



03 February 2026

Committee Secretary  
Standing Committee on Regional Development, Infrastructure and Transport  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Dear Committee Members,

## **Inquiry into Local Government Funding and Fiscal Sustainability – Officer Submission**

On behalf of the City of Port Phillip, I thank the Committee for the opportunity to provide further input into the Inquiry into Local Government Sustainability.

Local government is the level of government closest to communities and plays a critical role in delivering the services, infrastructure and place-based outcomes that underpin Australia's economic, social and environmental wellbeing. Councils are central to the delivery of national and state priorities, including housing supply and affordability, climate resilience, waste and circular economy reform, public health, and community wellbeing. However, the current funding framework for local government is structurally misaligned with these responsibilities.

The City of Port Phillip's experience reflects a broader, systemic challenge across the local government sector. Prolonged rate capping arrangements that do not reflect the real cost drivers of council services, combined with ongoing cost shifting, unfunded or partially funded policy reforms, and the erosion of shared funding arrangements, have significantly constrained councils' financial capacity. These issues have contributed to a growing gap between the responsibilities placed on local government and the revenue available to meet them.

Over the past five years, rate indexation has failed to keep pace with underlying cost growth, resulting in an estimated cumulative revenue shortfall of more than \$17 million for the City of Port Phillip. During this period, Council has absorbed increasing costs associated with State-imposed levies, declining co-contributions for service delivery and infrastructure, and major policy reforms - particularly in the waste sector and housing policy.

These pressures are further intensified by climate change impacts on a mature and highly exposed asset base, including significant coastal and foreshore infrastructure, requiring increasing levels of investment simply to maintain existing service standards.

Commonwealth and State Government funding represents a relatively small proportion of Council's total revenue and is often short-term, prescriptive or ad hoc in nature. As a result, councils are increasingly reliant on own-source revenue, primarily rates to fund essential services and infrastructure. In a rate-capped environment, this funding model is not sustainable and exacerbates vertical fiscal imbalance within the federation, with local government bearing a disproportionate share of the cost of delivering services and implementing reforms determined by other levels of government.



Consistent with the advocacy of Melbourne 9 (M9) councils and the Municipal Association of Victoria, this submission calls on the Commonwealth Government to play a stronger leadership role in restoring the financial sustainability of local government. In particular:

1. An increase in the overall level of Federal funding to local government.
2. Reform of rate capping arrangements so that, if retained, they are based on a fit-for-purpose Local Government Cost Index that reflects key cost drivers such as wages, construction and contracted services, rather than Consumer Price Index.
3. A requirement for State Governments to undertake and publish Local Government Impact Assessments for new and amended policies, with identified impacts informing funding decisions and cost indexation.
4. Action to address the long-term decline in State and Commonwealth co-contributions to service delivery and infrastructure, including indexing future funding increases to relevant service cost indices to maintain relative funding shares.
5. A coordinated, long-term Commonwealth/ State approach to funding the infrastructure impacts of climate change, including dedicated investment to improve the resilience of existing assets in high-risk locations such as coastal and foreshore areas.

Without structural reform to the local government funding framework, councils will continue to face increasing financial strain, limiting their capacity to deliver services, renew infrastructure and support broader economic and social objectives. Strengthening local government funding is therefore essential to ensuring sustainable communities and the effective functioning of Australia's system of government.

Yours sincerely,

**Peter Liu**

Chief Financial Officer



## Executive Summary

Local government is the level of government closest to communities and is critical to delivering the services, infrastructure and place-based outcomes that support Australia's economic, social and environmental wellbeing. Councils are central to the delivery of national and state priorities, including housing supply and affordability, climate resilience, waste and circular economy reform, public health, and community wellbeing. However, the current funding framework for local government is structurally misaligned with these expanding responsibilities.

The City of Port Phillip's experience reflects a broader, systemic challenge across the local government sector. Prolonged rate capping arrangements that do not reflect the real cost drivers of council services, combined with ongoing cost shifting, unfunded or partially funded policy reforms, and the erosion of shared funding arrangements, have significantly constrained councils' financial capacity. As a result, the gap between the expectations placed on local government and the revenue available to meet them continues to widen.

Over the past five years, rate indexation has failed to keep pace with underlying cost growth, resulting in an estimated cumulative revenue shortfall of more than \$17 million for the City of Port Phillip. During this period, Council has absorbed increasing costs associated with State-imposed levies, declining co-contributions for service delivery and infrastructure, and major policy reforms - particularly in the waste sector and housing policy.

These pressures are compounded by climate change impacts on a mature and highly exposed asset base, including significant coastal and foreshore infrastructure, requiring increasing levels of investment simply to maintain existing service standards.

Commonwealth and State Government funding represents a relatively small proportion of Council's total revenue and is often short-term, prescriptive or ad hoc in nature. As a result, councils are increasingly reliant on own-source revenue, primarily rates to fund essential services and infrastructure. In a rate-capped environment, this funding model is not sustainable and exacerbates vertical fiscal imbalance, with local government bearing a disproportionate share of the cost of delivering services and implementing reforms determined by other levels of government.

Consistent with the advocacy of Melbourne 9 (M9) councils and the Municipal Association of Victoria, this submission calls on the Commonwealth Government to play a stronger leadership role in restoring the financial sustainability of local government. In particular:

1. An increase in the overall level of Federal Assistance Grants funding to local government.
2. Reform of rate capping arrangements so that, if retained, they are based on a fit-for-purpose Local Government Cost Index that reflects key cost drivers such as wages, construction and contracted services, rather than Consumer Price Index.
3. A requirement for State Governments to undertake and publish Local Government Impact Assessments for new and amended policies, with identified impacts informing funding decisions and cost indexation.
4. Action to address the long-term decline in State and Commonwealth co-contributions to service delivery and infrastructure, including indexing future funding increases to relevant service cost indices to maintain relative funding shares.
5. A coordinated, long-term Commonwealth/ State approach to funding the infrastructure impacts of climate change, including dedicated investment to improve the resilience of existing assets in high-risk locations such as coastal and foreshore areas.



Without structural reform to the local government funding framework, councils will continue to face increasing financial strain, limiting their capacity to deliver services, renew infrastructure and support broader economic and social objectives. Strengthening local government funding is therefore essential to ensuring sustainable communities and the effective functioning of Australia's system of government.

**1. An increase in the overall level of Federal Assistance Grants funding to local government.**

Local governments now deliver an expanding range of essential services well beyond traditional “roads, rates and rubbish”. These include community health, childcare, aged care support, emergency management, climate adaptation, and infrastructure required to unlock housing supply - often stepping in where services are not commercially viable or where other levels of government have withdrawn.

At the same time, councils’ capacity to fund these responsibilities has been progressively constrained by limited revenue-raising powers, state-based rate capping, ageing infrastructure, and sustained cost shifting from other levels of government.

Parliamentary inquiries and sector evidence consistently demonstrate that Financial Assistance Grants, while critical and untied, have declined significantly as a share of Commonwealth taxation revenue over the past three decades. This decline has materially eroded councils’ ability to maintain existing services and invest in essential community infrastructure.

Federal Assistance Grants currently contribute approximately 8 per cent of total local government revenue, and significantly less for the City of Port Phillip. In 2025/26, Port Phillip’s allocation of \$3.5 million, represents just 1.2 per cent of total revenue. A 25 per cent increase would provide an additional \$0.88 million in ongoing funding, directly supporting the City’s financial sustainability.

Council’s position is not about redistribution of existing funding envelope; the entire sector is facing structural financial sustainability challenges. A substantial increase in untied, formula-based Commonwealth funding is therefore required to restore local government financial sustainability, enable councils to meet growing service demands, and support the effective local delivery of national priorities such as housing supply, disaster resilience and community wellbeing.

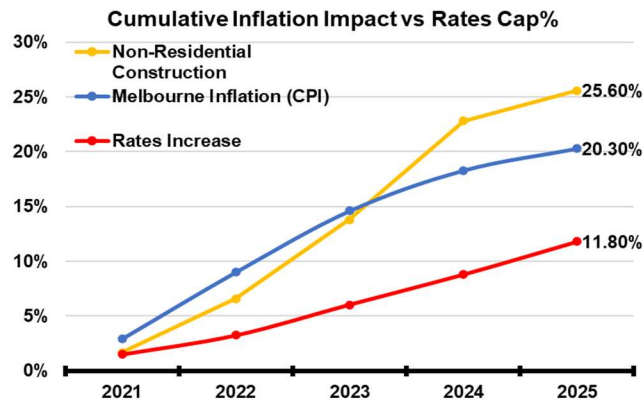
**2. Reform of rate capping arrangements so that, if retained, they are based on a fit-for-purpose Local Government Cost Index that reflects key cost drivers such as wages, construction and contracted services, rather than Consumer Price Index.**

Rates are the primary source of income for local government. For the City of Port Phillip, rates account for approximately 55 per cent of total revenue. Council’s capacity to increase this revenue is constrained by the Victorian Government’s rate-capping framework.

It is therefore critical that the rate cap reflects the actual costs of delivering council services and maintaining infrastructure. Under the current framework, this alignment does not occur.

The Consumer Price Index (CPI) used to set the cap does not adequately represent local government’s major cost drivers: labour, contracted services, and the construction, maintenance and renewal of infrastructure.

As a result, Council faces a structural mismatch between capped rate revenue and the true cost of service delivery. This gap compounds over time, progressively eroding financial capacity and limiting Council’s ability to sustain service levels.



Between 2021 and 2025, the cumulative rate cap totalled 11.8 per cent, significantly below Melbourne inflation of 20.3 per cent over the same period. The 8.5 per cent gap is estimated to have resulted in a cumulative revenue loss of more than \$17 million for Port Phillip. The impact would be significantly greater if construction cost indices were applied.

If rate capping is to be retained, a fit-for-purpose Local Government Cost Index must be developed to reflect the actual cost of provide council services, rather than relying on CPI.

**3. A requirement for State Governments to undertake and publish Local Government Impact Assessments for new and amended policies, with identified impacts informing funding decisions and cost indexation.**

***Example: Build to Rent Policy***

The Victorian Government’s Build-to-Rent policy settings are creating material and ongoing financial and service delivery impacts on local government, particularly inner-city councils experiencing high-density population growth.

While Build to Rent developments support increased housing supply, the current policy framework shifts infrastructure and service delivery costs to councils without commensurate funding. Such developments are typically delivered on unsubdivided land and are therefore not required to pay Open Space Contributions, despite introducing significant new population demand.

For City of Port Phillip, known Build to Rent developments are estimated to result in foregone Open Space Contribution revenue of up to \$10 million, limiting Council’s ability to fund parks, sporting facilities and public open space needed to support increased density.

***Example: Waste Services - Circular Economy***

State Government policy and regulatory reforms in the waste sector are creating increasing cost, complexity and risk for local government. While these reforms aim to improve environmental outcomes and support a circular economy, they have shifted substantial costs and operational responsibilities to councils without providing sufficient funding flexibility or revenue certainty.

Significant landfill levy increases, combined with the introduction of new services such as separate glass recycling, are placing upward pressure on Council’s waste charges. Although waste services are nominally cost-recovered, rising costs compound household cost-of-living pressures and limit Council’s capacity to fully pass on increases, resulting in indirect subsidisation from general rate revenue.



**4. Action to address the long-term decline in State and Commonwealth co-contributions to service delivery and infrastructure, including indexing future funding increases to relevant service cost indices to maintain relative funding shares.**

The State Government provides funding to councils on a shared-funding basis to deliver services including libraries, Maternal Child Health, school crossing, and immunisation. In practice, indexation of these funding streams has failed to keep pace with actual service delivery costs.

For example, library services were initially funded by State at 50 per cent of operating costs. Port Phillip Council currently receives funding equivalent to approximately 15% of total library service costs.

Ongoing cost shifting, combined with low levels of recurrent external funding, increases reliance on rate revenue to subsidise State-driven costs. This reliance is constrained by the rate-capping framework, amplifying financial sustainability pressures.

**5. A coordinated, long-term Commonwealth/ State approach to funding the infrastructure impacts of climate change, including dedicated investment to improve the resilience of existing assets in high-risk locations such as coastal and foreshore areas.**

The City of Port Phillip is responsible for maintaining infrastructure and assets with a total replacement value exceeding \$3.6 billion. The cost of maintaining and renewing these assets continues to increase at a rate greater than CPI. A significant proportion of Council's asset base is located along the foreshore, increasing exposure to climate-related risks.

With approximately 11 kilometres of foreshore, the City of Port Phillip is highly exposed to sea level rise and storm surge impacts. Coastal protective structures, including seawalls and rock revetments, were constructed by the State Government around 100 years ago, with urban beaches constructed over 50 years ago to provide additional buffering.

There is currently no sustainable State funding model for renewing, upgrading or maintaining these assets, and no ongoing State funding or grant programs to support their upkeep.

Economic modelling ([VMaCC Kompas Economic Cost Impact Analysis](#)) indicates that the cost of inaction within the City of Port Phillip alone could reach \$9.2 billion by 2040. The analysis concludes that sea level rise and storm surge impacts are sufficient to trigger significant financial instability for many coastal communities and the State of Victoria.

While State coastal policy recognises that funding should be shared across governments, beneficiaries and users of the coastal environment, no implementation funding mechanism currently exists. The City of Port Phillip's foreshore delivers economic and recreational benefits well beyond the municipality, attracting millions of visitors annually.



## Conclusion

The City of Port Phillip acknowledges the Commonwealth Government's commitment to supporting long-term stability of the local government sector. Local governments play an essential role in Australia's system of governance and are central to delivering infrastructure, services and place-based outcomes.

Without reform, structural funding gaps will continue to undermine council's capacity to maintain critical infrastructure, service provision and respond to climate risks. Stronger Commonwealth involvement is required to achieve sustainable funding arrangements in partnership with State and Local Governments.

Specifically, this submission calls for the Commonwealth Government to:

1. An increase in the overall level of Federal Assistance Grants funding to local government.
2. Reform of rate capping arrangements so that, if retained, they are based on a fit-for-purpose Local Government Cost Index that reflects key cost drivers such as wages, construction and contracted services, rather than Consumer Price Index.
3. A requirement for State Governments to undertake and publish Local Government Impact Assessments for new and amended policies, with identified impacts informing funding decisions and cost indexation.
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