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Legislative Council Economy and Infrastructure Committee
Parliament of Victoria
Economy and Infrastructure Committee
Sent to: localgovernmentfundinginquiry@parliament.vic.gov.au

Dear Committee Members

RESPONSE TO VICTORIAN GOVERNMENT INQUIRY INTO LOCAL GOVERNMENT FUNDING AND SERVICES

I write on behalf of Frankston City Council (FCC) in response to the Legislative Council Economy and Infrastructure Committee inquiry into Local Government funding and services.

This submission will address the various forms of financial stress many Councils such as Frankston City are experiencing. This includes limited revenue raising abilities, construction market increases, cost shifting of services from Victorian Government to Local Government and the decline of grant funding available to deliver services and projects.

It will also outline relevant data to help inform the Committee of the pressure points that FCC, and many other Councils, are facing, particularly over the past four (4) years.

Local Government provides a range of essential services and infrastructure to the community, often more directly and immediately than any other level of government.

FCC has 1,058 employees delivering almost 100 services to the 142,826 residents. There are also over 800,000 visitors who come to our city every year to celebrate our major events, cultural experiences, retail, dining and recreation opportunities. We are more than the adage of 'roads, rates and rubbish'.

Council plays a critical role in the daily lives of our community with the services it delivers and infrastructure it maintains.

Each year, Frankston City Council:

- Removes 3,284 tonnes of hard waste to landfill, 17,500 tonnes of waste to landfill and 18,500 tonnes recycled at a total cost of \$12.3 million;



- Maintains nearly 1,000 kms of footpaths and funds \$2.5 million each year towards maintenance and renewal;
- Has over 75 school crossing supervisors ensuring over 8,100 children and families get to and from school safely during peak traffic times. This service costs \$1.4 million per annum is mostly funded by Council (63%) with the Victorian Government contributing 37%. Funding began in 1975 as a 50:50 funding contribution but the gap has deteriorated considerably over time;
- Provides Maternal and Child Health centres with over 14,000 visits annually and provide immunisations to 2,992 infants and 4,038 secondary students each year;
- Provides almost 2,000 families access to playgroup sessions;
- Provides almost 200,000 people access to libraries each year costing \$4.2 million to operate and are co-funded by Council and the Victorian Government at a 3:1 ratio;
- Delivers over 55,500 hours on in-home care, over 4,500 hours of home maintenance and over 47,000 meals through Meals on Wheels;
- Contributes over \$200,000 in annual business support for the local business collective network events;
- Manages 123 play spaces, 425 reserves, 50 sports grounds and 11 kms of coastline at a maintenance cost of these spaces of \$15.1 million per annum;
- Maintains local roads at a cost of \$3.6 million per year.

Frankston City delivers these services and maintains the associated essential infrastructure, however increasing financial pressures are making it difficult for Council to continue operating in the same spaces and at the same levels.

Limited revenue raising ability

A key long-term problem is that councils do not have adequate base-level funding. Rate capping has prevented councils from increasing rates beyond the cap set by the Victorian Government based closely on CPI. Council is of the view that there is a need to introduce a Local Government Cost Index for the setting of the Victorian rate cap, that reflects the costs factors of local government. The current rate cap system is not providing sufficient rate revenue to match the actual increase in the cost base of existing services and infrastructure.

The current revenue structures for local government places our municipality in a difficult financial position to fund contemporary living standards for our community. Over the last five (5) years – Commonwealth Government taxation revenue has increased by 31%, State Government by 34% and Local Government (rates) 16% - half the rate of other levels of government.



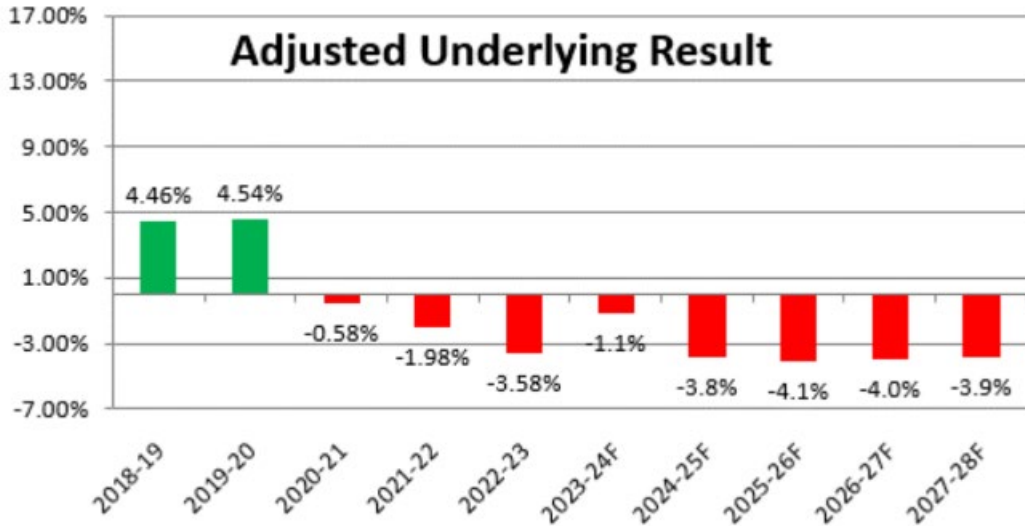
While FCC has been in a stable financial position, recent adjusted underlying deficits are concerning and are set to worsen over the next four (4) years as limited increases to revenue and cost pressures significantly diminish the ability to continue to deliver services and infrastructure renewal needs into the future. Insufficient investment in the renewal of existing assets to match the consumption of assets will lead to further deterioration, increased maintenance and more costly intervention over the medium to long term.

The Local Government Act (2020) states 'the ongoing financial viability of the Council is to be ensured'. We believe this is a responsibility of all levels of government. While the Commonwealth Government and the Victorian Government is able to earn uncapped taxation revenue that increases with economic and population growth, enabling increased in living standards, the local government sector is reliant upon insufficient rate revenue to meet cost escalation alone and Financial Assistance Grants that have not increased in real terms on a per capita basis since 1995.

We understand that cost of living pressures is hitting homes hard, with low-income households representing over 11% of Frankston City's population. With this in mind, we appreciate that increases to rates may not be the answer. However, in the absence of change, the short, medium and long term financial sustainability of Victorian local government entities cannot be assured. This has a direct impact on local services, and represents a lost opportunity across shared State, Federal and Local Government policy objectives.

The table below demonstrates the decline in Frankston City Council's adjusted underlying position over the last three (3) years, with continued increasing deficits expected in the next five years. This outlook is very concerning as such a negative trend is unsustainable for the medium to long term. Frankston City cannot be expected to produce operating deficits without a deterioration in infrastructure.

Furthermore, investing less than required to maintain assets on a consistent basis will ultimately lead to higher costs to renew and bring assets to a satisfactory condition, leading to a further deterioration in the financial sustainability.

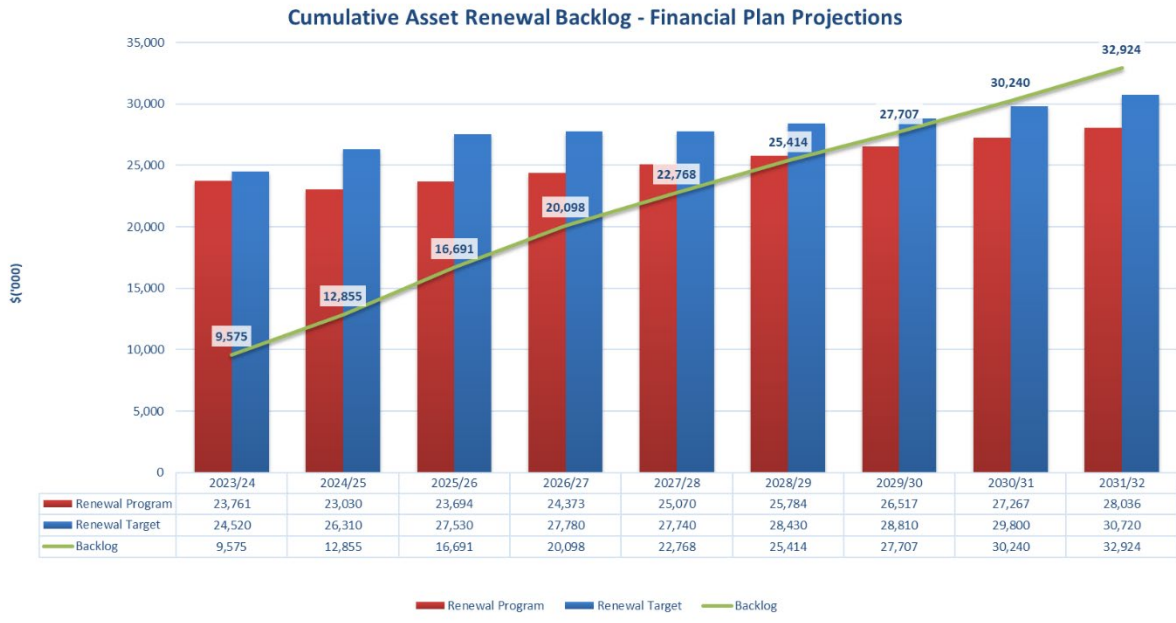


Cost increases on existing infrastructure and services

The capacity of local government to renew existing assets is a fundamental need for long term financial sustainability. There is insufficient investment in the renewal of existing assets to even match the renewal requirement, leading to further deterioration, increased maintenance and more costly intervention over the medium to long term.

FCC is now planning to slow down investment in renewing its assets to address future financial sustainability challenges due to inflation, reduced external income, depleted strategic reserve funding, asset growth and associated increased lifecycle costs.

For example, FCC has reduced its capital works rates funding provision in 2024/25 with \$28.3 million reduced to \$26.9 million since the last adopted budget in 2023/24 and this ongoing reduction will continue to cause a significant risk to Council’s critical asset renewal backlog. The below diagram shows the projected bleak view of Frankston City’s asset renewal backlog.



Cost shifting from Victorian Government to Local Government

The shifting of services, programs and infrastructure delivery and maintenance from Victorian Government to Local Government has steadily increased over recent years. This has resulted in significant financial strain to Council in the short-term while posing significant risk to financial sustainability and service delivery in the long-term.

Some of the traditional cost shifts have occurred in areas such as libraries and the school crossing supervision program, but are expanding into non-traditional areas such as social housing, maternal and child health, early learning, governance and building enforcement.

Examples of this include:

- Running election communications:** Councils were informed this year with no prior consultation that communication of local government elections would now be the sole responsibility of Councils with a \$950,000 cost burden on Council – this is up from \$250,000 in the last election, an increase of 280%.
- Kananook Creek Dredging at the Boat Ramp and maintenance:** Victorian Government only fund one third of maintenance costs, with Council now covering the remaining two thirds - a total of \$250K annually. This does not factor in that a large majority of the boat ramp users do not reside within the Frankston City municipality, with ratepayers funding maintenance costs for infrastructure on State Government owned land and highly utilised by visitors from neighbouring municipalities. The asset is on Parks Victoria land.

- **Kindergarten reforms requiring infrastructure spending:** The Victorian Government's kindergarten reforms are placing a significant financial burden on Council, with over \$13 million in unplanned upgrades and redevelopments of existing facilities now expedited. While there is some funding available, Council funding previously allocated in the long-term is now expedited, meaning other projects are now pushed back or cancelled.
- **Libraries:** Historically, library funding was split equally between Council and State Government, however over the years Victorian Government financial contributions haven't kept pace with increases to services and demand, leaving Council to fund over 80% each year, to a total of \$5.48 million.
- **Community Support Frankston:** Current funding is not keeping up with demand, which has been the case consistently over the past five years resulting in written requests each year for an increase in the Emergency Relief Fund. Instead, Council stepped in to provide short-term funding relief of \$350,000 to CSF as we are unwilling to let our most vulnerable community members be turned away from the support they need.
- **Workcover Premium:** Councils have been hit with exorbitant increases in their premiums in the last 12 months. FCC's premium for 2023-24 was anticipated to drop based on a sustained effort to improve injury management across the organisation, however the scheme ratings were reviewed across the industry resulting in a \$0.7 million (35%) hike in the premium compared with the estimate despite our improved performance.

Declining availability of Victorian Government grant programs

A review of recurrent Victorian and Federal Government funding to Frankston City over the past five years (July 2018-June 2023) shows an overall increase of only 4.5% each year.

Meanwhile, several grant programs enabling the delivery of important community infrastructure have also been reduced or removed. This pushes Council into growing our level of borrowings substantially which puts further pressure on future operating budgets.

Examples of this include:

- **Maintenance and beautification of State-owned road assets:** Not a council responsibility yet Councils frequently get blamed for poorly maintained state assets. Such as overgrown grass and trees on freeways, poor road surfacing, unpleasant gateway entrances, poorly lit underpasses. This is damaging to Council's and local community's reputations and sense of pride.



- **Suburban Revitalisation:** As a Victorian Government designated Metropolitan Activity Centre, Frankston's city centre has previously received financial support from the State Government to deliver a range of initiatives aimed at revitalising streets, laneways, shopfronts and key transport connections. This program is now closing up. A new FMAC Structure Plan is expected to be authorised by the Minister for Planning in the coming months, and with a higher than anticipated housing target set by the State Government will place greater emphasis on revitalisation initiatives.

Additionally, previous State Government loan programs enabling Councils to deliver infrastructure projects were established as cash appropriation, however they have now become low interest loans. This means that Councils projects on a low interest loan scheme are lumped together with State Government debt, which at the time of this submission sits at over \$135.5 billion and \$8.8 billion in interest payments in 2026/27. This is another example of Council unfairly footing the Victorian Government's bills.

As you can see, there are many varying factors impacting the financial viability of local government to deliver existing and new infrastructure and services.

Some Councils, potentially including Frankston City, are considering the option to reduce non-essential services in an effort to reduce cost impacts.

The State Government recently made comments in the media that councils have 'high surpluses and low debt', however it is the view of FCC that increasing debt is not a long-term fiscally responsible option. Despite this, FCC needs to add \$60 million in new borrowings over the next five (5) years to ensure the delivery of key capital projects can proceed.

This simply defers the problem of maintaining assets to future generations of ratepayers when assets will become more costly to replace.

FCC also believes that a view of the collective financial positions of all local government combined is not a suitable assessment for the basis of this Inquiry. The collective data does not consider the individual Council's financial, social, environmental or economic situation.

As detailed in our submission, FCC believes it is important the State Government:

- Undertake a review of the rate-capping legislations effectiveness and it's limiting of Council's ability to raise revenue, meeting CPI etc;
- Undertake a detailed forensic financial analysis of service shifting to Local Government, the cost of implementation/delivery;
- Allocate appropriate funding levels, with a minimum funding split of 50:50 if with one level of government, or a three-way split if with all three levels of government;
- The additional responsibilities falling on Council are costing millions each year, with a strong need for more robust funding allocated by the State Government.



Should you have any questions regarding this submission, please don't hesitate to contact Mrs Kim Jaensch, Director Corporate and Commercial Services, by email on kim.jaensch@frankston.vic.gov.au or phone on (03) 9784 1817.

Thank you for taking the time to consider this submission and I look forward to hearing back from the Committee to achieve more positive outcomes for Local Government in delivering for our communities for the short, medium and long terms.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Nathan Conroy", with a large loop and a horizontal line extending to the right.

Cr Nathan Conroy
FRANKSTON CITY MAYOR