. Executive Summary

The Australian Government provides over \$5 billion annually to local governments through tied and untied grants, yet there is no consistent funding framework that reflects Councils' growing service responsibilities. A coordinated intergovernmental funding approach is needed to link population growth, cost escalation, and service demand for predictability and sustainability.

Frequent cost-shifting and policy changes occur without recurrent funding, creating financial strain and forcing Councils to absorb costs through reduced services, delayed capital works, or increased borrowings.

Victoria's rate-capping policy under the Fair Go Rates System further constrains councils' ability to raise revenue despite rising costs and population pressures. Rates have grown only 70% since 2015/16, compared to 200% growth in materials and services, while user fees remain under cost recovery due to community expectations and state-imposed limits.

Combined with inadequate indexation of Financial Assistance Grants—now only 0.5% of Federal tax revenue, down from 1%, Councils face structural deficits. Hume City alone has seen cost escalations of \$280 million in its 10-year capital works program, depleting reserves and delaying projects.

To address these challenges, Hume City Council is putting forward several recommendations for the Federal Government to consider with the aim of aiding the financial sustainability of the Local Government sector.

2. Introduction

Hume City Council welcomes the opportunity to contribute to the Parliament of Australia's *Inquiry into Local Government Funding and Fiscal Sustainability*.

Local government plays a vital role in delivering essential services and infrastructure that support community wellbeing, growth, and liveability through maintaining community facilities, local roads, parks, and open spaces, while also delivering services such as waste collection, maternal and child health, and libraries.

The introduction of rate capping has helped Councils contain its own costs but has not been cognisant of the costs for delivering the wide variety of services, programs and projects local communities need. For growth councils such as Hume, the challenges are magnified.

Population and household growth requires new and expanded services, major infrastructure investment, and ongoing maintenance of new community assets—all within a capped revenue environment. This places long-term financial sustainability at risk and forces councils into difficult decisions about which projects and services can be funded, and which must be delayed.

The financial sustainability of the Local Government sector is at risk. Whilst Local Government is not in the Constitution, there are several initiatives that the Federal Government can implement to provide additional security for Councils big and small.



3. Recommendations

1. That the Federal Government undertake an assessment of what costs have been shifted from the Federal Government to Local Government over the last five years.
2. Development of a coordinated, multi-level intergovernmental funding agreement which links population, growth and cost escalation factors to improve predictability, accountability and sustainability across all tiers.
3. That the Federal Government engage with the Victorian Government to seek a review of the rate cap to ensure that it is sensitive to the Local Government cost context.
4. That all grants (except for the Financial Assistance Grants) be funded directly to Local Government rather than through the relevant State Government.
5. That Financial Assistance Grants be at least 1% of Federal tax revenue.
6. That the Federal Government engage with the Victorian Government to ensure they follow through with plans on undertaking a holistic review of the contributions funding and works in kind system.
7. That the Federal Government fund Local Government to undertake programs that address skills shortages.
8. That the Federal Government fund collaborative partnerships between Local Governments that lead to shared procurement.

4. About Hume City

Hume is a place of great contrasts – in geography, economy, background and cultural diversity. Located just 15 kilometres north of the centre of Melbourne, Hume City is one of the fastest growing and most culturally diverse communities in Australia.

Hume's population is expected to grow to 397,453 by 2041 from its current estimated 250,001 (source: id profile™). Over the next five to twenty years, urban growth, densification of established areas, and related changes in population and household structures will drive an increase in service delivery and infrastructure requirements.

Hume covers an area of more than 504 square kilometres. It stretches 30 kilometres from east to west, and over 22 kilometres from north to south. The southern parts of Hume are represented by well-established suburbs. Expanding out from here are Hume's rapidly developing new suburbs and employment areas, including the future Metropolitan Activity Centre at Clovertown, 35 kilometres from the city centre.

In the west of the municipality, Sunbury is a well-established town, with heritage places around the centre and new areas that expand in all directions in a spoke and hub development pattern. Separated from the municipality's east by rural areas that protect the operations of Melbourne Airport, Sunbury is more than 35 kilometres from the CBD.

Hume's communities are served by major road transit routes including the Tullamarine Freeway, Western Ring Road, Hume Freeway and Calder Freeway. Melbourne Airport, in the south of Hume, is part of a significant industrial area in the south and east of the municipality. Logistics and related businesses in Hume benefit from access to multiple freeway networks in addition to Melbourne Airport.

Residents come from 170 different countries with 40% of all residents born overseas. They speak over 155 languages with 49% speaking a language other than English at home. More than one quarter of the population is aged under 18 years whilst one in nine residents are aged 65 and over.



5. Interactions between Governments

i. Assess the nature and scale of Australian, state and territory government funding provided to local government, both directly and through Federal-state agreements.

It is estimated that the Australian Government provides funding of over \$5 billion to Local Government through tied and untied funding through both competitive and non-competitive grants annually. Some of this funding is provided directly to Local Government or administered through relevant State Governments through Federal-state agreements. The lack of alignment between grant programs, rate-capping rules and statutory obligations creates inefficiency and financial risk.

There is no consistent or transparent funding framework between the tiers of government that recognises councils' service delivery responsibilities. This has resulted in the widening of the Vertical fiscal imbalance where local government receives around 3–4 % of total tax revenue yet delivers a growing range of services historically funded by State or Federal Government including early years, compliance, community health and emergency management.

These frequent policy shifts and cost transfers (e.g. waste reforms, road maintenance, compliance reporting etc) occur without recurrent funding support so a coordinated, multi-level intergovernmental funding agreement is needed — linking population, growth and cost escalation factors — to improve predictability, accountability and sustainability across all tiers.

ii. Examine the legislative and policy frameworks underpinning Federal financial support to local government.

The Australian Government grants policy framework, the Federal Grants Rules and Principles 2024 (CGRPs) provide transparency, accountability and flexibility in grants administration to achieve government policy outcomes and ensure equitable access of grants to and for the benefit of the Australian public.

For the purposes of the CGRPs, the following financial arrangement is taken not to be a grant:

1. a payment that is made for the purposes of the *Local Government (Financial Assistance) Act 1995* (the Act);¹² where the Parliament wishes to provide financial assistance to the States for the purposes of improving:

- a) the financial capacity of local governing bodies; and
- b) the capacity of local governing bodies to provide their residents with an equitable level of services; and
- c) the certainty of funding for local governing bodies; and
- d) the efficiency and effectiveness of local governing bodies; and
- e) the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities.

Because of “the Act” there is a misnomer held within the three levels of Government around the legitimacy of the Federal Government being able to fund Local Government. This is based on a false premise because “*Local councils are not mentioned in the Constitution*”³ and that some funding from the Federal to Local Government is administered through relevant State Governments.

¹ An Act to provide for financial assistance for local government purposes by means of grants to the States, the Australian Capital Territory and the Northern Territory, and for related purposes.

² Other forms of financial assistance made to local government may be subject to the CGRPs.

³ <https://peo.gov.au/understand-our-parliament/your-questions-on-notice/questions/if-local-councils-arent-mentioned-in-the-constitution-how-are-they-allowed-to-exist-and-make-laws>

This is not the case. Whilst a significant dollar amount of funding is channelled through the relevant State Governments (e.g. for *Financial Assistance Grants and Disaster Recovery Funding*) there are many examples where funding is provided directly to Local Government – including through competitive and non-competitive roads and community infrastructure programs where Local Government applies for grants and enters into funding agreements with the Federal Government – with funding directly distributed to Councils.

Conversely there are competitive and/or non-competitive grants that are administered through the relevant State Government (e.g. *Urban Precincts and Partnership Program*), but this is an inefficient process which adds another unnecessary layer of bureaucracy that is not needed. It would be more efficient for the Federal to directly fund Local Government for all grants except the Financial Assistance Grants which are legislated under the *Local Government (Financial Assistance) Act 1995*.



6. Identification of all funding sources

i. Identify and map all sources of funding received by local government from the Australian Government and state/territory governments, including:

a) Untied grants (e.g. Financial Assistance Grants)

b) Tied/specific-purpose grants and project-based programs, co-contribution requirements and competitive grant processes.

c) Revenue sharing arrangements (e.g., stamp duty, rates capping subsidies, GST-related disbursements where applicable).

d) Emergency, disaster recovery and resilience funding.

e) One-off or ad hoc funding streams.

As is outlined in 5 (i) above, an estimated over \$5 billion annually is provided to Local Government for the delivery of services and the construction of the all-important infrastructure projects Councils need. An example of these grants that are administered and delivered through several different processes are outlined in the table below⁴.

Grant Type	Program	Administered through State Government	Competitive	Co-contribution required
Untied	Financial Assistance Grant program	Yes	No	No
Tied/specific-purpose grants and project-based programs	Building Better Regions Fund	No	Yes	Yes
	Stronger Communities Programme	No	Yes	Yes
	National Road Safety Action Grants Program	No	Yes	Yes
	Roads to Recovery	No	Yes	Yes
	Black Spots Program	No	Yes	Yes
	Active Transport Fund	No	Yes	Yes
	Bridges Renewal Program	No	Yes	Yes
	Heavy Vehicle Safety and Productivity Program	No	Yes	Yes
	Strong and Resilient Communities Activity	No	Yes	Yes
	Growing Regions Program	No	Yes	Yes
	Safer Local Roads and Infrastructure Program	No	Yes	Yes
	National Australia Day Council Community Event Grants Program	No	Yes	Yes
	Urban Precincts and Partnerships Program	Yes	Yes	Yes
	Regional Precincts and Partnerships Program	Yes	Yes	Yes

⁴ It is important to note that this is not the entire list, just an example list of grants that Hume City is eligible for.

Emergency, disaster recovery and resilience funding	Disaster Recovery Funding Arrangements	Yes	Yes	No
	Disaster Ready Fund	No	Yes	Yes
One-off or ad hoc funding stream	Major and Local Community Infrastructure Program	No	No	No
	Strengthen Community Safety	No	No	No

Outside of grants provided to Local Government there are other revenue sharing arrangements.

The Victorian Government's Rate capping policy under the *Fair Go Rates System (FGRS)* has significantly constrained councils' capacity to raise revenue in line with real cost movements and population growth.

For Hume City, an independent assessment estimated a \$25 million annual impact since 2021/22, equating to over \$300 million in lost revenue over 10 years that could otherwise fund asset renewals and community infrastructure.

While the State receives growth-linked revenue streams such as land tax and stamp duty, Local Government relies on capped property rates disconnected from growth and inflation as well as no ongoing indexation or compensation mechanism to reflect cost escalations (construction index, wages, or service demand).

In recent submissions to the Victorian Government, Hume City Council has called for:

1. The CPI Rate Cap measurement to be replaced with a Local Government Cost Index. This index should be developed to reflect the actual cost base of councils, including:

- a. Wage growth in line with enterprise agreements.
- b. Construction and materials cost inflation.
- c. Asset maintenance and renewal costs.
- d. Compliance and regulatory obligations.
- e. Recognise cost-shifting impacts from other levels of government in the rate cap setting.

2. Introduction of an additional rate cap allowance that is directly linked to the Victorian Government's housing supply targets that reflects both the significant pressure this growth places on operating and capital budgets and the importance of providing timely provision of infrastructure and services to new communities, commensurate with those available to Melbourne's more established areas.

3. Reform to the higher cap application process to reduce administrative burden, align with budget cycles, and address political and community pressures.

We seek the Federal's support to engage with the Victorian Government on these matters to help improve the financial sustainability of the Local Government sector in Victoria.

ii. Examine local government own-source revenue (such as rates, fees, charges and commercial activities).

Rates and charges account for approximately two-thirds of Council's total income but have grown only 70% since 2015/16 versus more than 200% growth in materials and services. This demonstrates an immediate cost gap which confirms our concerns for the sector.

Council user fees and charges have increased only around 30% in the same period, with many services under cost-recovery or subsidised due to community expectations or state-imposed fee limits.



Council's independent financial assessments recommended a full review of fees and charges to achieve full cost recovery and ensure public benefit justifies any subsidy, but this could impact access to services for the community.

Opportunities exist for the Local Government sector to commercialise selected services and reinvest profits into essential services, but legislative and community constraints limit flexibility – coupled with the potential impacts to local employment through privatisation.

7. Impacts and Effectiveness

i. Evaluate how funding arrangements, including indexation freezing, influence the financial sustainability, service delivery capacity and infrastructure investment of local governments.

The combination of rate capping, cost shifting, and inadequate indexation of Financial Assistance Grants has eroded Councils' operating margins, pushing many into structural deficits.

Hume's adjusted underlying result has continued to be impacted by rate capping constraints where approximately 65% of revenue is capped while service costs (particularly employee and material costs) continue to rise above CPI.

State and Federal Government cost shifting also continues to add financial burden to councils. Under a rate-capped environment, these imposts can only be absorbed through reducing service levels, delaying capital works, or increasing borrowings—none of which are desirable outcomes for our community.

Traditionally, cost shifting has impacted areas like libraries and the school crossing supervision program. However, it is now encroaching into critical areas such as maternal and child health and building enforcement. Areas that were traditionally funded or at least partly funded by the State Government have seen reduced funding in real terms over the years, or funding has ceased altogether. This expansion underscores cost shifting as a major concern, posing a serious threat to future financial sustainability and forcing councils to absorb the full cost of maintaining and delivering essential services.

Some of the current cost shifting impacts faced by Council include the following services:

- Libraries
- School Crossing Supervision
- Maternal and Child Health
- Early Years Infrastructure
- Citizenship Ceremonies
- Building Reform
- Planning
- Electrical Line Clearance

It is why Council is recommending that the Federal Government undertake an assessment of the impacts of cost shifting from Federal Government to Local Government.

With respect to the untied funding from the Federal Government (through the *Federal Financial Assistance Grants*), Local Government has felt the impact of the decline of 1% of Federal taxation revenue in the 1990's to around 0.5% today, severely impacting the vertical fiscal balance and places additional pressure on the sector to fund the all-important infrastructure and services communities need.

As such, Council seeks a commitment from the Federal Government that the *Financial Assistance Grants* be at least 1% of Federal tax revenue.

ii. Consider whether existing funding mechanisms are addressing the evolving responsibilities of local governments

As a municipality with available land for development – both residential and commercial, Hume City is faced with numerous challenges. Whilst we have the demands of meeting the needs of older established communities – through both asset renewal and service delivery, we have obligations for the development of new communities.

New development increases demand for infrastructure such as roads, drainage, public open space, and schools. Meeting this demand is a shared responsibility between developers and government. Developers contribute through monetary payments, land provision, or constructing infrastructure on behalf of public authorities, known as works-in-kind. These contributions are delivered via planning scheme amendments, planning permits, or building permits.

Infrastructure contributions are collected through several mechanisms:

- Development Contributions Plans (DCP)
- Infrastructure Contributions Plans (ICP)
- public open space contributions
- Growth Areas Infrastructure Contribution (GAIC), and
- Voluntary agreements under section 173 of the Planning and Environment Act 1987.

Contributions may be monetary or in-kind works to meet future community needs.

In Council's submission to the Victorian Government's *Inquiry into Local Government Funding and Services*, Council recommended that the Victorian Government consider the recommendations from the Infrastructure Contributions Ministerial Advisory Committee and encouraged the Government looking at the Growth Areas Infrastructure Contribution (GAIC) system as well as developer contributions that go to Councils.

We also suggested the Work in Kind (WIK) system be looked at for streamlining and process improvements as this enables the earlier delivery of infrastructure and can assist with reducing costs for state and local government in the long term.



This is because Council's ability to deliver our extensive capital works program for the community to address renewal and upgrade requirements and deliver new infrastructure under Developer / Infrastructure Contribution Plans (DCP / ICP), has been significantly impacted by cost escalations.

The estimated cost escalations of Council's 10-year capital works program since 2022/23 amount to \$280 million. This significant increase has adversely impacted Council's financial sustainability, depleted cash reserves, and affected the timing of project deliveries.

We request the Federal Government engage with the Victorian Government to recommend undertaking a holistic review of the contributions funding and works in kind system.

iii. Identify barriers to infrastructure service delivery, including trends in attracting and retaining a skilled workforce, impediments to security for local government workers and impacts of labour hire practices.

The capacity and capability of Local Government to deliver their respective capital works programs is dependent on their size, level of funding available and the expertise of their workforce.

Hume City Council's four-year capital works program totals over \$600 million and its delivery presents significant challenges annually based on the capacity of our workforce to plan and deliver as well as the availability of a reliable flow of contractors – many of which are bidding for larger State Government contracts through the *Big Build*.

As a large growth municipality located in Melbourne's North, we are better placed than most small Councils to deal with this issue as we can attract skilled employees such as Strategic and Statutory Planners and Engineers.

In recognition of the challenges facing the sector, in 2024 the Victorian Government announced a \$6.3 million pilot program to address workforce shortages in councils across Victoria, creating pathways to secure employment.⁵

The two-year pilot is being delivered by a consortium of higher education providers led by RMIT University, filling skills shortages in key areas like engineering, town planning and allied health.

Local Government Earn and Learn program participants commenced training in 2025, creating more job pathways for local government workers wishing to retrain and new opportunities for jobseekers.

It is recommended that the Federal support Local Governments with funding to address skilled workforce shortages.

iv. Explore opportunities to improve productivity and coordination of local government.

On an annual basis Council prepares a budget which seeks to balance the demand for services and infrastructure with the community's capacity to pay. It is developed through a rigorous process of consultation and review with Councillors, Council officers and the Hume community where we listen to the diverse voices of our community and their shared aspirations for the future. This has enabled us to focus on what's most important to them.

We consider the challenges and opportunities we face. Our budgets are financially responsible and respond to the evolving needs of our community, in turn delivering maximum impact and benefit to our community.

As part of this work, we continually explore ways that we can achieve efficiencies – both through the advances of technology, but also through partnerships with other Local Government's which has the potential to reduce costs through shared procurement.

With technology, Council is embarking on a Digital Transformation which is driving Council's effort to improve community outcomes and customer experiences through digital innovation by modernising technology and processes to provide more responsive, accessible, and efficient services to residents.

The key objectives include replacing outdated systems, reducing cyber risks, simplifying processes, and enhancing data quality and accessibility.

⁵ <https://www.premier.vic.gov.au/more-job-pathways-local-government-workers>

These efforts will create a more streamlined and effective organisation, building a sustainable foundation to meet the community's evolving needs.

As an example of our partnership approach, Council has collaborated with the City of Whittlesea to undertake behavioural research to ascertain the reasons why some people dump rubbish illegally rather than dispose of it in bins or at transfer stations. In coming together, both Councils were able to share the costs of a research company to survey residents within each municipality and make recommendations for how each Council could combat what is a scourge in our community.



8. Conclusion

Local governments play a critical role in delivering essential services and infrastructure, yet the current funding arrangements do not adequately reflect their responsibilities. Despite receiving over \$5 billion annually in grants, councils face a widening fiscal imbalance, constrained revenue streams, and increasing cost-shifting from other tiers of government.

Victoria's rate-capping policy, combined with inadequate indexation of Financial Assistance Grants and escalating service demands, has pushed many councils toward structural deficits, limiting their ability to maintain service levels and deliver capital works programs.

To ensure financial sustainability and equitable service provision, systemic reform is essential. This includes restoring Financial Assistance Grants to 1% of Commonwealth tax revenue, implementing a funding framework that accounts for population growth and cost escalation, and streamlining developer contribution processes to enable timely infrastructure delivery.

Additional support for workforce development and measures to address rising infrastructure costs will help councils meet community needs while maintaining long-term financial stability.

**For more information, contact our
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