



DRAFT SUBMISSION

Inquiry into Local Government Funding and Fiscal Sustainability

FEBRUARY 2026



Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

OVERVIEW OF THE LOCAL GOVERNMENT SECTOR



Employ nearly **50,000 people**



Manage more than **1,800 community & public centres**



Maintain more than **168,000km of roads & bridges**



Manage more than **\$220 billion of community assets**



Recycle **1.75 million tonnes of waste**



Spend more than **\$2.5 billion each year on caring for the environment**



Operate more than **380 libraries that attract tens of millions of visits each year**



Make kerbside waste collections for more than **3.1 million households**



Manage an estimated **4 million tonnes of waste each year**



Spend more than **\$2.4 billion on culture and recreation**

Local Government NSW acknowledges and pays respect to the Traditional Owners of the lands on which we work, and the lands we travel through. We also acknowledge our Elders – past, present and emerging.

TABLE OF CONTENTS

Introduction	4
Background	4
Response to Terms of Reference	7
1. Interactions between Governments	8
2. Identification of All Funding Sources	10
3. Impacts and Effectiveness	13
4. Previous Inquiry.....	18
5. Other relevant matters	18
Conclusion	19

Introduction

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

LGNSW welcomes the opportunity to provide a submission to the Parliamentary Standing Committee on Regional Development, Infrastructure and Transport [Inquiry into Local Government Funding and Fiscal Sustainability](#).

LGNSW welcomes the reinstatement of this inquiry following the lapse of the [previous inquiry](#). As advised by the Committee, all evidence submitted to the previous inquiry will be reconsidered. Therefore, LGNSW requests that the Committee consider this submission in conjunction with LGNSW's previous [submission](#) and evidence provided at the public hearing on 25 July 2024.

This submission reaffirms the key themes and underlying issues highlighted previously and any material developments since the previous inquiry, including updated cost shifting data and recent policy responses at the state level relevant to local government financial sustainability in NSW.

Please note this submission is provided in draft form, subject to endorsement by the LGNSW Board. Any changes following Board consideration, will be advised to the Committee.

Background

Financial Sustainability:

Financial sustainability remains the overarching and most pressing challenge facing local governments in NSW.

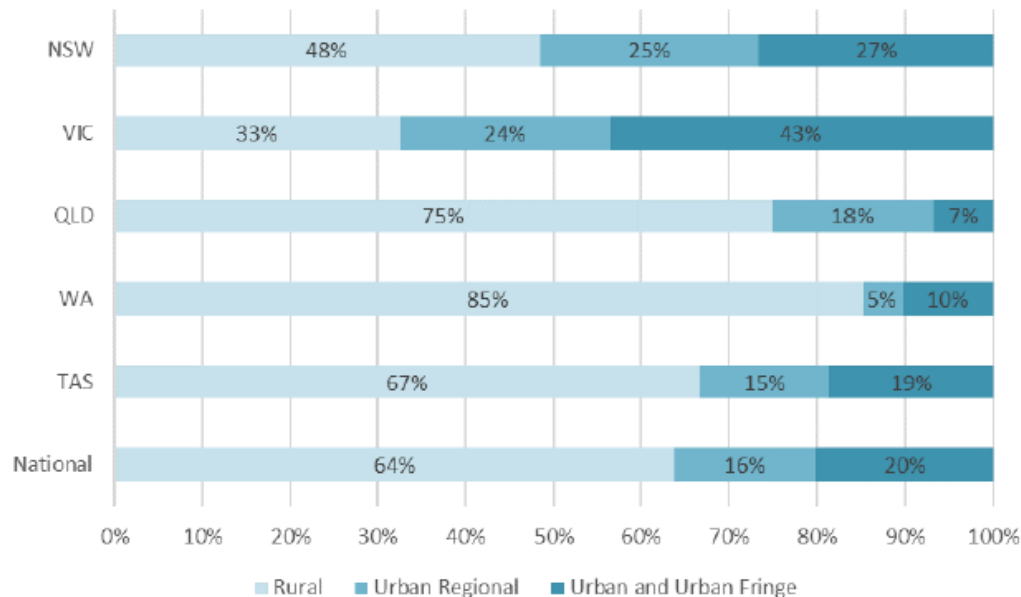
Councils are experiencing escalating financial stress as a result of the compounding impacts of rate pegging, population growth, cost shifting and the declining real and proportional value of Commonwealth Financial Assistance Grants (FA Grants).

In recent years, these pressures have been further amplified by rising construction costs, workforce shortages and increasing frequency and scale of natural disasters. These pressures have resulted in the under provision of community infrastructure and services and the deferral of infrastructure maintenance and renewal expenditure, as reflected by the crippling council assets infrastructure funding backlog of approximately \$6.5 billion in NSW as reported by the [NSW Office of Local Government](#).

A growing number of councils are financially unsustainable under current policy settings, and the situation continues to deteriorate.

Figure A:

SHARE OF COUNCILS NOT MEETING OPERATING SURPLUS TARGET BY REMOTENESS CATEGORY, 2021-22



Source: SGS Economics and Planning (2024).

As illustrated in the graph above, in NSW, more than 70 per cent of councils, predominately in rural and regional NSW, are not meeting their operating surplus target, a key performance measure used to assess councils' ability to generate sufficient revenue to fund ongoing service delivery and asset maintenance.

This is reinforced by findings from the NSW Audit Office, whose report published in 2025 identified that across the three key financial sustainability indicators – operating performance, current ratio and infrastructure renewals ratios, only 35 councils in NSW met one or none of the three benchmarks. Furthermore, the most recent audit [report](#) published in 2026 identified 11 councils in NSW with heightened financial sustainability risk due to various combinations of operating losses, insufficient cash, declining populations and low capacity to generate own source revenue. Overall, this highlights the significant challenges in councils' capacity to remain financially sustainable under the current funding arrangements.

LGNSW has been a long-term advocate for reform of the current funding model for local government. LGNSW is driven by the conviction that the financial sustainability of local government in NSW is being persistently eroded and that urgent reform is needed to support efficient, effective and equitable local government service delivery. Councils play a central role in delivering essential infrastructure and services that support both national economic growth and the everyday needs of local communities. For example:

- NSW councils are responsible for over 167,000km or 85% of the NSW road net network while servicing local transport needs these roads are also critical to the efficient movement of freight nationally.
- NSW councils are responsible for water and sewerage in most rural and regional areas of the state. There are 90 local water utilities serving 890,000 homes and around 2 million people. The provision of safe and secure water and sewerage services are essential for sustaining communities and supporting economic development.
- These are but two of the many functions and responsibilities of councils which typically include libraries, recreational facilities and aquatic centres, parks, childcare, health care, waste services, emergency services, affordable housing and responding to climate change.
- Councils are also at the forefront in promoting social cohesion, community wellbeing and economic productivity within their communities.

Improving local government financial sustainability would not only strengthen councils' capacity to meet community needs and expectations but also assist the Commonwealth and State Governments in achieving broader economic and social objectives.

Interim report – Federal Inquiry into Local Government Financial Sustainability:

The Committee released an [Interim Report](#) in February 2025. While this report did not contain recommendations or formal findings, it highlighted key themes that have arisen throughout submissions and hearings of the previous inquiry, including:

- Increased costs facing councils due to changing population trends.
- Ageing infrastructure with growing infrastructure renewal and maintenance backlog.
- Expanding service delivery obligations.
- The inadequacy of Financial Assistance Grants (FA Grants) for councils.
- Recognition that councils' roles have expanded well beyond the traditional "three Rs" of rates, roads and rubbish.

LGNSW supports these observations and strongly recommends that the Committee carry forward these findings and positions in the context of the current inquiry.

NSW Parliamentary Inquiry into the Ability of Local Governments to Fund Infrastructure and Services:

The NSW Parliamentary Inquiry into the Ability of Local Governments to Fund Infrastructure and Services released its [report](#) in December 2024, containing a strong set of recommendations for councils and their communities.

The recommendations reflect widespread recognition that the financial sustainability of councils is being persistently eroded and that reform is urgently needed. Recommendations of the inquiry closely aligned with submissions from LGNSW and councils right across the NSW, and include:

- Reviewing rate exemptions and concessions to achieve a better balance between local council financial sustainability, community benefits and principles of equity.
- Redesigning the rating system to provide councils with greater flexibility in setting rates, while keeping rates affordable for the community.
- Streamlining the special variation process.
- Advocating to the Commonwealth Government to increase FA Grants to councils from 0.5 per cent to 1 per cent of Commonwealth taxation revenue.
- Grant models that are more secure, sustainable and predictable.
- Changes to the developer contributions framework to better support councils to fund the ongoing costs of new infrastructure, and support development including of community facilities.
- More timely disaster recovery assistance to councils.
- Dedicated and ongoing funding streams for disaster mitigation and preparedness.
- Incorporation of betterment into disaster recovery funding programs.
- Appropriately recognising that Rural Fire Service assets are vested in the NSW Government, and not councils.
- Reducing cost shifting onto councils and consideration of how the NSW Waste Levy can better support infrastructure and services that support the transition to the circular economy.

In May 2025, the NSW Government released its formal [response](#) to the recommendations of the NSW Parliamentary Inquiry. LGNSW noted that the response was cautious but did include some positive indications including the establishment of an Expert Advisory Panel (EAP) to include local government representation to inform future reforms, as well as committing to take action on unfair rate exemptions.

LGNSW understands that work is underway, yet eight months after the NSW Government response to the inquiry recommendations was published the local government sector is eager to see progress on actions the NSW Government committed to in that response. LGNSW will continue to engage constructively with the NSW Government on the implementation of these reforms.

Response to Terms of Reference

In preparing this submission, LGNSW was informed by recent submissions, research and reports. It was also guided by LGNSW policy positions.

Consistent with the [Terms of Reference](#), a substantial body of evidence was provided to the previous federal inquiry in which LGNSW provided a detailed [submission](#).

Accordingly, this submission will address and highlight key issues relevant to the updated Terms of Reference including any material developments since that time, where applicable.

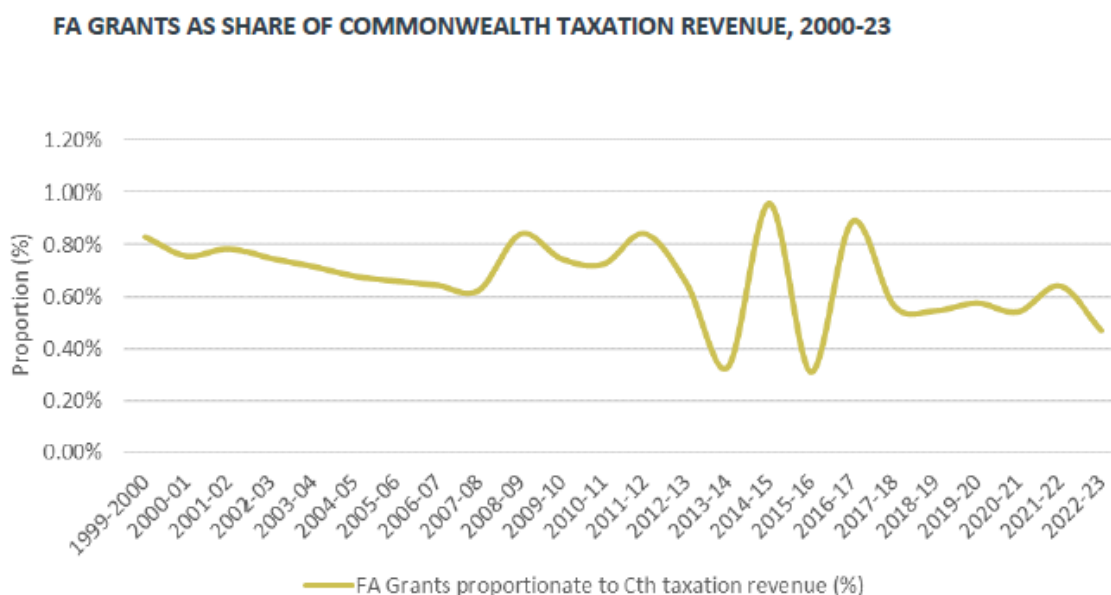
1. Interactions between Governments

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

Local governments receive funding from a combination of Commonwealth and state funding agreements and grants. As consistently highlighted in LGNSW's past submissions and by councils across NSW, local governments have limited revenue raising capacity and are therefore highly reliant on grant funding, especially Commonwealth FA Grants. While FA Grants have proven to be essential in funding for councils, the real value of this funding has declined over time.

It is concerning that recent decades have seen a slow reduction in the proportion of total Commonwealth tax revenues going to councils, having declined from 1 per cent of Commonwealth taxation revenue in 1996 to just approximately 0.5 per cent today. This reduction has occurred despite sustained population growth, expanding service delivery responsibilities and increasing infrastructure demands placed on councils.

Figure B¹:



Source: SGS Economics and Planning (2024), ABS Government Finance Statistics

¹ Observed increases in 2014-15 and 2016-17 are largely attributable to advance payment timing, with a portion of FA Grants funding brought forward into those years.

Consistent with the NSW Government's response to the recommendations of the NSW Parliamentary Inquiry, LGNSW calls for urgent action in implementing reforms to address local government financial sustainability. In particular, LGNSW reiterates our long-standing position that the share of the Commonwealth taxation revenue allocated to councils should be increased to 1 per cent. There is a fundamental need to link FA Grants to growth, with growth in Commonwealth tax revenue being a proxy for economic growth and reflecting the growth in demands on all spheres of government.

In addition to FA Grants, other key Commonwealth programs include Roads to Recovery. This is a long-standing, formula-based program distributed via state and territory Local Government Grants Commissions, which supports safety upgrades and maintenance of local roads. While this program remains critical, funding levels have not consistently kept pace with road conditions and traffic growth, or the contribution that council owned and maintained roads make to national productivity. Despite recent funding gaps, LGNSW welcomes the Commonwealth Government acting to progressively increase Roads to Recovery funding until it has doubled to \$1 billion annually from 2027-28.

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

Local government's lack of constitutional recognition means Commonwealth funding remains discretionary and subject to policy change, creating uncertainty for councils' long-term financial planning and leaving the fiscal health of an entire layer of government open to the vicissitudes and exigencies of others.

To improve funding certainty, greater use of formal Intergovernmental Agreements (IGA) between the Commonwealth, states and territories should be explored to support more predictable, ongoing funding to councils for core service delivery and infrastructure directly from the Commonwealth.

Additionally, there is a growing tendency for the Commonwealth to influence the spending decisions of other tiers of government through an increased reliance on tied and program-specific grant funding. This is problematic for local government for two reasons. First, compared to untied funding, councils are less able to align resources with community priorities which erodes the autonomy of councils as a legitimate third sphere of government. Second, councils may face an unwanted additional cost burden from overlapping and duplicative compliance and reporting requirements for multiple spheres of government. Ultimately, ad-hoc and tied funding undermines councils' ability to plan and invest over the long-term for their communities, harming efficiency and productivity. LGNSW would like to see greater emphasis on more predictable and untied funding to support local government service delivery.

Recommendation 1

That the Commonwealth Government restore the quantum of Financial Assistance Grants (FA Grants) to 1 per cent of total Commonwealth taxation revenue.

Recommendation 2

That the Commonwealth Government review the legislative and policy frameworks underpinning Commonwealth financial support to local government, including measures to enhance funding certainty.

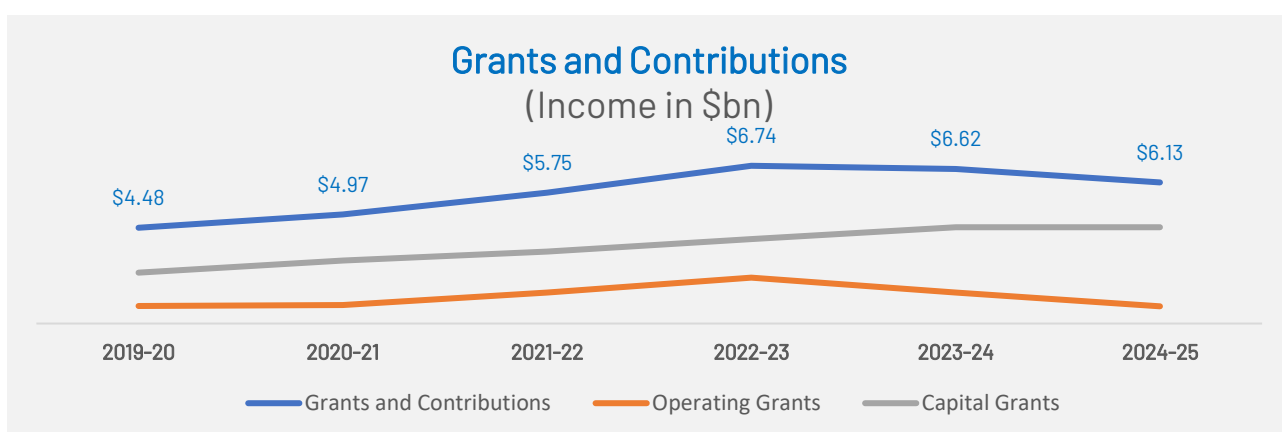
2. Identification of All Funding Sources

- 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.*

Funding Category	Funding Source	Key Programs and Indicative Funding (NSW)	Key Issues for Councils
a. Untied grants	Commonwealth Government	Financial Assistance Grants (FA Grants) The national FA Grants pool is approximately \$3 billion annually and NSW councils receives a distribution of approximately \$1 billion. This comprises of General Purpose and Local Road grants.	Only ongoing source of untied Commonwealth funding; declining real value over time; insufficient to meet population growth, infrastructure backlogs and expanded service responsibilities, particularly for rural and regional councils.
b. Tied / specific-purpose and project-based grants	Commonwealth Government	Examples include: <ul style="list-style-type: none"> - Local Roads and Community Infrastructure (LRCI) Program (\$3.25 billion 2020-21 to 2025-26) - Roads to Recovery (\$4.4 billion 2024-29); rising to \$1 billion annually from 2027-28. - Black Spot Program (Approximately \$110 million/year nationally) - Safer Local Roads and Infrastructure Program (SLRIP) \$200 million / year - Disaster Ready Fund (\$200m annually for five years up to 2029) 	Councils are compelled to lodge numerous competitive grant applications to fund essential work. This process increases the administrative burden on councils.
	NSW Government	Examples include: <ul style="list-style-type: none"> - Fixing Local Roads \$691 million - Fixing Country Bridges \$500 million - Regional and Local Roads Repair Program \$500 million Other NSW road grant programs can be found here .	Uncertain and insufficient funding available for councils.

c. Revenue sharing arrangements	NSW Government	NSW Government has no formal revenue sharing arrangement with local government.	
d. Emergency, disaster recovery and resilience funding	Commonwealth Government & NSW Government	Funding provided through disaster recovery frameworks following declared events i.e. Disaster Recovery Funding Arrangements (DRFA).	Critical after major events, but largely reactive and focused on rebuilding, rather than focusing on infrastructure betterment and resilience.
e. One-off or ad hoc funding streams	Commonwealth Government and NSW Government	Includes time-limited initiatives announced through budgets or election commitments. Examples include the Local Government Recovery Grants, which provided immediate, flexible grants of up to \$1 million to eligible disaster declared councils.	Unpredictable and subject to political cycles and election commitments.

Figure C:



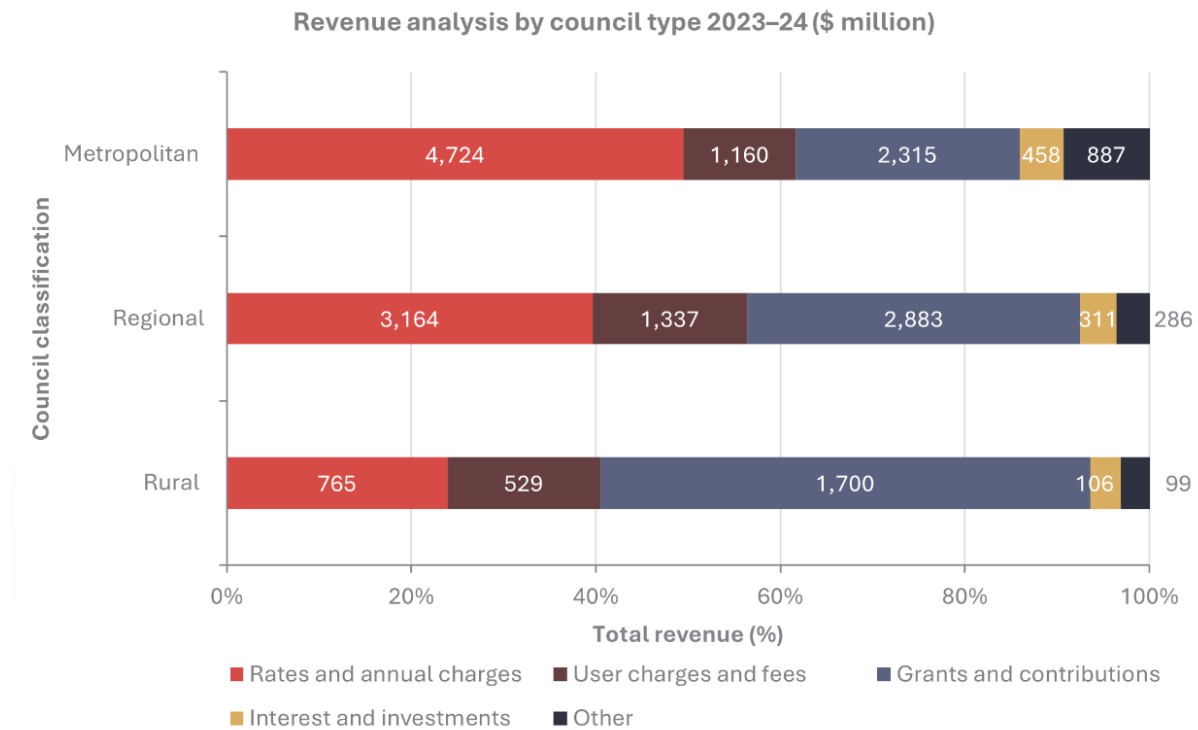
Source: Based on consolidated results of 121 general-purpose councils in NSW that published their audited financial statements for 2024-25 before 31 December 2025.

While councils in NSW receive funding from a wide range of Commonwealth and State programs, grants and contributions revenue decreased by 7 per cent in 2024-25 as depicted in the table above. At the same time, councils have become increasingly reliant on tied, competitive and short-term funding. Tied grants often reflect the policy priorities of the Commonwealth or State Governments and not the priorities of the community. The combination of these factors has resulted in a long-term decline in the certainty and security of funding necessary for sustainable long-term service and infrastructure planning.

It is also important to note that rates remain the primary revenue source for councils and that grants supplement but do not replace council own source revenues.

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

Figure D:



Source: Audit Office NSW, [Local Government 2024](#)

Rates are the major source of revenue for metropolitan and regional councils, however, they make up a much smaller share of total revenue for rural councils. This issue of rates was examined in detail by LGNSW's submission to the previous inquiry. The Committee is asked to refer to LGNSW's earlier [submission](#) for comprehensive analysis on this issue.

LGNSW reiterates our long-standing position that rate pegging in NSW has constrained councils' capacity to raise sufficient revenue to meet community needs. While recent methodological changes, including the introduction of a population growth factor, represent modest improvements, they have not addressed the underlying structural limitations imposed by rate pegging. LGNSW is pleased that the NSW Government has committed to reviewing rate exemptions and the rating system to provide councils with greater flexibility.

Furthermore, LGNSW is firmly of the view that rate pegging should be abolished. Removing the rate peg would provide councils more autonomy in financing community needs. LGNSW has worked constructively with IPART on these issues and will continue to advocate for improvements to the rate setting framework through our participation in IPART's Council Rate Peg Reference Group.

Recommendation 3

That the Commonwealth Government reform the grant funding process for Commonwealth grants to local government to:

- simplify the grant application and administration processes
- increase flexibility through untied grants
- ensure better alignment with community priorities.

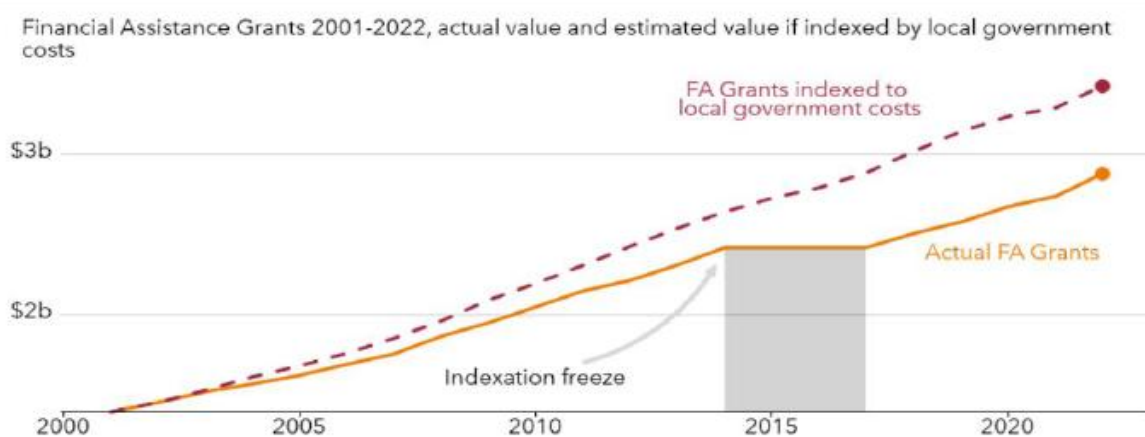
Recommendation 4

That the Commonwealth Government call on the NSW Government to remove rate pegging.

3. Impacts and Effectiveness

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

Figure E:



Source: Grattan Institute 'Potholes and Pitfalls' 2023

As outlined earlier in this submission, FA Grants have declined as a proportion of total Commonwealth taxation revenue over the past three decades, falling from around 1 per cent in the mid-1990s to just over 0.5 per cent today. This structural decline was exacerbated by the three-year freeze on indexation between 2014–15 and 2016–17, which resulted in a significant permanent reduction in the FA Grants funding base. This demonstrated the vulnerability of local government funding to broader fiscal policy decisions.

For NSW councils, the indexation freeze is estimated to have resulted in a cumulative funding loss of approximately \$300 million, with the ongoing funding base around 13 per cent lower than it would otherwise have been. This shift in policy forced many councils to reassess the services and infrastructure they could continue to provide, while others were forced to reduce or discontinue services altogether. Reports from several councils at the time of the indexation freeze noted reductions in services and

operations including childcare services, road maintenance, landfill management and reduced operating hours for public libraries and swimming pools.

Reduced FA Grants have created compounding challenges for councils, including:

- Increased pressure to maintain core services needed by their communities despite declining real funding.
- Increased pressure to raise rates to compensate for declining grants, which may not be possible for communities that do not have the capacity to pay.
- Compromising the horizontal fiscal equalisation principle that FA Grants are designed to support, as councils may need to either raise rates or cut service levels, providing an inequitable outcome between communities.

The uncertain nature of Commonwealth grant funding constrains councils' financial sustainability and infrastructure investment. Councils are often reluctant to commit to long-term infrastructure projects where funding is uncertain or subject to shifting policy priorities. This lack of certainty undermines councils' capacity to plan for and invest in essential infrastructure over the long term.

While FA Grants were designed to provide councils with certain, secure and untied funding, their vulnerability to broader fiscal policy decisions by the Commonwealth Government has undermined this objective. LGNSW strongly encourages the Commonwealth Government to review current funding arrangements and ensure that future fiscal decisions do not come at the expense of local government financial sustainability.

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

It is clear that existing funding mechanisms are not adequately addressing the evolving responsibilities of local government.

As recognised by the Committee in the interim report, councils' responsibilities have expanded well beyond the traditional three "Rs" of rates, roads and rubbish. Councils now play a critical role in delivering and supporting a wide range of functions, including, public health, childcare, climate mitigation and adaptation, cultural facilities, circular economy initiatives and community services. NSW and Queensland councils also have the responsibility of providing water and sewerage services in rural and regional areas.

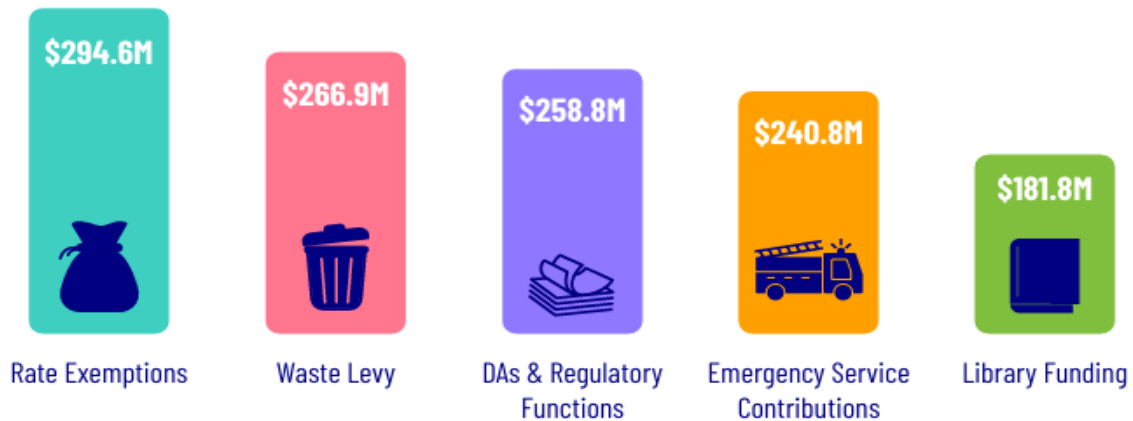
These additional responsibilities are imposed on councils through State and Commonwealth legislation, policy reform and abrogation of responsibility by State and Commonwealth agencies. However, in imposing these responsibilities, other spheres of government fail to factor in the costs to councils in meeting these responsibilities. In the absence of commensurate funding or cost recovery mechanisms, this long-standing practice of cost shifting continues to undermine the financial sustainability of councils across NSW.

As examined in LGNSW's previous submission, cost shifting remains one of the most persistent challenges facing the local government sector. Since the previous inquiry,

LGNSW has released an updated cost shifting [report](#) which revealed that cost shifting totalled **\$1.5 billion in 2023-24**, representing a 10 per cent increase from the 2021-22 result of \$1.36 billion. This equates to almost **\$500** per NSW ratepayer.

Figure F:

Top Five Cost Shifts onto NSW Councils



Source: LGNSW Cost Shifting 2025 Summary [Report](#)

The continued growth of cost shifting, when combined with rate pegging, is significantly eroding councils' financial capacity and limiting their ability to deliver essential services and infrastructure. Road categorisation in NSW provides a longstanding example of this issue which directly affects funding responsibilities. The last completed review took place in 2010, leaving a 15-year gap and a backlog of outstanding recategorisation reviews. Given population growth and development over the last 15 years, there are many roads categorised as local that should be recategorised as state roads, reducing the cost burden on councils. Many councils are looking for the opportunity to recategorise certain local roads as regional and state roads that would receive state government funding.

LGNSW welcomes the NSW Government's new approach to road recategorisation. Under the new approach, councils will be able to submit proposals through an online self-assessment tool and data portal. This is expected to deliver more timely and efficient assessments of roads proposed for recategorisation. However, given administrative and budgetary constraints, progress is expected to be gradual and the financial impacts on councils remain ongoing. LGNSW will continue to advocate for improvements, and for the NSW Government to make adequate budget provision for recategorisation to proceed.

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.

Councils and their communities are increasingly affected by skills and labour shortages. Without skilled staff, councils cannot deliver or maintain essential infrastructure, transport networks, and community services that underpin economic growth and liveability.

Decades of underinvestment in workforce development, traineeships and succession planning have contributed to critical shortages in specialist roles, alongside escalating labour costs. These challenges are particularly acute in rural and regional NSW, where councils face strong competition from the private sector.

Strong regional economies depend on strong local government workforces. Sustainable investment from NSW and Commonwealth Governments is essential to help councils compete in the labour market, offer competitive salaries for high-demand roles, and build workforce capability to plan, deliver, and maintain infrastructure and transport projects.

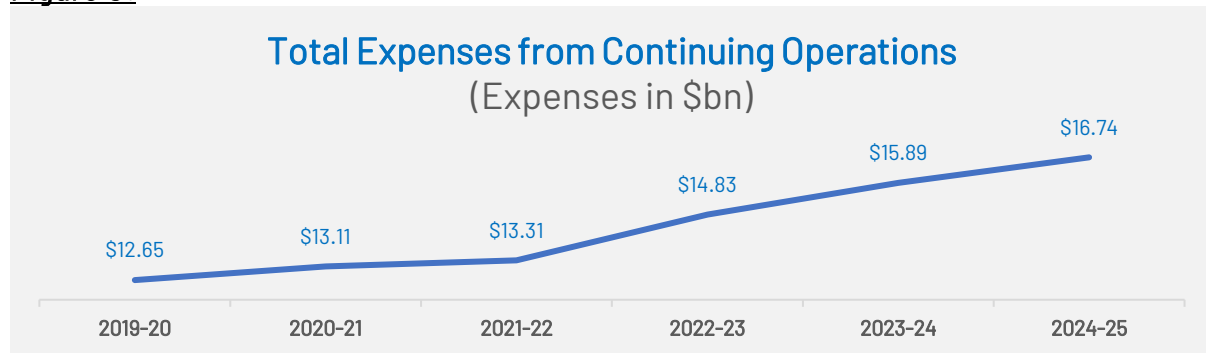
LGNSW welcomed the NSW Government's Fresh Start Apprentices, Trainees and Cadets Program, launched in October 2024, supported by a \$252.2 million investment to rebuild council workforces. This program is highly valued and has already funded 1,300 additional apprentices, trainees and cadets, with councils hiring more than 1,000 new starters.

However, while this initiative provides short-term relief, it does not address the long-term resourcing challenges councils will face once the program concludes. LGNSW calls on the Commonwealth to expand funding dedicated to workforce capability, which is essential to address chronic shortages in critical roles such as planning, building certification, environmental health, engineering and emergency management. Investment in people is as critical as investment in physical infrastructure.

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

Despite constrained revenue settings, councils continue to exhibit their hallmark productivity: doing more with less. However, over the last 5 years operational expenses across NSW councils have increased by approximately 32 per cent, driven largely by increases in construction energy and wage costs.

Figure G:



Source: Based on consolidated results of 121 general-purpose councils in NSW that published their audited financial statements for 2024-25 before 31 December 2025.

These shifts reflect the broader macro-economic environment over which councils have little control. Councils have few levers to assist in their flexibility and responsiveness to changing community need. Inefficiencies in the structure of other income mechanisms, namely FA Grants, state government grants, and the inadequacy of infrastructure cost recovery via development contributions further constrain councils' ability to adapt to growing community needs.

Reversing the long-term trend towards less secure, short-term and conditional funding is essential if local government is to continue supporting liveable communities and productive economies across NSW and Australia.

Recommendation 5

That the Commonwealth Government review the indexation of Financial Assistance (FA) Grants, including the impacts of past indexation freezes to ensure funding arrangements support long term local government financial sustainability. Councils are also calling on the Commonwealth Government to resume and make permanent the advance payment of 100% of the FA Grants allocation. While this does not increase the total amount of FA Grants allocated to councils, it assists with cashflow management and a fixed percentage would provide planning certainty.

Recommendation 6

That all spheres of government urgently work to ensure cost shifting onto local government is addressed through a combination of regulatory reform, budgetary provision and appropriate funding.

Recommendation 7

That the Commonwealth Government work with the NSW Government to:

- Provide dedicated and ongoing funding to strengthen local government workforce capability, addressing skills shortages and enabling councils to compete effectively as employers of choice
- Establish targeted workforce development pathways for critical infrastructure-related roles through scholarships, cadetships, and rural and regional relocation incentives
- Invest in digital capability, innovation and enabling technologies within local government to support service continuity, improve productivity, efficiency and resilience.

4. Previous Inquiry

Consider evidence provided to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport of the 47th Parliament [Inquiry into Local Government Sustainability](#)

LGNSW requests the Committee to consider evidence provided earlier including LGNSW's [submission](#) and evidence provided at the public hearing on 25 July 2024.

5. Other relevant matters

Enabling Infrastructure to support housing and employment

Australia continues to experience a severe and persistent housing crisis affecting rural, regional and metropolitan communities. The shortage of housing supply is placing significant pressure on households, constraining economic growth, and exacerbating workforce shortages, particularly in regional areas where housing availability directly affects councils' ability to attract and retain skilled workers.

Local government has a critical role in enabling housing delivery. However, many councils are constrained by their capacity to fund and deliver the essential infrastructure required to unlock development, including local roads, water and sewerage networks, stormwater systems and community infrastructure. Across NSW, there are substantial areas of development-ready land that cannot be released due to delays in the provision of this enabling infrastructure. For example, the NSW Auditor General's 2025 Local Government [Report](#) found that NSW council-owned Local Water Utilities require a \$1 billion investment to ensure that water supply infrastructure continues to meet current and future service levels.

There is a significant opportunity for the Commonwealth Government to work with the NSW Governments to accelerate housing delivery by investing in enabling infrastructure. Targeted, uncontested funding for councils is essential to ensure that investment flows to areas of greatest need. Councils also require certainty from the NSW and Commonwealth Governments regarding the level and timing of grants to plan effectively and deliver infrastructure that enables housing, employment and economic development.

Recommendation 8

That the Commonwealth Government, in partnership with the NSW Government provide targeted funding for enabling infrastructure to accelerate housing supply and economic development.

Conclusion

The sustainability, resilience, and productivity of local government and their communities depend in large part on their long-term financial sustainability. The ability to provide the right mix of services and infrastructure that meets the needs of local communities is essential to the long-term growth, contribution, and ultimately liveability of communities.

While councils continue to demonstrate strong productivity and a commitment to serving their communities, current funding arrangements are no longer fit for purpose. The Committee's findings in the Interim Report, as well as the findings of the NSW Parliamentary Inquiry into the Ability of Local Governments to Fund Infrastructure and Services, reinforce the need for urgent reform.

On balance, LGNSW proposes the following recommendations for consideration including that the Commonwealth Government:

1. **Increase FA Grants** – Increase Financial Assistance Grants to 1 per cent of total Commonwealth taxation revenue.
2. **Review funding frameworks** – Review legislative and policy arrangements to improve funding certainty for local government.
3. **Reform grant processes** – Simplify application and administration, increase untied funding and better align grants with community priorities.
4. **Remove rate pegging** – Advocate for the NSW Government to remove rate pegging.
5. **Review FA Grant indexation** – Assess past indexation freezes and ensure FA Grants support long-term financial sustainability.
6. **Address cost shifting** – Work across all spheres of government to eliminate unfunded responsibilities imposed on councils.
7. **Support workforce and innovation** – Provide ongoing funding for workforce capability, create pathways for critical roles and invest in digital and enabling technologies.
8. **Fund enabling infrastructure** – Deliver targeted infrastructure funding to accelerate housing supply and economic development.

LGNSW would welcome the opportunity to work with the Commonwealth Government in building a stronger local government sector. For further information, the Committee is welcome to contact Anthony Luu, Senior Policy Officer at [REDACTED] and Shaun McBride, Chief Economist, at [REDACTED]