

3 February 2026

Submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport Inquiry into Local Government Funding and Fiscal Sustainability

Yass Valley Council welcomes the opportunity to provide a submission to this critical inquiry. Financial sustainability is a real and major concern facing Yass Valley Council, due to long-standing systemic funding issues including rate capping and cost shifting. As CEO of Yass Valley Council, I present the following points for submission to the Standing Committee. These reflect the on-the-ground realities and significant financial pressures faced by a small/regional council in NSW.

Interactions between Governments and Funding Sources

Local government receives funding from three primary sources: own-source revenue (primarily rates, fees, and charges), the Australian Government via Financial Assistance Grants, and state/territory governments tied grants and specific-purpose payments.

- **Financial Assistance Grants:** FAGs are essential untied funds, especially for councils in rural and regional NSW with limited ratepayer bases. The issue is their value has been in consistent decline, falling from 1% of Commonwealth taxation revenue in the mid 1990's to around 0.51% currently. The erosion of this funding means that we have less flexibility to address our unique local priorities, forcing difficult choices about essential service delivery and infrastructure maintenance. FAGs are vital, particularly for rural and regional councils with smaller population bases and limited revenue-raising capacity. This decline, coupled with a methodology that some argue disproportionately benefits growing metropolitan councils, has hampered the ability of many councils to maintain essential services and infrastructure.
- **Tied Grants & Competitive Programs:** The overwhelming reliance on tied and competitive grants creates operational and cashflow challenges. Council often secures funding for new assets, but the ongoing operational and maintenance costs must be absorbed into our general revenue, straining even further out tight operational budgets. Furthermore, competitive grant processes often favour larger metropolitan councils with dedicated resources for grant writing and co-contribution capacity, placing smaller councils at a distinct disadvantage. For Yass, this means when we are successful in securing tied grants for *new* infrastructure, which rarely include a legacy component for maintenance, we are forced to choose between letting existing assets (like our extensive 1,200km road network) deteriorate or diverting funds from essential services to maintain new grant-funded assets.
- **Emergency & Disaster Funding:** The disaster recovery funding model is a major pain point. Council is required to fund recovery and reconstruction efforts upfront and then seek reimbursement, which presents significant cashflow risks, especially for those with limited financial reserves. The lengthy and complex acquittal processes and specific interpretation of guidelines (e.g., assets not being in 'as new' condition prior to the event) often result in delayed reimbursements or ineligible claims, further impacting our finances. Following successive natural disasters, Yass Valley has faced significant cashflow pressure. The requirement to fund multimillion-dollar recovery works upfront and wait for reimbursement, can involve eligibility disputes over "pre-existing condition" putting at risk our liquidity.
- **Cost Shifting:** NSW councils are bearing an increasing burden of cost shifting from state and federal governments, estimated at around \$1.5 billion annually. This occurs when other levels of government mandate new responsibilities, services, or regulatory functions without providing sufficient accompanying funding. The impact of cost shifting from State and Federal government to local councils impacts the rate

payers of large rural councils most significantly Recent examples include Planning panel arrangements. This is well documented in the 2025 LGNSW Cost Shifting Report – How State Costs Consume Council Rates prepared by Morrison Low in June 2025 for LGNSW - https://www.lgnsw.org.au/common/Uploaded%20files/Cost_Shifting/Cost_Shifting_Report_2025.pdf

The Emergency Services Levy remains the most egregious example of cost shifting. In 2025 and 2026, the sudden increases in state-mandated contributions instantly wipes out any modest gains from the rate peg.

Impacts and Effectiveness

- **Financial Sustainability & Service Delivery:** The NSW rate pegging system is a major impediment to financial sustainability. It has failed to keep pace with the actual cost increases incurred by councils, leading to an erosion of financial independence and a significant infrastructure backlog. While changes to the methodology have been introduced recently, the changes do not adequately respond to the current issues NSW Local councils are facing, nor do they come close to addressing the long-term impact of the shortfall. The rate pegging systems creating an artificial suppression of essential funding creating a barrier to financial sustainability and making it a necessity for frequent and politically controversial Special Rate Variations (SRVs). The fact that so many NSW councils, including those in our region, are forced to seek Special Rate Variations (SRVs) proves the core methodology is broken. Relying on a high-cost, adversarial application process to achieve a baseline sustainable budget is an inefficient use of ratepayer resources, further highlighting the model is not fit for purpose.

In states where a rate peg system is not imposed, Councils are able to manage the financial burden flowing from state and federal cost shifting, by adjusting rates or levying the relevant fees and charges. The inadequacies of the NSW rate pegging system is identified by IPART in their 2023 report, as is the inability for local councils to generate the required revenue to recover the full cost of providing services which are the result of cost shifting.

https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Report-Review-of-the-rate-peg-methodology-August-2023.PDF (p127).

While Yass Valley experiences significant population overflow from the ACT and regional growth, the IPART rate peg fails to account for the real-world cost of expanding service networks. In 2026, Yass remains trapped by a legacy of under-indexation that has seen costs for road materials and professional labour far outstrip our regulated revenue growth.

- **Evolving Responsibilities:** Councils' roles have expanded far beyond "roads, rates, and rubbish" to include complex community services, environmental management, and emergency response, often without adequate funding to match these evolving responsibilities.
- **Barriers to Infrastructure & Workforce:** A severe, widespread shortage of skilled workers (e.g. Engineers, town planners, civil construction workers) is delaying critical infrastructure projects across regional NSW. Yass Valley operate in a hyper-competitive labour market where we lose skilled workers to high-paying federal and state government roles in the ACT. As our operational funding is constrained by the rate peg, Yass Valley Council cannot always offer the permanent, competitive salaries required to attract top-talent. This often leads to a counter-productive reliance on expensive contractors and consultants to fulfill statutory duties, which ultimately costs the ratepayer more than a stable, in-house workforce would.
- **Productivity & Coordination:** The complexity of navigating numerous legislative frameworks and increasing compliance requirements reduces productivity. Opportunities exist for better coordination and resource sharing, though these require supportive policy frameworks.

Recommendations

Yass Valley Council puts forward the following recommendations for the Committee's consideration:

- Increase FAGs: Advocate for the Australian Government to increase the total pool of Financial Assistance Grants to at least 1% of Commonwealth taxation revenue and ensure fair distribution to councils with the greatest relative disadvantage.
- Reform the Rating System: Redesign the local government rating system in NSW to provide councils with greater flexibility in setting rates, in consultation with their communities, and move away from the rigid rate-pegging system.
- Address Cost Shifting: Implement mechanisms to ensure that state and federal governments fully fund any new or expanded responsibilities shifted to local government.
- Streamline Disaster Funding: Provide more timely, less administratively burdensome, and ongoing funding for disaster mitigation, preparedness, and recovery, incorporating "betterment" principles.
- Workforce Planning: Coordinate with state and federal governments on a national strategy to address skilled worker shortages in local government, including training pathways and incentives for regional employment.

C/o – Gayleen Burley