



OUR REF: GR/Submissions/2026

Office of the Clerk Assistance (Committees)
House of Representatives
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Canberra ACT 2600

Inquiry Local Government Funding and Fiscal Sustainability

1. Introduction

The Shire of Narembreen welcomes the opportunity to provide a second submission to the Committee's inquiry under its revised Terms of Reference focused on Commonwealth funding arrangements for local government.

This submission builds upon the Shire's May 2024 submission to the Committee's sustainability inquiry and specifically addresses how Commonwealth funding structures, indexation mechanisms, cost-shifting, and revenue constraints are now directly driving financial unsustainability in small rural local governments.

As a small rural local government with a limited rate base and high per-capita service costs, the Shire of Narembreen is increasingly exposed to structural funding failure rather than short-term financial pressure.

2. Structural Mismatch Between Responsibilities and Commonwealth Funding Design

While local governments are constitutionally creatures of the States, the Shire of Narembreen is now routinely required to fund or co-fund services that are fundamentally Commonwealth or State responsibilities, including:

- Primary healthcare (doctor housing, vehicle, surgery, and retainer)
- Childcare facilities (rent-free provision, utilities, and maintenance)
- Telecommunications infrastructure
- Housing for essential workers

These contributions are no longer discretionary community investments. They are direct service substitutions driven by market failure and intergovernmental withdrawal, yet they attract no corresponding uplift in Financial Assistance Grants or tied federal program funding.

This represents a clear case of systemic cost shifting, where the Shire is absorbing national service delivery failures without structural revenue compensation.

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3. Financial Assistance Grants No Longer Reflect Real-World Cost Drivers

Financial Assistance Grants (FAGs) remain the Shire's most critical source of untied funding. However:

- Construction costs have increased permanently due to global supply chains and post-COVID stimulus pressures.
- Wage growth has accelerated due to statewide labour shortages.
- Insurance, plant, materials, and regulatory compliance costs continue to escalate.

The current indexation methodology for FAGs does not reflect real construction or workforce cost movements. As a result:

FAGs now function as a stabilisation subsidy rather than a sustainability mechanism.

For small rural shires, this means:

- Infrastructure backlogs grow each year.
- Maintenance standards are forced downward.
- Financial risk is transferred to future ratepayers.

The Shire submits that:

- The FAG funding pool must be materially increased, and
- Indexation must be tied to local government construction and workforce cost indices, not general CPI.

4. Commonwealth-Created Revenue Leakage Through Rate Exemptions

The Shire experiences significant ongoing revenue leakage due to mandatory rate exemptions, particularly for:

- Charitable organisations
- State and Commonwealth government trading entities

These exemptions are:

- Imposed externally,
- Not locally determined, and
- Not offset by any Commonwealth compensation mechanism.

For small rural local governments with narrow rate bases, these exemptions materially undermine revenue adequacy and distort equity between ratepayers.

The Shire submits that:

- A national, independent review of local government rate exemption impacts is required, and
- Compensation mechanisms must be introduced where exemptions serve Commonwealth policy objectives.

5. Emergency Management as an Unfunded Climate Adaptation Burden

Local governments are now the frontline delivery agents for climate adaptation, particularly through:

- Bushfire response
- Flood recovery
- Heatwave and infrastructure resilience
- Community preparedness and recovery coordination

While emergency management is primarily a State responsibility, the operational burden now rests heavily with local government, and disaster funding frameworks remain:

- Reactive rather than capacity-building
- Focused on recovery rather than preparedness
- Project-based rather than recurrent
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The Shire submits that rural local governments now perform a national climate adaptation function without a national funding stream to support:

- Equipment
- Training
- Local disaster resilience infrastructure
- Community readiness programs

6. Workforce Market Failure and National Policy Impacts

The Shire continues to experience severe recruitment challenges in:

- Building surveying
- Environmental health
- Town planning
- Technical and infrastructure oversight roles
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These shortages are not local anomalies. They reflect:

- National migration and training pipeline gaps
- Private sector wage competition driven by mining and infrastructure programs
- Housing shortages in regional Australia

Local government is now competing in a distorted labour market without the fiscal capacity to match national private sector drivers. This has direct implications for:

- Statutory compliance
- Development approvals
- Environmental protection
- Community safety

Dedicated Commonwealth-supported workforce development pipelines for rural local government are now essential.

7. Future Infrastructure and Service Demand Pressures

The Shire is simultaneously facing:

- Climate-driven infrastructure stress
- An ageing population requiring greater health and access services
- Expectations arising from the low-carbon transition
- Increasing regulatory and community service standards

Each of these factors increases capital and operating expenditure without increasing local revenue capacity. This places rural shires into a position of managing ever-increasing national policy expectations with static and structurally constrained revenue tools.

8. Conclusion

The Shire of Narembeen submits that local government funding stress is no longer cyclical or efficiency-based. It is now structural and system-driven, caused by:

- Long-term indexation failure of Financial Assistance Grants
- Uncompensated rate exemptions
- Systemic cost-shifting from health, childcare, housing, telecommunications and disaster resilience
- Workforce failures driven by national policy settings

Without structural reform to Commonwealth funding arrangements, small rural local governments will continue to:

- Defer essential infrastructure renewal
- Carry increasing financial risk
- Subsidise national service failures from limited local rate bases

The Shire urges the Committee to treat rural local government not as a minor service tier, but as an essential national delivery partner whose financial sustainability now requires jurisdictionally coordinated reform.

Yours sincerely

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CHIEF EXECUTIVE OFFICER

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