



RESPONSE
***Inquiry into Local
Government Funding
and Fiscal
Sustainability***

Submission by:

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Inquiry into Local Government Funding and Fiscal Sustainability

Introduction

The Country Mayors Association of NSW (CMA) represents 90 councils located in remote, rural and regional NSW as well as five associate members. The CMA's goal is to promote and advocate for our Member Councils and the communities they represent across a broad range of matters as well as for Local Government sector as a whole.

In operation for over 45 years, the CMA looks to create genuine, respectful and productive relationships with State and Federal Governments to empower, engage, promote and deliver positive outcomes for regional NSW.

The CMA responded to the Committee's first Inquiry on this matter and with the reopening of the Inquiry, welcomes the opportunity to provide a further submission for the Committee's consideration.

Many councils in remote, rural and regional NSW are faced daily with choices about what services they can cut, maintenance and capital expenditures can be delayed, and how they can remain competitive in a skills shortage environment. The reasons they are facing these questions every day is because they are facing a financial sustainability crisis.

We know and recognise that local government is government at the grassroots. In remote, rural and regional NSW, being at the grassroots means that councils become the provider of last resort, whether it is for aged care services, child care, providing training programs or even holding Medicare provider number for the local medical centre that has been build and fitted-out by council in order to attract medical and allied health services.

Market failure in remote and rural communities means that councils are often forced to step into the gaps that are usually filled by commercial operations to ensure that residents have equitable access to services that many in metropolitan communities take for granted. Either the council steps up or its residents must go without or travel hundreds of kilometres to access a service or facility.

The situation is compounded because many of our remote and rural Local Government Areas cover areas similar to small European countries, for example, the two largest LGAs in NSW by size Carrathool Shire and Wentworth Shire are the size of some countries. Carrathool is 53,992 sq kms making it larger than Switzerland (43,947 sq kms) and slightly smaller than Croatia (56,594 sq kms) while Wentworth

Shire at 26,256 sq kms is around the same size as Rwanda (26,338) and slightly larger than Israel (21,937). They are the extreme examples; however Hay Shire (11,325 sq km) and Murray Shires (11,863) are both larger than Lebanon.

While their areas are large, their populations are small and spread across multiple towns and villages. The consequence of this population spread is a demand on remote, rural and regional councils to provide services and facilities at multiple locations. There is virtually no viable public transport system operating in remote and rural LGAs which means councils do not have the option of consolidating public services and facilities in single locations. Therefore, if councils are committed to providing reasonable access and equity outcomes for its residents, they must provide and maintain multiple public pools, recreation and playing fields, parks and gardens and libraries including in some cases mobile library services. In addition, there are multiple administration outlets, landfill locations and kerbside rubbish collections that cover hundreds of kilometres.

The CMA believes that there is insufficient recognition of the unique challenges that local governments in remote, rural and regional NSW face in order to ensure equitable access to services and facilities for its residents.

The more that State and Federal Government, private enterprise and not-for-profits step away from the provision of services and facilities in our remote and rural communities, because of the costs involved, the more Local Government is forced to step-up. It is hardly surprising therefore, that finances have reached a breaking point.

Identification of Funding Sources

In NSW, Local government revenue is received from the following sources:

- Local Government Financial Assistance Grants through Commonwealth Grants Commission via the NSW Grants Commission
- Land Rates which are set by the NSW Independent Pricing and Remuneration Tribunal (IPART). Councils are able to apply to IPART for the Special Rate Variation for an increase beyond the rate peg.
- Charges for services such as sewerage, water and waste management.
- Fees for services such as inspections
- Levies such as Section 7.11 and 7.12 development contributions
- Grant funding for special projects sourced from the Commonwealth and State Governments

Local Government Financial Assistance Grants

The CMA is firm in its belief that the quantum of funds distributed through the Commonwealth's Financial Assistance Grants is insufficient to meet the growing costs and demands that Local Government must meet. While successive Federal Governments have relied on the increase in the dollar value of the Financial Assistance Grants to justify their investment in grassroots government, the fact is that as a percentage of the total tax revenue the amount provided has halved.

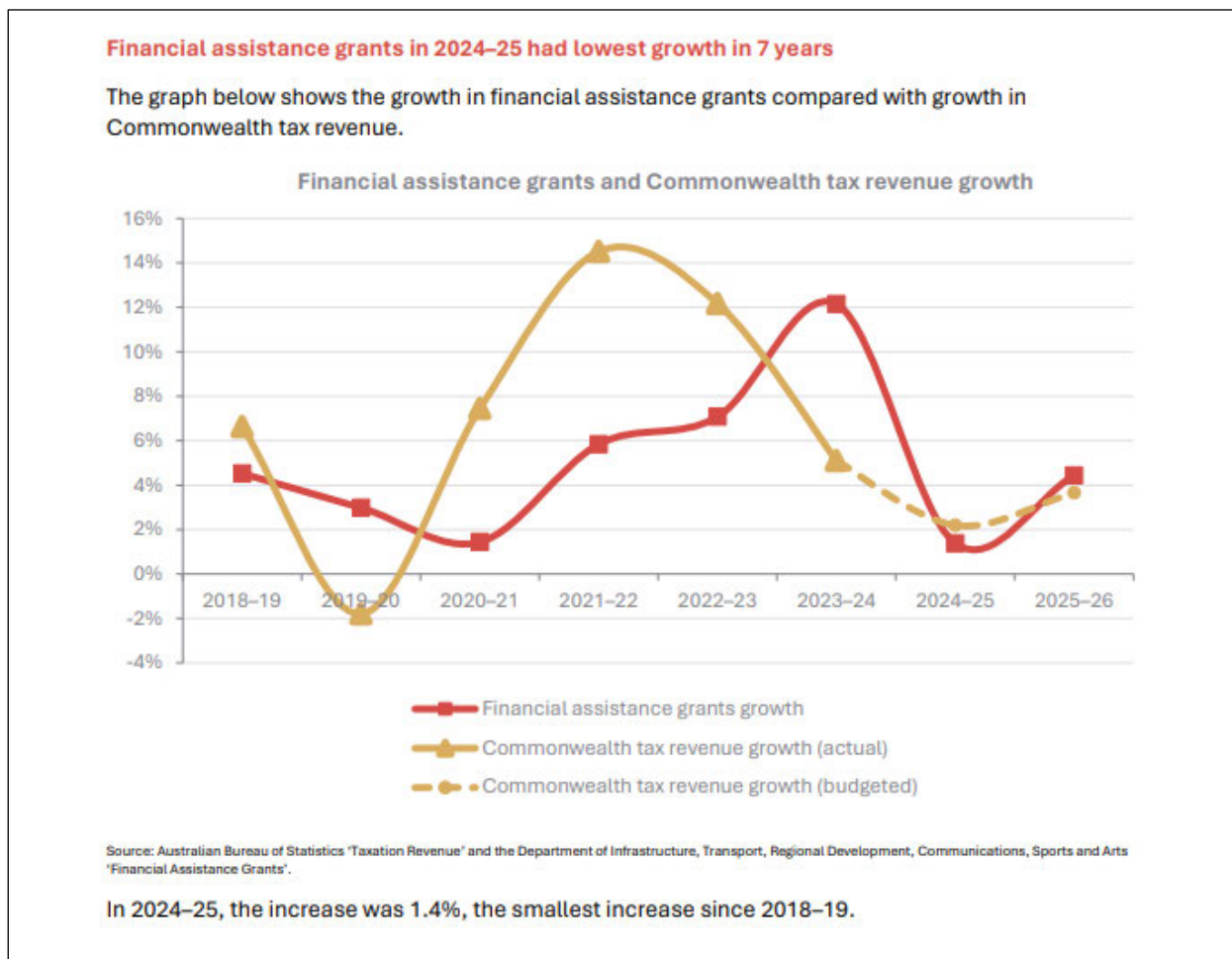
The services and facilities that Local Government provides to Australians has expanded over the decades and the costs of providing them has risen. However, the Federal Government has walked away

from providing sufficient funding to deliver those grassroots services, that Australians use every single day. In remote, rural and regional Australia councils are the largest provider of arts and cultural services and facilities, the largest provider of facilities for sports and recreational infrastructure and the level of government responsible for waste management, roads, footpaths and cycleway as well as clean safe water supplies.

Local Government is integral to the delivery of welfare and wellbeing of every community across Australia, yet we are not at the table working with the Federal Government to determine the real cost of that service delivery. It has been too easy for the Federal Government to cut their real dollar contribution to Financial Assistance Grants, using a range of justifications that leave councils explaining to residents why their library hours are being cut, or why sporting clubs must pay more to use playing fields.

Under the *Local Government (Personal Income Tax Sharing) Act 1976* (Cth), the percentage of Commonwealth net personal income tax collections legislated for distribution to local government councils was phased in, beginning at 1.52% in 1976–77 and increasing to 2% by 1980–81.

The NSW Auditor General in his recently released report *Local Government 2025* highlighted the following:



The NSW Auditor General notes in his report:

The value of the Financial Assistance Grants has declined from about one per cent of Commonwealth taxation revenue in the mid-1990s to approximately 0.5% today.

The CMA believes that it is imperative that the quantum of funds allocated to the Financial Assistance Grants is restored to 1% of the total income tax revenue received by the Commonwealth. We do not believe that this request is unreasonable, given the breadth and depth of services and facilities that councils provide for their residents. We support the approach advocated by the LGNSW and ALGA that the funding be restored gradually over a period of years to minimise its impact on the Commonwealth Budget.

Land Rates

Land rates in NSW are rate-pegged, meaning that councils have no control over the level at which they are set, IPART has that responsibility. Rate pegging continues to be a contentious issue in NSW because the process of pegging rates by the State undermines the ability of councils to effectively deliver the services and facilities that their communities need and demand.

IPART's stance in relation to determining the rate peg is to ensure that Councils are able to continue to deliver Business-as-Usual (BAU). The rate peg is meant to consider the price rises impacting on councils and then account for these in the determination, to ensure that rising costs are met. IPART can also factor in productivity gains to water-down the quantum of the rate increase.

Skill shortages in remote, rural and regional Australia remains one of the biggest challenges to councils as they are forced to increase wages to attract professional staff. However, the rate peg has consistently failed to factor in the rising costs of wages, given that around 40% of a council's total expenditure is on wages the financial impact of this failure is significant. Temora Shire Council reports that the additional revenue derived from the 2025 rate peg was \$241,812 while the total wage increase for the Shire was \$299,260 a shortfall of over \$57,000. While Ballina Council's revenue increased by \$1,152,000 but its wages bill increased by \$1,435,355 a shortfall of \$283,355.

IPART recently adjusted its methodology to take into account permanent population growth and the estimated cost increase of the NSW Emergency Services Levy in NSW for individual councils. This is a significant change for IPART as it recognises that different councils have different costs. Nevertheless, the new approach has still not generated sufficient rates revenue to allow councils to operate on a BAU footing.

The rate peg is supposed be set at a level that allows councils to undertake BAU, meaning that it should cover the increases in the day-to-day operations of the councils. However, it has completely failed to deliver on this aim, we now find councils seeking Special Rate Variation to cover the increased cost of wages. What has resulted is councils being forced to make decisions to push liabilities further down the line, delay the maintenance of community infrastructure, cutback on service or a combination of all three.

Increasingly, it is also resulting in the inability to attract skilled workers because councils cannot compete in a highly competitive labour market environment. Local Government's inability to attract skilled workers has resulted in an increasing reliance on third-party providers which inevitably increases costs.

In addition, because IPART's approach to BAU result, the rate peg does not factor in the cost of enhancing, increasing or introducing new services consequently undermining the ability of councils to effectively deliver the commitments made to their communities through the Integrated Planning and Reporting regime. Councils are forced to reduce one service in order to increase another in a no-win scenario because the rate peg insists it is supporting a Business-As-Usual regime.

The calculation of the rate peg fails to consider policy changes or additional regulatory burdens which create additional cost burdens for councils. Where councils are required to deliver new regulatory functions, the State will often advise that the council can set charges to recoup the attendant costs. While this might work for councils with large population bases operating over a small landmass, for small councils the quantity of transactions undertaken rarely cover the actual costs in delivery. There is simply not the volume of work available to generate sufficient income to cover the costs unless councils make the decision to charge substantially for the regulatory service. However, revenue can be limited either by the State setting a ceiling fee for the service or the council deciding the cost-recovery fee would be prohibitive.

Additional regulatory or reporting requirements introduced by the State can lead to the need to either the recruitment of new staff or the engagement of specialist consultants to fill knowledge and skills gaps in councils. Again, this is an increase in costs beyond council control, which is not currently factored into setting the rate peg.

The introduction by the OLG of the Audit, Risk and Improvement Committees (ARIC) is yet another example of a cost impost that is beyond councils' control. The cost of an ARIC for most rural and regional councils is around at least \$50,000 per year, the cost can only be met if councils reduce their expenditure in other areas. The cost of the ARIC is in addition to the increasing costs of the NSW Audit Office's financial auditing of councils, which for some has been as much as 40-50% over the previous financial year.

The rate peg has taken a significant toll on NSW Local Government's ability to both meet the growing demands of its residents but to maintain services at current levels. The CMA believes that the rate peg has impacted on councils in the following ways:

- Required councils to find efficiencies – however efficiencies are finite in nature and eventually manifest themselves in maintenance and service cuts.
- Reduction in services and reduced and delayed maintenance on infrastructure
- Undermining service provision
- Increased the pressure on staff to continually deliver more with less
- Reduced the attractiveness of local government as an employer of choice
- Reduced the financial viability of councils
- Impacted on the ability of councils to deliver on their Community Strategic Plans

In addition, the rate peg makes no proper provision for the unique external factors that generate additional cost burdens for remote, rural and regional councils such as:

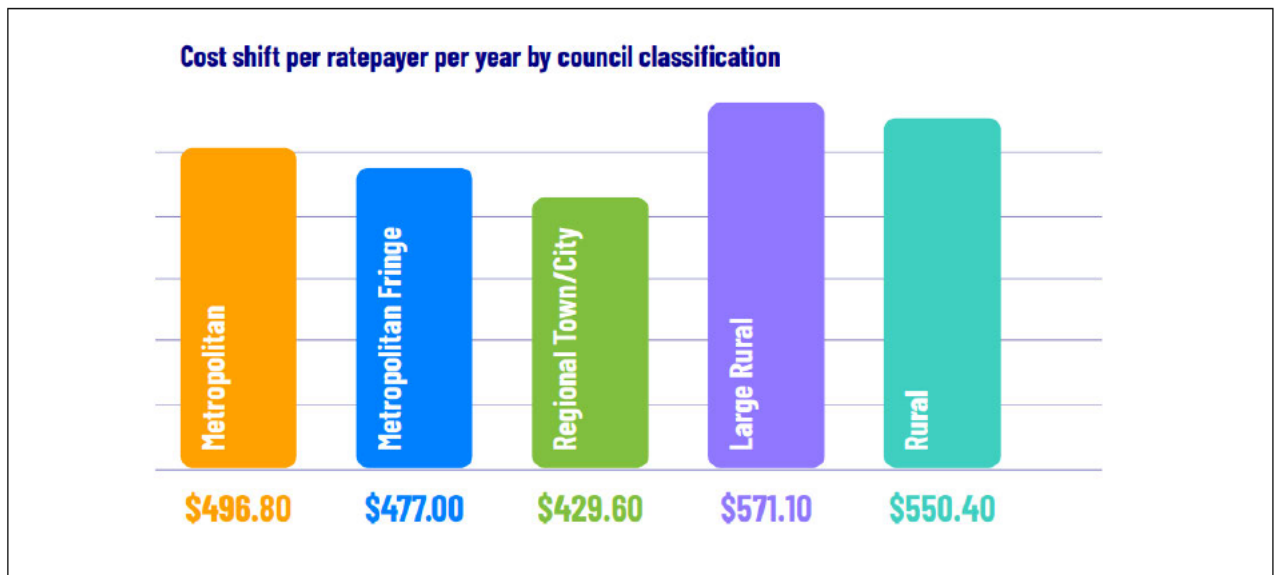
- The Rural Fire Service Contribution
- The introduction of new regulations or policy changes that create an additional financial or resourcing impost on councils such as the introduction of the ARIC regime, or the requirement to account for Rural Fire Service Equipment on asset registers.
- Natural disasters

- Population Density
- Aboriginal & Torres Strait Islanders
- Environment such as Rainfall, topography and drainage
- Tourism Influx – population growth that must be serviced to accommodate a regular influx of tourists
- Remoteness.

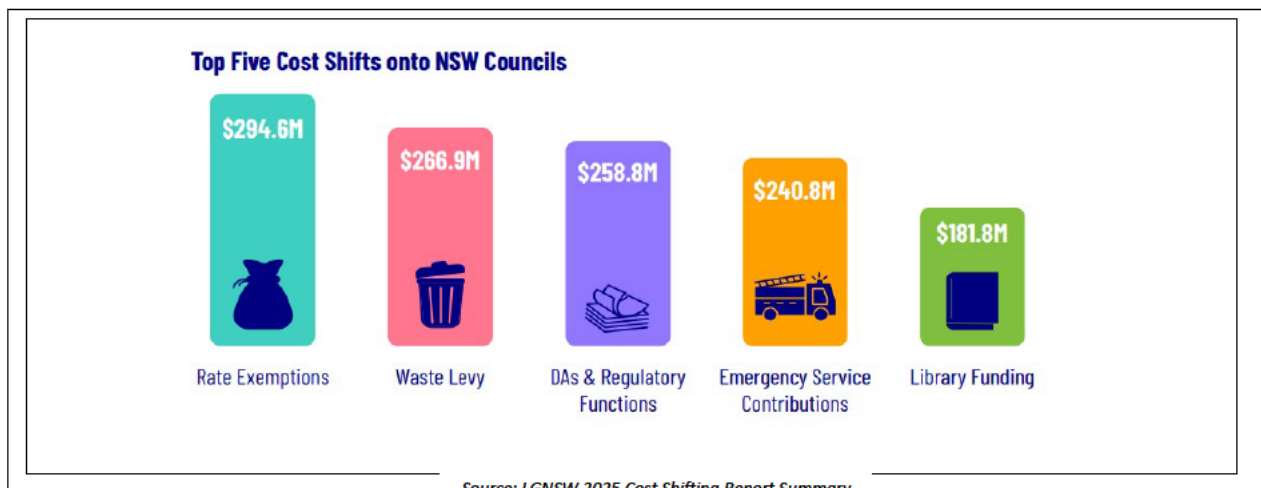
The rate peg also fails to adequately compensate councils for cost-shifting, which creates an on-going Vertical Fiscal Imbalance (VFI). According to the Australian Productivity Commission a VFI occurs where there is a misalignment between revenue collections and expenditure responsibilities.

The LGNSW 2025 Cost-shifting Survey found that the total cost of the practice, whereby the State Government shifts the cost of providing a service or infrastructure to Local Government to be \$1.5 billion per annum, with the costs falling hardest on rural and remote ratepayers.

The Federal Government is also culpable in this area. Increasing, as the Commonwealth reduces services in particularly remote and rural areas, Local Government is left to pick up the pieces. Whether that be a kiosk operation providing the administrative acts once undertaken by the Commonwealth or the provision of facilities that once would have been funded by the Federal Government.



LGNSW estimates the practice of cost shifting has imposed an estimated cumulative burden of more than \$11.31 billion over the last decade. LGNSW has consistently found, as a result of its annual survey that the following five activities represent the largest of the cost shifts.



- **Rate Exemptions** – in NSW, councils are required to exempt the not-for-profits such as private schools, non-government social housing providers and profit-driven State-owned cooperation such as the Forestry Corporation and Essential Energy from the payment of rates.

Rating should be based on the use of the land, not its ownership. This approach would support the principle of competitive neutrality by ensuring that the same land uses are rated the same way regardless of the ownership of the property.

The CMA does not believe that it is appropriate that ratepayers in an LGA pay for the exemptions that are provided to organisations that carry-on income generating activities. For example, the activities of charities and community housing operations create demands for council services and infrastructure, the cost of which are being met by other ratepayers.

In some instances, the exempt enterprises are in direct competition with private providers, for example two nursing homes may operate side-by-side, the one operated by the private provider is paying rates, the one operated by the registered charity is not. Only one receives the exemption, yet both have comparable demands on council's services and facilities and both are competing for market share.

In LGAs where vast amounts of land are exempt from rates because they are held by the State for forestry or parks, councils miss out on rate income, despite the need to provide services such as local roads and infrastructure to the land.

In addition, the NSW Government does not fully reimburse local councils for mandatory pensioner rate rebates has resulted in councils losing \$55.2 million¹. This does not include the cost of administering the mandatory pensioner rebates, as each pensioner claim needs to be registered and their details checked by the council. The CMA believes that the pensioner concession is a form of welfare assistance and consequently the cost of the concession should be 100% met by the State Government.

- **Emergency Services Levy** – the ESL and associated emergency service contributions, which totalled \$165.4 million in 2023 when combined with the cost of depreciating Rural Fire Service assets (see “Red Fleet” below) represents the largest direct cost shift to local councils. In 2024–25, councils contributed \$240.8 million through the Emergency Services Levy.

Rural councils bear the burden of the rising costs of the Rural Fire Service, the RFS does not set an annual budget but instead prepares a “bid” for funding which is approved by the relevant Ministers. There is no independent oversight of the RFS budget which has seen its revenue rise from \$370,542,000 in 2013 to \$520,348,000 in 2019 to \$628,069,000 in 2023 to \$712,049,000 in 2025.² In 2020 the revenue \$988,251,000³, we understand this was the result of RFS making allowances for anticipated rises in Worker Compensation costs.

¹ Morrison Low: *LGNSW Cost Shifting Report – How State Costs Eat Council Rates*, <https://lgnsw.org.au/Public/Public/Advocacy/Cost-shifting.aspx>, pg 26

² RFS Annual Reports, <https://www.rfs.nsw.gov.au/resources/publications/annual-reports>

³ Ibid.

Needless to say, councils revenues are not increases at a similar pace, leaving councils struggling to meet increasing costs in the ESL. Temora Shire Council reports that this Financial Year its ESL contribution has increased by \$69,602.00 to \$588,489.00 (a real increase of 14.5%). IPART when determining the rate peg for Temora factored in an increase in the ESL of 0.5% which generated additional rates' revenue of \$1,209.00. The shortfall must come from General Funds.

The Red Fleet Issue

The ownership of and control of firefighting assets used by the NSW RFS in remote, rural and regional NSW has been an on-going issue for Local Government.

The issue has arisen because the *Rural Fire Service Act 1997* (NSW) vests the ownership of any asset purchased with the Rural Firefighting Fund with the local council. Virtually every asset used by the RFS is purchased through the Fund. As a result, rural councils have found themselves being required to list RFS-controlled assets on their asset registers and depreciate them.

Councils have no control over these assets, they do not decide when to buy or sell them, when or how they are maintained or when and where they are deployed. The larger equipment like trucks are actually registered to the RFS not councils, so councils are depreciating assets to which they have no legal title. The costs of the assets' depreciation are not met by the RFS even though the Agency as the total benefit and control over them.

The RFS has estimated that the gross value of these assets is \$1.6 billion, with accumulated depreciation of \$1 billion for a net of \$0.6 billion⁴ – all of which is carried by NSW Local Government. The hit on council bottom lines as a result of being forced to carry the depreciation expense is significant. A 2025 NSW Public Accounts Committee Inquiry recommended the transfer of the assets to State ownership.

- **Public Libraries** - The NSW Government is failing to meet the originally committed 50% of the cost of libraries' operations. NSW has the lowest State Government per capita contribution to public libraries of all States and territories in Australia. It is local government that is picking up the funding shortfall of which LGNSW estimated to be \$181.8 million for 2025, which must be covered from council's General Fund.

Fees for services such as inspections

Councils in remote, rural and regional NSW find it very difficult to raise money from fee for service what is commonly known as (own-source income). While the practice of charging fees for the services residents consume seems perfectly reasonable, the reality for remote and rural councils is that low population numbers, the tyranny of distance in providing services coupled with lower populations

⁴ NSW Public Accounts Committee, *Inquiry into the assets, premises and funding of the NSW Rural Fire Service* (2025), Supplementary Questions to the NSW Rural Fire Services, at: <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=3028#tab-otherdocuments>

results in higher service costs and very little revenue. In some instances if councils were to charge the real cost of providing a service or facility, there would be a public outcry deriding the unfairness of it all.

In metro areas many councils are able to resort to parking and parking fines to raise the additional money they require, however this is not feasible for small country towns where parking is simply not a premium commodity.

Fees and charges for services such as sewerage, water and waste management

The fees from these services are “ring-fenced” and must be used for the purpose for which they were collected. In smaller councils where staff wear many hats, it is not uncommon for a staff member’s costs to be partially met by sewerage or water funds. Consequently, for many councils the delivery of the services are integral to their ability to pay competitive wages.

In late January 2026, the NSW Auditor General released The NSW Report on Local Government⁵ advising that councils required \$1.5 billion to upgrade and replace essential water and sewerage infrastructure.

While most councils when exercising their role as a Local Water Utility (LWU) do make provisions for system upgrades and replacements, the cost of fully funding these facilities in remote, rural and regional communities through the payment of fees and charges is unachievable. This is because the systems must cover too much ground and the populations are too thin to raise funding internally. The population density in most rural areas is just too small to generate the income required to meet the cost of large infrastructure projects like Water Treatment Works and reticulation infrastructure and Sewer Treatment Works and associated infrastructure.

The inability to fund water and sewer treatment works is an issue that weighs heavily on councils as both are strongly linked to public health outcomes. The CMA believes that the Federal Government should do more to step into this space and support councils with access to funding that would allow them to maintain and replace these assets in a timely fashion, instead of being forced to wait until there is a catastrophic failure before funds are forthcoming.

Levies such as Section 7.11 and 7.12 development contributions

Councils can raise revenue through charging developer contributions. In NSW, these fall within s7.11 and s7.12 of the *Environmental Planning and Assessment Act 1979* (EP&A Act). While s7.11 charges are levied to fund infrastructure that the development will have an impact on or will require, s7.12 is more contentious, as it can be levied where there is no direct impact on infrastructure or amenities as a result of the development.

In NSW, developments above \$30 million are deemed to be State Significant Developments (SSD) and therefore, the approval process is the responsibility of the State Planning Panel, not council. Therefore, it is the Planning Panel that determines what the contributions the developer must make under the EP&A Act. Councils are finding, that the Planning Panel is very reluctant to apply s7.12 to SSDs. The

⁵ NSW Auditor General, NSW Auditor General’s Report, Local Government 2025, at <https://www.audit.nsw.gov.au/our-work/reports/local-government-2025>

EP&A Act says s7.12 contributions “may” apply, not “must” apply, consequently the Panel is exercising its discretion in favour of the developers. This is costing councils revenue, particularly for councils where there are large renewable energy developments.

Grant funding for special projects sourced from the Commonwealth and State Governments

Many councils are highly dependent on grants for capital works and for social and community projects. The dilemma with this dependency is that it is vulnerable to the vagaries of the political imperatives of the day. Consequently, while there might be a lot of grant monies available, it might not be for the capital works or other projects that councils actually need or that their communities are demanding.

NSW councils are required to undertake extensive strategic planning with their communities. The resulting Community Strategic Plans are detailed and robust and the CMA believes can provide valuable insight into the purposes for which grants should be made. The CMA would like to see a more collaborative approach on the development of grant funding so that it better reflects the grassroots needs of the communities that our Members represent.

- ***The costs of Natural Disaster and Resilience Activities***

Natural disasters and the immediate costs that result during and following a disaster are of significant concern to councils. As stated above there is no provision for these costs in the rate peg, however they are increasingly impacting on council bottom lines. Therefore, councils are highly dependent on these grants for rebuilding and recovery.

In the instance of floods, the additional burden of immediate clean-ups from a public health perspective generates immediate additional costs for councils. There is a time lag between a disaster and the distribution of grants to meet the costs that arise from those disasters, in the interim councils need to start repairs and clean-ups. Our Members’ experience with Natural Disaster funding is in the mains disappointing. It can take years for claims to be approved by the NSW Government meanwhile assets such as roads continue to deteriorate increasing the repair bill or alternatively councils meet the cost of the repairs and delay other works while they wait for Natural Disaster funding.

There needs to be greater collaboration between the Federal and State Governments to develop a robust grants’ framework that ensures that councils are not left with the financial burden of dealing with natural disasters. Again, we ask that Local Government be brought into discussions on natural disaster funding because it is councils working side-by-side with emergency services providing on-ground, real time support and once the disaster abates again it is councils working side-by-side with State and Federal agencies supporting communities to recover.

Conclusion

We believe that at the forefront of this discussion about financial sustainability should be recognition of the pivotal role that Local Government plays in the development, wellbeing and growth of the Australian people and our economy.

While the Federal and State Governments might fund health, it is councils that are providing direct public health services through the delivery of waste management, safe drinking water and sewerage treatment. While the State Government is funding policing and emergency services, Local Government is ensuring that streets are safe through the provision of high-quality public lighting, that they are capable of responding to natural disasters and emergency situations council staff and council plant and equipment.

While the Federal Government might fund the Australian Institute of Sport, our Olympians and other elite athletes to compete overseas, it is Local Government that provides and maintains the playing fields, sporting venues, and public swimming pools where those elite athletes learned to swim, run, throw and catch.

While the Federal Government might fund Create Australia, Opera Australia, the Australian Ballet and Film Australia, it is councils that provided the facilities and venues where emerging artists learn their craft everything from theatres, art galleries and their accompanying programs, public halls for dance classes to supporting local conservatoriums of music.

While the Federal and State Governments are providing funding for aged care and child care services, it is local councils in remote and rural areas that are stepping up to provide those services when market failure means that private providers refuse to fill the need.

Our next Ian Thorpe is currently swimming laps in a council owned and operated pool, our next Sam Kerr is running on a council-maintained soccer field, our next Hugh Jackman is in the cast of a play running at a council operated theatre, our next Peter Cary is borrowing books from a council library. Meanwhile they are all using local roads funded by council, walking on footpaths maintained by council, meeting in public spaces and gardens created by council, disposing of waste that councils collect and drinking clean safe water provided by council.

Too often, these services and facilities that councils across Australia provide to the Australian population are taken for granted. Just imagine what would happen if they were no longer available.

Local Government is government at the grassroots; Australia needs councils working effectively across the diverse range of services and facilities they provide for the communities they serve. If they are going to do that they need to be properly funded. The Federal Government has the power to address this problem by restoring the quantum of funding for Financial Assistance Grants to 1% of total tax revenue.

The CMA would welcome the opportunity to speak with the Committee about the matters we have raised in this submission.