




NSW Farmers submission to the Inquiry into Local Government Funding and Fiscal Sustainability

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Table of contents

Table of contents.....	0
About NSW Farmers	1
Introduction	2
Recommendations.....	2
Financial Assistance Grants and Infrastructure.....	3
Rates	5
Cost Shifting.....	5
Accountability	7

About NSW Farmers

NSW Farmers is Australia's largest state farming organisation and advocates for issues such as the environment, biosecurity, water, animal welfare, economics, trade, workforce, and rural affairs. Agriculture is crucial, employing more than 75,000 people in NSW and the ACT, and contributing more than \$24 billion to the economy.

Our goal is to reach \$30 billion in output by 2030 by supporting stronger farming businesses. We ensure genuine farmer voices shape policies, and we provide specialist advice, along with valuable member benefits.

Introduction

NSW Farmers welcomes the opportunity to provide a submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport's *Inquiry into Local Government Funding and Fiscal Sustainability*.

NSW Farmers supports the critical need to review local government funding and ensure adequate resourcing for local governments relating to their infrastructure responsibilities. The state of disrepair of roads in regional areas continues to have significant impacts on businesses, communities and safety including the agriculture sector. Poor pavement quality and detours add substantive costs to businesses reliant on the network, in addition to driver fatigue and increased vehicle wear and tire damage. Collectively these factors have flow on impacts to accessing markets, supply chain efficiencies and overall business profitability. In addition, the deteriorating condition of rural roads increases the likelihood of accidents, as drivers must navigate serious potholes, uneven surfaces, and other hazards.

The decline in real terms value of revenue for local government has been compounded by the increasing responsibilities for services to be provided by council, which is leading to an unsustainable situation. NSW Farmers' members have expressed concerns on not just the ability of local governments to finance their services and infrastructure but also of their financial acumen and their expenditure priorities. There needs to be significantly more support from the Federal Government to ensure Local Government can meet its obligations and be more sustainable.

Recommendations

NSW Farmers makes the following recommendations to the Inquiry:

1. That the Australian Government to increase Federal Assistance Grants to a minimum of 1 percent of total Commonwealth Tax revenue to prioritise local road funding and maintenance.
2. That there is a pause on special variation rate (SVR) applications. Should a Council make an application this must trigger an independent, multi-year financial review against a specified set of criteria to validate both necessity and community impact.
3. That the Federal and State Government cease cost shifting to Local Government immediately.
4. That the Federal Government provide whole of life funding for infrastructure projects delivered to Local Government.
5. That the Federal Government clearly define the essential services that a Local Council is required to provide, and ensure that publicly available statistics are used to measure and report on their performance in delivering these services.

Financial Assistance Grants and Infrastructure

Financial Assistance Grants

Ensuring consistent resourcing for regional and rural councils is essential for their fiscal sustainability. The most effective way to achieve this certainty is by restoring and increasing the Financial Assistance (FA) Grants allocated by the Commonwealth to local government to a minimum of 1% of Commonwealth Tax Revenue.

FA Grants are untied regular grants paid to Local governments from the Federal Government. The FA Grants consist of two components being for General Purpose and Local Roads. The road allocation is based on equations which consider road length, bridge length, potential sources of revenue, population and other factors. The requirement for councils to apply for large special rate variations demonstrates the lack of funding certainty for local government. Local government is facing higher costs and does not have the levers to raise revenue through other means, all while they are obligated to deliver an increasingly broad scope of community services for an increasing population.

The state of disrepair of roads in regional areas continues to have significant impacts on businesses and communities including the agriculture sector. Additionally, damage caused by cumulative natural disasters and adverse weather events around the State continues to exacerbate challenges for infrastructure maintenance, especially for local roads. Poor pavement quality and detours add costs to businesses reliant on the network, in addition to driver fatigue and increased vehicle wear in particular tire damage. Collectively these factors have flow on impacts to accessing markets, supply chain efficiencies and overall business profitability and landscape management.

A more sustainable funding model for local government road managers to effectively manage routine maintenance, repairs and improvements to road resilience is critical. Reforms are urgently needed to increase the funding pool to Councils to prioritise maintenance for local roads and bridges. In NSW for example, Councils manage approximately 90% of the road network despite having limited ability to raise revenue to support these responsibilities.

Project-based funding often biases Council's with more resources to manage applications and upfront payments for works prior to reimbursement. A more sustainable model for road funding that moves away from project-based funding to more reliable and regular sources will provide Council's with greater certainty to adequately manage their infrastructure responsibilities.

Historically, the FA Grants were established in the 1980s to be 1% of Commonwealth Tax Revenue (CTR) and this level was maintained when the current model for the FA Grants was enshrined into legislation under the *Commonwealth Local Government (Financial Assistance) Act 1995*. Indexation of the FA Grants was paused in 2014 and resumed in 2017; however, the grants have declined in real terms, falling to 0.5 percent of CTR in the 2025–26 budget.¹

NSW Farmers considers that restoring the FA Grants to 1% of total tax revenue would both increase the funding pool and provide greater certainty to Councils to more adequately manage local roads. This would be an uplift of \$2,400 million nationwide, and restore the principle of vertical fiscal equalisation that recognises that the

¹ NSW Farmers submission to Economic Reform Roundtable Consultation – July 2025

burden of expenditure borne by Councils far outstrips their ability to raise revenue. The critical need for this has been recommended by the NSW Parliamentary Inquiry into the Ability of local governments to fund infrastructure and services which reported in late 2024 and confirmed by the NSW Government in their official response to the inquiry.²

Road Funding in Australia

Action by the Australian Government to provide much greater certainty and increase the funding pool for local government to manage road infrastructure is essential including restoration of the Financial Assistance grants to a minimum of 1% of total tax revenue. In NSW, local government is ultimately responsible for the maintenance of the local road network, with the remaining being major arterial roads and highways managed by Transport for NSW. However, the Federal Government is responsible for raising the largest share of road related revenue.

Road funding comes from the consolidated revenue of the Federal, State and Local Government. There are many taxes and road fees paid by motorists at a Federal and State level to the different levels of Government, these funds are not earmarked directly for road maintenance. They are pooled as part of consolidated revenue, from which Government allocates expenditure based on what they consider necessary. The road users' fees raised by each level of government include:

- Fuel excise (Australian Government)
- Registration fees (State and Territory government)
- License fees (State and Territory government)
- Stamp duty (State and Territory government)
- Other taxes such as luxury car tax, fringe benefits tax, import duties (State and Territory and Australian Government)

Despite Local Government being responsible for road funding, its own source for funding, rates, not road related. Historically, the total money collected from road user charges exceeded money spent on roads however, there has been a structural decline in revenue raised. This is mainly from fuel tax which counts for 45% of road charge fees raised. Fuel efficient cars, the move to electric vehicles and the pause of CPI indexation in 2001, which resumed in 2014, has led to loss of revenue.

State and Local Governments are primarily responsible for arterial and local roads respectively. For the expenditure side, the State and Territory Governments are heavily reliant on Federal Government for funding. State and Territory expenditure on roads are double their road related revenues. The Commonwealth has no direct constitutional funding responsibility for roads, however its power lies in its taxation ability, which is then redistributed to State and Local government largely through direct grants for building new projects and untied grants to local Government for maintenance. The final road expenditure in 2021-22 is \$36 billion. After accounting for grants, the Federal, State and Local Government components are \$7.7 billion, \$22.6 billion and \$5.8 billion.³

² NSW Farmers submission to the Joint Standing Committee on Road Safety Inquiry into Interventions to reduce road trauma in regional NSW caused by speeding, fatigue, drink and drug driving – July 2025

³ The Bureau of Infrastructure and Transport Research Economics (BITRE) *Australian Infrastructure and Transport Statistics - Yearbook 2023* <https://www.bitre.gov.au/sites/default/files/documents/bitre-yearbook-2023.pdf>

Recommendation: That the Australian Government to increase Federal Assistance Grants to a minimum of 1 percent of total Commonwealth Tax revenue to prioritise local road funding and maintenance.

Rates

Increasing financial pressures on local government, especially in regional areas, is leading to an increased reliance on rates and rateable land as a source of revenue. This burden increasingly falls on farmland in regional areas, a strong business driver of regional communities. Rates fall on the land, which is an essential requirement for agricultural production. The tax on the value of the land has no relation to the farmer's or the land holder's income and therefore ability to pay. Rates in NSW usually increase over time, through rate pegging which increases the liability from what is in effect a land tax. The rate increases disproportionately affect agriculture's profitability more than other businesses. The rate peg in NSW is designed to cap the increase in local government rates on properties. However, in NSW the process of Special Variations of Rates (SVR) is increasingly being used to raise rates above this cap, which removes the purpose of a rate peg in the first instance.

The requirement for councils to apply for large SVRs demonstrates the lack of funding certainty for local government. Local government is facing higher costs and does not have the levers to raise revenue through other means, all while they are obligated to deliver an increasingly broad scope of community services for an increasing population. The Committee should inquire if funding local government through rates on property model is the most effective system of funding local government. For more information on key issues regarding local government rates in NSW, please see NSW Farmers [submission](#) to the NSW Legislative Council's Standing Committee on the State Development's inquiry into and report on the ability of local governments to fund infrastructure and services.

Recommendation: That there is a pause on special variation rate (SVR) applications. Should a Council make an application this must trigger an independent, multi-year financial review against a specified set of criteria to validate both necessity and community impact.

Cost Shifting

A huge issue for local councils that is adding to their expenditure requirements is what is known as 'cost shifting'. Cost shifting is when councils are forced to assume responsibility for infrastructure, services, and regulatory functions by the State and Federal Government. Local Government NSW has estimated the total cost shifts to councils in 2021-22 was \$1.36 billion. Cost shifting is done through different methods such as granting ownership of roads to local government. In the 1990s the state government reclassified many roads as local or regional requiring councils to own and maintain them, the estimated annual cost of this is around \$66.2 million for 2020-21⁴.

An example of cost shifting, especially in regional areas, are exemptions to rateable land for Crown properties such as National Parks and the Forestry Corporation of NSW. When a property is purchased by the NSW

⁴ Local Government NSW 2023. *Cost shifting 2023: How State Costs Eat Council Rates*
https://lgnsw.org.au/common/Uploaded%20files/Cost_Shifting/ML_Report-LGNSW-Annual_Cost_Shifting.pdf

Government, it loses rateability. The council under rate pegging does not lose its pie size in terms of the amount they allocated for farmland rating. Therefore, all ratepayers in the farmland category will have to pay more for the reduced rate base plus the pegging amount, unless the council decides to share the loss across all categories. This sees farmers paying increased rates above the pegging rate allowable. If Councils can't pass on the losses to other rate payers, they would become unviable.

National Parks have plans to expand beyond on what they have already done, especially in far west NSW. The far west is more reliant on agricultural land which creates heavier burdens on them when a National Park is created. Forestry NSW is purchasing more land in regional NSW and their activity brings in additional revenue for the State Government while reducing a revenue source for councils⁵. As a result of logging the movement of heavy vehicles create additional road damage during harvesting, which the Council has to pay for. These examples of cost shifting will become worse. In light of rising rates on farmland and special variation rates, the exemptions on Crown Land and in particular Crown Land used for commercial purposes, needs reassessing, as they represent another cost which will be largely borne by farmers.

NSW Councils are required to fund 11.7 per cent of the NSW SES, NSW Fire and Rescue and the NSW RFS budgets through a direct contribution levied each year by State Revenue Office. This has to be funded through general revenue, and the councils have no control over these funds or the budgets of the organisations. Some of the funds from the Rural Fire Fighting Fund (RFFF) is distributed to the RFS Zone District to administer repairs and other works, and hazard reduction funds are channelled back to the Council for Roadside and village reduction work.

The amount is usually not enough, and the Council has to take up the responsibility of funding the difference to the Zone District and their own responsibilities. An example is Blayney shire council in 2019-2020, the RFFF contribution from council was \$256,423 and in 2023-24 the contribution from council was \$420,158⁶. This represents a 64% increase in four years well above the inflation for that period, which must be funded from general revenue. The NSW Government also granted Councils ownership over the RFS red fleet which means the depreciation value of the assets is an additional expense on the council's profit and loss statement. Lack of knowledge of the depreciation value and whether the council will have a new truck makes the budgeting process difficult.

An example of Federal cost shifting is the expectation that councils are required to fund the repair and maintenance of capital works such as roads delivered by the Federal and State grant funding. Grant funding provided by the Federal Government to the Local Council for a project should be whole of life. Local Councils should not be expected to bear the long-term costs of a project.

The examples provided above demonstrate the increasing cost burden and responsibilities local governments have to finance. Wages especially have gone up, including for local government staff whose award rate rises were approved by the NSW Government without requirements for productivity improvements. As their responsibilities increase, so should the support they receive from higher levels of government such as the Commonwealth which have a strong taxation ability and base.

⁵ Ibid

⁶ Blayney Shire Council *Quarterly Budget Review Statement* (2023 Q4)

Recommendation: That the Federal and State Government cease cost shifting to Local Government immediately.

Recommendation: That the Federal Government provide whole of life funding for infrastructure projects delivered to Local Government.

Accountability

Members have expressed concern about what should be considered core and noncore priorities for local governments. While each council operates uniquely, it is important to clearly define essential services and determine if increased rates will support these core needs. Providing more detailed information can boost transparency and empower the public to hold their councils accountable.

Recommendation: That the Federal Government clearly define the essential services that a Local Council is required to provide, and ensure that publicly available statistics are used to measure and report on their performance in delivering these services.