

10.3	RENEWED PARLIAMENTARY INQUIRY INTO LOCAL GOVERNMENT SUSTAINABILITY
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Operational Plan Objective: Pillar 2: Our Place – A liveable and thriving community that maintains lifestyle opportunities and addresses its disadvantages.

PURPOSE OF REPORT

Response to House of Representatives Standing Committee on Regional Development, Infrastructure and Transport inquiry into and report on local government funding and fiscal sustainability.

OFFICER RECOMMENDATION

That Council makes a submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport's inquiry into local government funding and fiscal sustainability.

As follows:

1. Structural Funding Failures

- Constitutional constraints prevent direct, stable Commonwealth funding to councils, forcing reliance on State-intermediated grants.
- Section 96 style funding creates delay, unpredictability, and inefficiency.
- State-determined priorities override local need in allocating Commonwealth funds.
- Per-capita funding models severely disadvantage sparsely populated LGAs.
- Population-based formulas fail to capture:
 - Transient and itinerant workers
 - Freight movements
 - Distance and remoteness cost multipliers.
- ABS population data understates real service demand, weakening business cases and grant competitiveness.

2. Cost Shifting, Compliance & Loss of Local Control

- Responsibilities continue to be shifted to councils without funding.
- 'Silent cost shifting through legislation is expanding unrecoverable costs.
- Multi-layered State and Commonwealth compliance frameworks are widening the gap between:

- Financial capacity
- Service and regulatory expectations
- Councils cannot deal directly with the Commonwealth except through narrow constitutional channels.
- Administrative burden falls heaviest on small rural councils, diverting scarce staff from service delivery.

3. Grant System Failures & Political Risk

- Chronic reliance on unpredictable grants distorts long-term planning.
- Small grants impose compliance costs that often exceed project value.
- One-size-fits-all grant criteria disadvantage rural councils.
- Politically driven timeframes cause:
 - Poor-quality outcomes
 - Cost blowouts
- Pork barrelling risk means:
 - Councils waste scarce resources preparing applications.
 - Outcomes are politically, not strategically, driven.
- Funding delays, redirection, and reprioritisation through the State undermine certainty.

4. Workforce & Succession Failure

- Decades of underinvestment in traineeships and succession planning have caused:
 - Critical shortages in specialist professions
 - High consultant dependency
 - Escalating workforce costs
- Regional councils are priced out of the labour market by metropolitan wage competition.
- Reintroduction of Zone Taxation is required to restore workforce competitiveness.

5. Strategic Planning & Infrastructure Risk

- Financial pressure forces councils into operational firefighting, displacing:
 - Long-term asset planning
 - Infrastructure renewal strategies
- Infrastructure, not services, is the true sustainability crisis, particularly:
 - Roads

- Water and sewerage
- Bridges
- Reservoirs
- Continual standards upgrades permanently inflate asset values and renewal costs, compounding long-term financial stress.

6. Systemic Distortion of Financial Performance Measures

- Operating Performance Ratio is structurally misleading due to:
 - Grant-funded asset depreciation
 - Road depreciation
- Depreciation on grant-funded assets should be excluded from sustainability assessments.

7. Failed Reform, Loss of Trust & Consultation Breakdown

- Decades of reviews and inquiries have produced little action.
- Governments repeatedly cherry-pick recommendations that:
 - Impose burdens on councils.
 - Avoid State or Commonwealth responsibility.
- Amalgamations and forced regional models have failed to deliver savings in rural areas.
- Major policy changes are routinely announced with no consultation, including:
 - Waste
 - Cemeteries
 - Taxation
- Trust between governments and councils is at a historic low.

8. What Must Change (Core Reform Actions)

- Restore Federal Assistance Grants to at least 1% of Commonwealth tax revenue.
- End cost shifting without guaranteed, indexed funding.
- Reform or remove rate capping.
- Professionally fund non-core community services or return them to State/Federal control.
- Create a permanent, indexed asset renewal and maintenance funding mechanism.
- Recognise and compensate for rural disadvantage and distance.
- Align council income with full service and depreciation responsibilities.

9. Governance, Transparency & Accountability

- Establish a truly independent national panel (retired judges, leading scholars) to:
 - Publicly assess government action and inaction
 - Prevent politically filtered findings.
- Mandate full public release of Standing Committee and inquiry reports.
- Stop adopting reform recommendations that impose obligations only on councils.

10. Final Position (Condensed Strategic Statement)

Productivity is not the problem. Structural underfunding, cost shifting, grant distortion, workforce erosion, and political interference are the core drivers of local government financial unsustainability.

Until councils are given stable revenue, genuine autonomy, and properly funded responsibilities, no number of reviews, coordination rhetoric, or compliance reform will fix the system.

REPORT

The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport has launched a new inquiry into the funding and financial sustainability of local governments in Australia.

Chair of the Committee, Mrs Fiona Phillips, said *“the Committee wants to gain a deeper understanding of the financial relationship between local government and other levels of government in Australia, with a particular emphasis on funding mechanisms and fiscal sustainability.”*

The inquiry aims to identify how funding arrangements affect local government’s ability to deliver services and invest in local infrastructure by identifying all sources of government funding received by local governments. The Committee will also be exploring how to overcome **barriers** to infrastructure service delivery. It will consider **trends** in attracting and retaining a skilled workforce, **impediments** to security for local government workers and the **impacts** of labour hire practices.

The Committee will be considering whether existing funding mechanisms are addressing the evolving responsibilities of local governments.

Evidence provided to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport inquiry into Local Government Sustainability of the 47th Parliament will be considered as part of this new inquiry.

Submissions from interested organisations and individuals must be received prior to 3 February 2026.

A. TERMS OF REFERENCE

The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport will inquire into and report on local government funding and fiscal sustainability, with a particular focus on:

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

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

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.*
- ii. Consider whether existing funding mechanisms are addressing the evolving responsibilities of local governments.*
- 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.*
- iv. Explore opportunities to improve productivity and coordination of local government.*

4. *Previous Inquiry*

- i. 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.*

5. *Other relevant matters*

B. BALRANALD SHIRE COUNCIL'S DRAFT SUBMISSION

Inquiry into Local Government Funding and Fiscal Sustainability

Balranald Shire Council welcomes the opportunity to provide a submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport in relation to the inquiry into local government funding and fiscal sustainability. As one of the most geographically remote and sparsely populated councils in New South Wales, the Shire faces distinct challenges that are not adequately reflected in current funding models or policy frameworks.

Balranald Shire covers a vast land area extending across the western region of New South Wales, with major centres hundreds of kilometres away. The Shire is situated 860 km from Sydney, 520 km from Adelaide, and 430 km from Melbourne. These distances significantly increase the cost of delivering services, maintaining road networks, procuring materials, and sourcing specialist contractors, consultants, and staff.

The Shire's small and highly dispersed population, with the 'official' population of approximately 2,300 residents spread across 21,690 square kilometres, requires an innovative approach to service provision, which is always a challenge due to its own source revenue limitations. Balranald Shire Council is larger in area than circa 73 countries.

Balranald Shire positively contributes to the greater economy. The Gross Value of Agricultural Production for the Balranald LGA, as published by Local Logic Place in 2024, was \$148.2 million, contributing 75.6% of the total value of the Gross Regional Product of \$196 million. It is also the largest industry of employment at 33.9% of the workforce* (Data by Region, Australian Bureau of Statistics & 2023 NIER State of the Region's Economic Indicators).

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.

Commonwealth and NSW Government funding reaches local government through these primary channels, each shaped by constitutional and policy arrangements:

1. Direct Commonwealth-to-Council Programs (limited, but significant where permitted)

Examples included:

- Roads to Recovery (by DITRDCA)
- Black Spot Program
- Bridges Renewal Program (limited)
- Road Safety Program (joint State/Fed)
- Mobile Black Spot Fund (very limited amounts of funding)
- Local Roads & Community Infrastructure Program (This program was a specific funding stream, but it has now ended and is not included in the 2024-25 budget cycle.)
- Australia Day Community Events Grant Program

These programs operate subject to specific statutory authority, created after the High Court narrowed the executive spending power. They provide important but often project-specific support. Their restricted scope reflects the constitutional barrier to broader direct funding.

2. Commonwealth Funding via State and Territory Governments

This is the dominant mechanism due to constitutional constraints.

Key components include:

- **Financial Assistance Grants (FAGs):**
Un-tied grants distributed through the NSW Grants Commission.
The scale is significant but has not kept pace with cost movements in remote councils.
- **State-managed tied grants and National Partnership Agreements:**
Funding for roads, water security, natural disaster resilience, digital connectivity, and community infrastructure.

3. State Government Core Funding and Cost-Shifted Obligations

The NSW Government provides:

- Rate-capping subsidies.
- Joint-funded infrastructure grants
- Disaster recovery and resilience funding

However, the state simultaneously places **cost-shifted regulatory and service obligations** on councils, diminishing the net effect of funding.

Summary of Balranald-Relevant Impacts

For a remote and sparsely populated council such as Balranald:

- *Constitutional constraints prevent the Commonwealth from providing the stable, direct funding that remote councils require.*
- *Somewhat of a reliance on s.96 and state-intermediated grants introduces delay, unpredictability, and administrative burden.*
- *Multi-layered compliance frameworks intensify the gap between financial capacity and service expectations.*
- *Population-based funding formulas fail to capture transient workers, freight movements, or the cost multipliers of distance and remoteness.*
- *Per-capita funding formulas disadvantage sparsely populated LGAs.*
- *State-determined priorities shape which Commonwealth monies flow to which councils.*
- *There is a constant risk of Pork Barrelling, which means that funds expended by a council to apply for grants are wasted, that could have been better spent.*

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

i. The Australian Constitution – Absence of Direct Recognition of Local Government

A fundamental constraint is that local government is not recognised in the Australian Constitution.

- Local government is created solely under State legislation (in NSW, the *Local Government Act 1993*).
- As a result, the Commonwealth cannot fund local government directly unless the funding arrangement fits within the powers granted to the Commonwealth by the Constitution.

Attempts to amend the Constitution to recognise local government (referendums in 1974 and 2013) were unsuccessful. This maintains the structural limitation.

ii. Section 96 – Tied Commonwealth Grants to the States

Most Commonwealth funding that eventually supports NSW councils flows through Section 96, which enables the Commonwealth to make grants to the States on such terms and conditions as it thinks fit.

Key implications:

- Funding to local government is indirect, mediated through the NSW Government.
- The NSW Government retains constitutional responsibility and discretion, including distribution methodologies, priorities, and controls.
- This adds layers of compliance, administrative burden, and policy alignment requirements.

Examples of s.96-supported programs affecting NSW councils:

- Financial Assistance Grants (FAGs) – although delivered through federal legislation, payments must pass through the State.
- Roads to Recovery (formerly problematic due to constitutional uncertainty, pre-2013 referendum).
- Disaster recovery and resilience funding.
- Infrastructure grants and partnership programs.

3. Section 51 – Limits on Commonwealth Power

Aside from s.96, the Commonwealth can only make payments to local government under constitutional heads of power, such as:

- s.51(xx): Corporations power
- s.51(xxix): External affairs
- s.51(xxiii): Social services
- s.51(i): Trade and commerce
- s.51(xxxix): Incidental power supporting executive action

However, most local government functions (roads, water, waste, planning, community services) **do not fall within Commonwealth constitutional heads of power**, limiting direct funding pathways.

4. High Court Decisions Reinforcing Constraints

High Court cases have reinforced limits on direct federal funding:

Pape v Commissioner of Taxation (2009)

- The Court narrowed the Commonwealth's ability to spend money without legislative authority tied to a constitutional head of power.

Williams v Commonwealth (2012 & 2014) (School Chaplains Cases)

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The Court held that the Commonwealth's executive cannot directly fund non-Commonwealth bodies without clear legislative authority and constitutional grounding.

Effect on local government:

These cases made it legally risky for the Commonwealth to fund councils directly unless:

- Funds pass through s.96 to the States, or
- Specific legislation is enacted within a head of power.

5. Local Government (Financial Assistance) Act 1995

This Act creates the mechanism for:

- Untied Financial Assistance Grants (FAGs) to councils.
- Distribution via State Grants Commissions (NSW has its own Local Government Grants Commission).
- Ensuring minimum per-capita relativities.

However:

- The Commonwealth must still rely on s.96 as the constitutional backbone.
- The Act does not overcome the constitutional limitations; it merely administers within them.

6. Policy Frameworks

The Commonwealth uses national and bilateral frameworks to shape funding flows, including:

- National Partnership Agreements (NPAs)
- Disaster Recovery Funding Arrangements (DRFA)
- Intergovernmental Agreement on Federal Financial Relations

Each involves:

- Multi-layered reporting requirements
- Shared accountability obligations
- State oversight and gatekeeping.

These frameworks often result in slower funding flows, higher administrative overheads, and variable interpretation between jurisdictions, affecting councils in NSW.

7. Practical Consequences for NSW Councils

Because of constitutional and legislative constraints:

- *Uncertainty: Funding is often subject to annual appropriations and State distribution decisions.*
- *Complexity: Councils must comply with both Commonwealth and State reporting and audit requirements.*
- *Reduced autonomy: Councils cannot negotiate directly with the Commonwealth without State involvement, unless through specific constitutional avenues.*
- *Administrative burden: Particularly acute for small rural councils, where compliance effort absorbs resources otherwise used for service delivery.*
- *Inefficiency: Funding that must pass through the State can be delayed, redirected, or re-prioritised.*

- *For remote councils like Balranald Shire, these constraints magnify existing financial sustainability challenges.*

2. Identification of All Funding Sources

- 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.*

Overview

Balranald Shire Council receives a mixture of untied grants, specific-purpose grants, project-based funding, disaster funding, and occasional one-off allocations. While these sources are vital, the uncertainty from one financial year to the next regarding the continuation, timing or quantum of grants makes forward planning extremely difficult.

In particular, it hinders the Council's capacity to pre-empt, engage, and retain specialist contract staff and contractors, whose availability is already limited across remote regions. The absence of predictable, multi-year funding streams results in inefficiencies, delays to infrastructure projects, and increased contract costs.

The flexibility that is required based on weather conditions adds to the frustrations when the council doesn't know from one quarter to the next what grants will be successful.

- 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).*

Reduction in Federal Assistance Grants and Cost Shifting

Successive State and Federal governments over an extended period have reduced, removed, or transferred services, even though communities still required them. This encouraged disaffected and desperate councils to delve into non-core businesses to make up financial shortfalls. Often with mixed success.

Subsidies related to services for aged accommodation, medical, early childcare/education, youth, and community transport, which assist in maintaining the social fabric of communities, have become commonplace on councils' balance sheets.

Those with a more astute knowledge of local government may suggest that, as these are peripheral type services, why don't councils simply charge at cost-plus?

I put it to the Standing Committee that the State or Federal Government wouldn't have walked away and passed the responsibilities onto councils, by default, if the fees were able to be recovered in the first instance!

Secondly, if there was a dividend to be made, private enterprise would already be supplying the service, and neither the federal, state, nor local government would have (originally) needed to step in.

Add the tyranny of distance found in country areas, and even more community pressure is placed on local government to fill the gaps after abandonment by the other two tiers of government.

The NSW Local Government Association recently published a report on cost shifting, which tabled the amount at \$522 per rate assessment. (The recent increase has been the largest in years despite all the (empty) promises and advocacy by LGNSW and ALGA). Providing the aforementioned (non-traditional) services wouldn't be so challenging if, at the onset, Local

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Government were given the financial powers to raise revenue to offset the expenses (in a timely manner).

Almost always, the cost is shifted without the provision of ways to increase the income.

Also, 'silent cost shifting' is occurring additionally to this, via legislative changes where Local Government is forced to take on more and more areas of service, which is adding considerable costs to non-recoverable items such as staffing, insurance, etc and also the spin-off costs. (This is further touched on in the section on *Small Grants*.)

Moreover, it is hypercritical at best when the State Government cost-shifts (to NSW councils), then imposes a rate cap.

In addition to the reduction of services, which in effect is cost shifting (now named 'risk shedding' by some executives in federal government bureaucracies), the percentage of the Federal Assistance Grants (FAGs) as a share of federal taxation revenue is now a little over half a per cent.

FAGs have declined from 1 per cent of federal taxation revenue in 1996 to just 0.51 per cent in 2025/26.

According to documents from the Financial Assistance Grants (FAG) program:

- In 2025-26 the Australian Government will provide **\$3.4527 billion** under the FAG program.
- This amount is estimated to represent **0.51%** of Commonwealth tax revenue. alga.com.au

So, in short: the FAG program accounts for **approximately 0.51%** of tax revenue in 2025–26.

Whilst it doesn't seem significant, it is. Last year, Balranald Shire Council received \$1.4 million FAGs at 0.5 per cent as a share of taxation revenue.

To bring this back to 1 per cent would yield \$3 million or thereabouts for BSC. This would be a game-changer for Balranald Shire's long-term prosperity, sustainability, risk management, and intergenerational equity.

- *Restore Federal Assistance Grants (FAGs) to at least 1% of Commonwealth tax revenue to reverse long-term funding erosion.*
- *End cost shifting without funding; no new responsibilities should be transferred to councils without guaranteed, indexed revenue sources.*
- *Reform rate capping to allow councils to respond to genuine cost pressures created by State-imposed obligations.*
- *Fund non-core community services properly (aged care, health, childcare, transport), or return them to State/Federal control.*
- *Stop 'silent cost shifting' via legislation by properly costing and funding all new compliance and regulatory burdens.*
- *Recognise and compensate rural disadvantage, including the higher service delivery costs caused by distance and scale.*

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

Rates and Charges

It's ironic regarding the state-imposed limitations in the capacity to raise rates without the expensive, resource-depleting, and time-consuming Special Rate Variation dictum, especially in remote councils.

The councils with the tightest budget constraints are forced to then spend money they don't have, to go through a complex and convoluted process, only for IPART to then intervene with no assurance that the council's efforts and expenses won't be in vain.

While NSW had employed a form of rate-pegging between 1901 and 1952, which was discontinued due to its 'impracticality', the genesis of the modern method of rate-pegging may be found in the 1976 state election campaign. Under the Local Government (Rating) Further Amendment Bill, an interim type of rate-pegging was reintroduced by the victorious Wran Labor Government in 1977 and further refined into its contemporary form in 1978.

Whilst rate pegging achieved some of what it was initially designed to do, historically, except for a few occasions, the cap was set below inflation. The formula has since been adjusted but is still flawed. As the cost of supplying services in remote locations is at least double-digits more than the 'one-size-fits-all-average' IPART uses.

Moreover, the discrepancy is even larger than it might first appear if one considers a true measure of local government inflation rather than the Consumer Price Index over all the years that this flawed measure took place, of which we'll never catch up. (IPART has adjusted from the standard CPI to a local government index in the last couple of years. But the net deficit will never be caught up.)

Whilst it was politically popular to cap rates, just imagine the long-term cost to infrastructure when year-in, year-out, Local Government balanced the books by deferring maintenance.

There is a limit to how often, and by what quantum, government-imposed efficiency dividends can fund the difference between the rates cap and increases in councils' expenditure (caused by inflation and cost-shifting). The limit was reached years ago.

On a macro level, the drive for managing assets via grant opportunities from state and federal governments has added to the disparaging disconnect with the rate cap not keeping up with cost shifting, asset depreciation, and, in general, the overall cost of operation and capital delivery.

This limit is now measured by a rise in the council infrastructure backlogs (unfunded depreciation) and (largely) a reduction in road maintenance. (See pie charts on the following page.)

Subsequently, given the removal of services by other governments (a), the effective halving of FAGs (b), the more onerous compliance and legislative requirements (c), and the gap between rates caps and inflation (d), there is little wonder that rural or remote councils, over the last thirty years, have balanced budgets by reducing their largest expense: transportation (roads).

The following pie chart indicates this exactly. In 1995, rural or remote councils spent 58% of their budgets on transportation. But in 2019, that had reduced to 38%.



Yet the amount expended on 'other,' and 'environment,' has risen from 13 to 35% - with 'other' having the biggest increase (5 to 22%).

The author contacted the ex-President of the NSW Institute of Public Works Australasia (IPWEA), who provided a startling figure confirming the apparently ubiquitous use of transport budgets to maintain solvency.

The NSW Roads and Transport Directorate published a report tabling that the annual shortfall on transportation expenditure in the ninety-four (94) regional and outer metro council areas in NSW was \$681 million. It can (and has) been argued that councils should use the Special Rates Variation (SRV) provisions to negate continual reduction in their 'biggest bucket' (transportation budget) to balance their ledger.

This may be technically true. But if the system of financial governance weren't so broken, firstly, there wouldn't be a requirement to spend even more money to go through the Special Rate Variation process, and secondly, the applications (as a percentage increase in rates) applied for by councils to IPART wouldn't be a huge percentage increase.

Do Another Study to Look Like You're Doing Something

There have been at least three 'investigations' into local government sustainability in the last thirty years, not counting this latest one being done again. But there have been countless scholarly papers written about financial and infrastructure issues within local government (see *References*). The author found twenty in a quick Google search; there were many more webcasts, YouTube videos and other media on the subject.

This begs some questions...

Question one. If there have been hundreds of scholarly investigations and well-regarded papers, webcasts, or video clips produced already, with little action by any government, why do another?

Why not just review and combine the points of the top 20 or 30 articles? Technology certainly has changed in the last 32 years (since the '93 LG Act), but the sustainability problem hasn't, nor has the lack of political will and the ability to remain in denial.

Question two. Or is the answer the government is seeking likely to be at odds with what a great many academics and experienced local government practitioners recommended over the last thirty years?

It has become the norm for councils to intricately assess Terms of Reference and subsequently recommend actions of (especially State) government. But when the suggestions are cherry-picked, and 99% of the 'load' is borne by Local Government, frankly, the level of trust is severely diluted. In writing this submission, the author contacted other stalwarts with over 30 years of experience in local government, who stated they wouldn't bother writing a submission, as in their mind, it was a 'tick a box' in a consultation exercise.

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They went on to say that the Federal Government would already have decided on what they wanted to do. Whether this is the case isn't the point I'm making. The point is that the level of trust is at an all-time low.

Many in local government become despondent and stop listening to speeches by Ministers at events when the words "collaborative, collegial, cooperative, or partnership" are used, knowing full well that they are superficial.

Question three. Is the new study designed to ensure proper consultation with councils?

A non-cynical observer may say that the government wants to consult properly with the industry. That would be fabulous. Recent history (early April 2024) shows that the suggestion is questionable, as NSW councils discovered about the new tax on internment (cemeteries) without consultation. Councils didn't hear it from the government; we heard about it by reading a press release from the NSW Local Government Association. Again, without any consultation, changes were made regarding waste management, not only without consulting councils, but not speaking to waste industry providers either.

LG Grants Commission Report (1977)

- the property tax is an inadequate source of revenue to meet all the demands to provide services that extend far beyond those relating to property
- increasing trend for communities to look to their councils to provide a range of social, cultural and recreational services that are far in excess of what a rate on land can support
- Government foreshadowed intention to pay rates on certain crown lands
- introduced per capita component to ensure all councils received FAG (min 30%)

Inquiry into the Financial Sustainability of NSW Local Government (2006)

- relationship with higher tiers of government
- huge backlog in infrastructure renewals
- devolved government social and environment agenda
 - no or low \$ recompense (cost shifting)
- expectations of higher standards of service, and public assets, that people increasingly demand of their councils
 - retirees moving to coastal and inland regional centres
 - sea- and tree-changers used to city standards
- maintaining existing service commitments, yet manage huge infrastructure bill
- rural councils will only survive with increased grant funding
- constraints on rate income
- restoring public faith in the development control process
- overcoming skills shortages
- greater resource sharing
- tools such as performance benchmarking

In reviewing the table above, it seems obvious that the government of the day cherry-picked the recommendations. The only two that have been genuinely implemented involved local government doing all the heavy lifting: greater resource sharing evolved into the forcing of councils to join (and pay for) Joint Organisations, and now we benchmark.

In addition to the two enquiries summarised in the above table, there was the Local Government Boundaries Commission investigation (NSW: circa 2016). This precipitated the amalgamations, which were going to solve everything. The savings never eventuated, as the tyranny of distance wasn't taken into consideration at worst, or at best, the savings were less than the travel-time-distance-costs incurred over larger footprints.

The QLD experience with amalgamations resulted in the same. (Many in local government, and at least one academic, would say it achieved quite a few objectives of the State governments though!)

In addressing some of the questions by the House of Representatives Standing Committee, it gets down to basics and remarkably simple mathematics.

A council's income must be adequate to maintain services and fund asset consumption (in the form of depreciation). Most councils' cash position indicates that services aren't their main issue; it's their ability to maintain infrastructure assets that they fail with.

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Putting cynical observations, a predictable lack of genuine consultation, previous inaction after investigations, subterfuge, and the disregard of scholarly papers aside, optimists within local government hope the Federal Government will also listen to our pleas.

Unless either the state or federal government introduces a genuine financial mechanism for incremental, ongoing, and timely maintenance (of the mechanism), which leads to financial sustainability of the industry, the time the authors took in responding to the House of Representatives Standing Committee will be valueless.

- *Stop repeating inquiries without action; governments must implement existing, well-established recommendations instead of commissioning more studies.*
- *Restore genuine consultation with councils, rather than announcing major policy changes (taxes, waste, regulation) after decisions are made.*
- *End 'cherry-picking' of recommendations that shift nearly all cost and workload onto local government.*
- *Rebuild trust with the sector, which has been eroded by years of consultation without meaningful outcomes.*
- *Acknowledge that amalgamations and forced regional models have failed to deliver promised savings, especially in rural areas.*
- *Fix the real sustainability problem: infrastructure funding, not just service delivery.*
- *Introduce a genuine, ongoing financial mechanism for asset renewal and maintenance, not one-off grants or short-term programs.*
- *Ensure councils' income is sufficient to cover both services and depreciation, or sustainability will remain unachievable.*

Incorrect Population Data

Compounding these challenges, itinerant workers, including seasonal agricultural labourers and workers associated with major infrastructure and energy projects, are not captured in official population statistics, yet they place additional pressure on roads, waste services, water infrastructure, and community facilities.

Their exclusion from ABS population counts adversely affects the robustness of business cases and funding submissions, as key grant criteria often rely on population-based formulas that understate actual service demand.

- *ABS population data must better capture itinerant and transient workers, including seasonal and project-based labour forces.*
- *Funding formulas should reflect actual service demand, not just permanent resident populations.*
- *Business cases and grant assessments must account for temporary population loadings on roads, water, waste, and community infrastructure.*
- *Infrastructure and service funding should be adjusted for peak population impacts, not just average census figures.*

3. Impacts and Effectiveness of Funding Arrangements

- i. Evaluate how funding arrangements, including indexation freezing, influence the financial sustainability, service delivery capacity and infrastructure investment of local governments.
- ii. Consider whether existing funding mechanisms are addressing the evolving responsibilities of local governments.

Refer to 'Section 2' response.

- 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.

Succession Planning and the Death of Strategic Planning

There are ingrained structural impediments to securing local government workers, infrastructure, and ensuring continuity of service delivery.

Councils that struggle to balance budgets, which is most rural councils, look at what expenses can be cut in their immediate budget.

- The first casualty of fiscal constraint is succession planning.
- The second casualty is strategic planning.

(The two die from different afflictions though.)

Succession Planning

Has anyone in government ever wondered why the supply of specialists within local government is so low, the demand so high, with the consultant fees to match?

What we sow we reap. It takes years to train a Building Surveyor, a Town Planner, a water filtration plant operator, a 'Water' Engineer, a Chief Financial Officer, a Ranger, or an Environmental Health Officer (and many more).

Although some of the skills and experiences are transferable from private to public, many are not. The guilds have become more government-oriented as the Act (1993 NSW) has become more prescriptive.

Up until about the time economic rationalists convinced the world the economy would provide solutions for every demand generated, arguably in the '80s, all tiers of government were the incubators for almost every trade and guild. That time is long gone, but fortunately, there are some 'green shoots,' as the industry has finally been forced to grow its own.

There was an extended period, in councils and state government departments, where meeting a Trainee, Cadet, or even an Apprentice was rare. Even in those councils with a large number of staff, the ratio of trainees, etc, in a workforce, compared to circa the mid-eighties (1985) and prior, was low. As an industry, we're now paying for our financial incapacity to succession plan. If in doubt, just advertise for a Building Surveyor or experienced Town Planner!

While councils continue surviving hand-to-mouth, the capacity to grow your own talent will always be a struggle. It's much easier not to employ someone in the first instance, versus make someone else redundant. Faced with financial Armageddon, councils inexorably cut 'future' versus the 'current.'

In 2004, Planning Institute Australia brought the issue of the lack of Town Planners to a head in their report titled National Inquiry into Planning Education and Employment.

In 2007, there was a plea from our Association, which articulated that there was a problem with the number of Town Planners the industry was attracting and retaining.

In the 2022 Local Government Workforce Skills and Capability Survey, New South Wales, a report was prepared for the Australian Local Government Association.

There have been other investigations and reports on workforce shortages.

The root causes of the problems are many. Of the reports the author has reviewed, little has been articulated regarding one of the main issues: the financial capacity to fund succession.

All councils know that because many occupations we employ are so specialised, we must develop our own workforce.

It's a shame that the slow financial asphyxiation applied to local government (rate caps, halving of the Federal Assistance Grants, cost-shifting, etc) has now caused our costs to rise and services to reduce.

It's somewhat ironic, as the reason rates pegging was introduced was to curb council expenditure, not coerce costs to rise!

- *Chronic underinvestment in succession planning has left local government with severe shortages in essential specialised professions, many of which take years to develop and cannot simply be sourced from the private sector. As financial pressures forced councils to cut traineeships and development pathways, the sector is now paying the price through escalating costs, rising consultant dependence, and an ever-shrinking pipeline of home-grown talent.*

The Death of Strategic Planning

The second casualty of a council budget is the sacrifice of strategic planning. This is just as much of an issue as a lack of succession planning. The difference is that the industry pays for a lack of succession planning in the years to come (which is now).

When human capacity constraints take effect, with things like employment freezes, the Executive (Directors) and Managers inevitably spend more time fighting fires (operational arena) than planning for the future (strategy).

A risk facing many smaller councils is often caused by the Executive not having the time to work on 'tomorrow's requirements.' In reflection, many councils suffer or have suffered the same fate, including Balranald Shire Council.

The risk caused by not spending time and money on strategy is usually related to large and expensive assets with a slow consumption rate or a slow and incremental decrease in production, such as water filtration plants, sewerage treatment works, arterial roads, water supply reservoirs, dam walls, and the biggest Achilles heel of them all: bridges.

- *When budget pressures force councils to cut strategic planning, executives and managers become trapped in day-to-day operational firefighting at the expense of preparing for the future. This loss of forward planning creates significant long-term risks, particularly for major assets with slow consumption or deterioration rates, such as water and sewerage infrastructure, arterial roads, reservoirs, and bridges, leaving many smaller councils, including Balranald, vulnerable.*

Fail to Plan, Plan to Fail

There have been many changes, where to, and who is targeted, in attracting staff to regional or rural councils, and how we retain staff, only some of which were caused by COVID.

COVID certainly didn't assist, but by no means was it the only driver. It did cause people to reassess their life goals, with much being written about 'The Great Resignation' by others.

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As well as people changing their views about work-life balance, often choosing life over work, other forces have been at play. Bernard Salt has cleverly dubbed the exodus to regional areas as 'VESPA's,' being 'Virus Escapees Seeking Provincial Australia.'

To some extent, VESPAs initially rang true and helped regional and rural areas (and councils). Councils did employ staff looking to escape capital cities, but not as many as industries whose staff could easily work from home (WFH).

The drivers seem to have changed to those seeking to escape from the economic reality of a million-dollar mortgage in a city. But even so, those seeking a tree change are more at the higher end of the remuneration scale than the lower or middle. This can be particularly attractive to individuals and families looking to own property or upgrade to a larger home without the excessive costs associated with city living.

Regional areas often offer a lower cost of living compared to major cities. This isn't just lower housing costs; there are reduced transportation expenses and more affordable amenities, which may attract individuals looking to stretch their budget further.

Improved Work-Life Balance: Regional centres often offer a slower pace of life, and less congestion compared to cities. This can result in a better work-life balance, with more time available for leisure activities, family, and personal pursuits.

Employment Opportunities: Some regional centres and rural councils may have specific job opportunities that are not as readily available in major cities. This could be due to industries that are prominent in certain regions, such as agriculture and tourism in the Balranald region, which may offer unique employment prospects.

Commute Times: Working in any regional or rural council means shorter commute times compared to navigating the traffic and congestion typical of major cities. This can result in less stress and a better quality of life for individuals who value proximity to their workplace.

Community and Lifestyle: Regional centres often offer a strong sense of community and a more relaxed lifestyle, which can be appealing to individuals seeking a closer connection to their neighbours and surroundings. This can include access to nature, recreational activities, and cultural events. When asked, many Balranald Shire Council staff say that was one of the reasons they moved here, including the author.

Career Progression: In some cases, individuals may find that career progression opportunities are more accessible in regional and, especially, more remote rural centres, particularly if there is less competition for positions or a greater demand for skilled workers in specific industries.

In small to medium-sized rural councils, you're not a 'number.' You don't get lost in a huge organisational hierarchical chart. It's both necessary for the organisation's survival, and fortuitous for staff who wish to extend their resumé, for staff to learn more than a narrow Position Description would describe in a large organisation. For those with the motivation, they can learn skills many times faster and much more broadly than metro councils.

Overall, the decision to leave a city and relocate to a regional or rural centre for work can be influenced by a combination of the above factors, as well as personal preferences and individual circumstances.

What is a challenge, though, is that the staff from metro areas, especially those in large councils or private enterprise, expect the same remuneration when making a tree change.

The same can be said when our younger staff, who traditionally arrive just after finishing their degree or get funded by the council in their degree, who see city counterparts earning 25-40% more than regional councils can offer.

As the pool of talent shrinks, due to being offered much more than their skill set and experience traditionally suggested, some councils that've spent a fortune training staff are left wanting.

Overall, the cost for staff for more home-grown and or specialist positions has dramatically increased over the last three years, as attracting someone has become a greater challenge.

Internal migrations place large pressures on future financial sustainability. People who move in from the city have tastes and preferences for higher quantity and quality of local government goods and services. This will exert upward pressure on unit costs, which is what research has been confirming. In short, internal migrants won't be happy to pay (usually higher levels of rates on a revenue effort basis) for lower quality services (unsealed roads etc etc).

Lastly, it must be noted that the type of staff who leave one area for a tree change are mostly those earning six-figure incomes. When councils don't have the financial capability to employ trainees, cadets, or apprentices due to budget constraints, the cost rises accordingly, as it's simply a supply and demand situation.

- *Regional councils can be priced out of the labour market, losing both home-grown and incoming talent to metropolitan salaries they cannot feasibly match. This growing imbalance is driving up workforce costs and threatens the long-term financial sustainability of rural local government. The problem can be addressed through the reintroduction of Zone-Taxation.*

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

The Ubiquitous Cop-Out

In every enquiry, think tank, or conference, those who don't know rural councils' culture almost inevitably ask a question on productivity.

To read the above statement on how to improve *productivity and coordination* is soul-destroying. The very question implies that productivity must be the problem and brings to mind stereotypical thoughts and images, and that local government is uncoordinated. In fact, it is insulting. Councils in 'the bush' have been living on bones for decades.

A better question is, "How can the Federal Government fund Local Government without the States collecting a dividend on the way through?"

It isn't about productivity, in the author's opinion; that is a cop-out. It's about addressing the higher two levels of government's own inadequacies. Section 5: Other Relevant Matters of this report succinctly lists those inadequacies. (It isn't without irony; it's the longest Section either!)

Existing funding mechanisms also do not fully recognise the expanding responsibilities of local government. As state and federal governments fall victim to economic rationalism, in worshipping the altar of '*economy of scale*,' those services cut or reduced that didn't meet scale thresholds, are often required to be then picked up by councils.

Failure for councils to pick up reduced or ceased services inevitably accelerates the decline of the social fabric of a community.

So, let's not talk about '*improving coordination*' of local government. If local government didn't have to take up as many services reduced, centralised, or scrapped by the State or Federal Governments, they'd be far less to 'coordinate.'

As previously stated, these extra responsibilities almost always come without corresponding increases in funding.

Council does not support the overly simplistic, politically expedient, or convenient solutions that have been rolled out in the past.

- *Productivity is not the problem; local government has long been stretched thin because higher tiers continually shift responsibilities downward without matching funding. True reform requires addressing the structural and financial inadequacies of federal and state systems, not blaming councils for a lack of coordination.*

- *Balranald Shire Council supports better intergovernmental coordination, but only through reforms that deliver genuine transparency, equity, and long-term funding certainty, not the simplistic and politically convenient fixes of the past.*

5. OTHER RELEVANT MATTERS

The Dilemma of the ‘Modern Standard Equivalent (MSE).’

Every time there is an accident that precipitates a change in a code or national standard, or there is a technological breakthrough, or anything that causes obsolescence, whatever the improvement is will inevitably cost more.

Whether it be the BASIX requirement for new buildings (the current major iteration is BASIX 4.02, which reflects the post-October 2023 standard increases; thermal, energy, materials), or the width of new bridges, or specifications for pedestrian and cycle paths etc, not only does the initial cost rise, but the new assets also get added to the asset register at the higher capital value.

- *Continual upgrades to meet modern standards inevitably drive up construction costs and permanently inflate council asset values, compounding long-term financial pressures.*

Flawed Depreciation Model.

The methodology used to calculate depreciation is fundamentally flawed. General-purpose financial statements for both commercial entities and local government councils determine depreciation expenses in accordance with and in compliance with AASB 116. AASB 116 Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation can be described/explained as follows:

“Depreciation is a planned, gradual reduction in the recorded value of an asset over its useful life by charging it to expense. Depreciation is applied to fixed assets, which generally experience a loss in their utility over multiple years. The use of depreciation is intended to spread expense recognition over the period of time when a business expects to earn revenue from the use of the asset.”

It is also accepted that in the commercial environment, depreciation expenses are integral in determining the profit distribution through dividends, this however is not afforded to councils as there is no taxation offset or benefit.

In view of the above and from a practical perspective, there are stark and fundamental differences between the relevance of depreciation expenses in a commercial environment as compared with a local government council.

In a council environment:

- There is no distribution of profits.
- Most Council assets are not intended to generate and/or maximise revenue or create a return on investment.
- Numerous assets are externally funded (partially or fully) through grants and contributions. Note: Assets are added to councils’ portfolios, due to growth driven by communities, and election commitments, but no grants are provided by the State and Federal government for maintaining the asset/depreciation.
- Some councils have brought to account and depreciated assets which they neither own nor control, nor have any financial obligations for asset maintenance or replacement (e.g. Rural Fire Service ‘Red Fleet’ assets).
- Arguments persist that certain asset categories, e.g. roads, do not lose value should maintenance is adequate.
- Assets of councils are subject to rapidly changing demographics, global trends, changes in Community Strategic Plans, legislation, and technology.

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- In some cases, the council determines that assets will not be replaced at the end of their useful life, e.g., community halls, due to changing demographics, community expectations, etc.

Consequently, it is apparent that depreciation expenses as defined by Australian Accounting Standards and adhered to by commercial entities are not necessarily compatible nor applicable for local government assets.

This situation was recognised as far back as 1922 when a Committee of Enquiry into Local Government Accounts stated:

"In Local Government Accounts a charge for depreciation means a provision for replacements. What local government bodies are concerned with are the cash and funds available for expenditure, so that unless depreciation written off is actually set aside in a special bank account no advantage is gained by writing it off."

This statement has some relevance today: *"depreciation means a provision for replacement."*

For the reasons enunciated earlier, most councils' assets have been externally funded (partially or fully) through grants and contributions (roads/sewerage/water), and councils will never be in a position, nor expected, to fully fund these assets when they are fully depreciated.

Additionally, some assets will never be replaced, and the A-G Office is claiming that 'assets' such as Rural Fire Service ('Red Fleet') are required to be depreciated even though councils have neither control nor obligation to fund or replace. These factors are unique to NSW local government and need to be accounted for as such. (The argument about '*the red fleet*' has gone on for years in NSW.)

This situation was recognised and addressed by the NSW Local Government Electricity County Councils in the late 1980s when their financial statements (audited by the NSW Audit Office) effectively only depreciated the equity that County Councils had contributed to the asset. This was achieved by amortising capital grants and contributions against the annual depreciation expenses.

Based on the NSW Local Government figures for the year ended 2019/20, the State average for depreciation expenses as a percentage of Opex was 20.8% with significant variances between regions, particularly between rural and urban councils.

Councils with the highest depreciation as a % of Opex:

- Liverpool Plains Shire Council 41.2%
- Carrathool Shire Council 36.6%
- Bland Shire Council 36.1%
- **Balranald Shire Council 34.3%**
- Lockhart Shire Council 34.0%

Councils with the lowest depreciation as a % of Opex:

- Council of the City of Ryde 8.9%
- Waverley Council 10.82%
- The Municipality of Kiama 11.96%
- Penrith City Council 12.04%
- Inner West Council 12.12%

It is no coincidence that the councils with the highest depreciation percentage to Opex are generally rural councils with extensive rural road networks (sealed and unsealed).

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Councils' depreciation expenses are, of course, made up from a series of different asset classes; however, in most cases, road depreciation is often the largest single component and largely responsible for the considerable variances as illustrated.

Obviously, then, one size doesn't fit all, yet no allowance is made for these depreciation variances when important ratios such as the Operating Performance Ratio are prepared.

No figure in local government financial statements is subject to greater uncertainty and variability than road depreciation, which is constantly subject to climate events (excessive rainfall/flooding, etc), road transport regulations, grant funding, condition assessments, etc., thereby making it potentially the most unreliable and misleading figure.

Capturing the condition data on unsealed road networks is expensive to start off, but even more so when a single significant rain event changes the condition, making the data almost worthless. In turn, making the whole exercise seem quite academic.

Added to this depreciation scenario is the fact that many other assets of the council are subject to vastly different factors than those of a commercial entity.

This then begs the question...

Why are all council assets depreciated 100% based on cost or revalued amount when the council has not financed (nor expected to have financed) the full cost of the asset?

Is there a better way?

As councils' financial statements are prepared in accordance with Australian Accounting Standards, there is no scope for amendments to the depreciation expense as disclosed in the Operating Statement. (Amendments can be made to the Statement of Performance Measures (Notes G5 & H) and particularly, the Operating Performance Ratio.)

Councils' Operating Performance Ratios have been steadily decreasing over the past few years, with many councils reporting a negative %.

In the fiscal year ended 2020/21, the majority of NSW Councils (67) reported a negative operating performance ratio. This situation must be addressed as it is not truly reflective of performance.

It should be noted that with some exceptions, councils' Special Schedules (7) report that most councils' assets are rated satisfactory or better and only require continued maintenance work. Based on a limited sample, many councils report less than 10% of their assets as requiring renewal.

Given these scenarios, consideration should be given to the following options:

- *Eliminate all depreciation expenses from the calculation of the operating performance ratio:*
- OR,
- *Eliminate road depreciation expenses and depreciation expenses applicable to asset equity funded from grants and contributions from the calculation of the operating performance ratio.*

The Stockholm Syndrome

The average reliance on grant income in most rural councils ranges from 44 to 55%. Due to the inability to match expenses with income, almost all rural councils become dependent on grant income. This is not unique to Balranald Shire Council, nor is this a new thing; it has been occurring for decades.

This dependency, year in, year out, of which a sizeable percentage isn't predictable (except some Federal grants: FAGs), means that to survive, councils are coerced to succumb to the will of whatever the 'captor' wishes: be it good, bad, or indifferent.

Mostly it's good, at least for those assets that are on the 10-year Financial Plan or are sorely needed by communities. This is especially the case with large and expensive upgrades to water

filtration or sewerage treatment plants, or the provision of any infrastructure related to rapid population growth.

But preceding elections, past governments have circumvented councils and offered trinkets and bags of silver directed at community groups, sporting clubs, and volunteer associations. All (assets) of which are housed on either crown land or council-owned **operational land, on which** council is the asset custodian (read: responsible for ongoing maintenance and depreciation).

As the government directly approaches these groups, councils have no say in the additional maintenance and depreciation expenses and are readily forced into supporting these applications, adding further assets and additional depreciation costs.

Moreover, councils then get the task of delivering the project under the stringent procurement protocols not usually taken into consideration by the community (applicant), which often means either a reduction in scope is required, or a cost overrun occurs.

It is also a common occurrence of local government procurement paying above market rate for the delivery of projects, as providers of services know that these projects are unlikely not to proceed due to political fallout.

As an election is usually imminent, time constraints inevitably also become an issue. As the grants (inducements) all arrive at the same time (pre-election), in areas where there are few specialist contractors, the cost, as can be predicted, naturally rises.

Any council that refuses to supply a letter of support to the community groups' grant application will quickly bring community anger upon itself.

The government could solve this by referring to the Community Strategic Plans. Meaning that the process and document that all councils are supposed to be following is used to determine what grants would be assessable in the first instance. As there is a predetermined community mandate (the consultation when the Community Strategic Plan – CSP - was first commenced), the CSP could be used to determine what grants would align and therefore be approved.

- *The chronic dependence of rural councils on unpredictable grant funding coerces them into accepting externally driven projects that increase long-term financial burdens, undermine local priorities, and inflate delivery costs beyond their control, which may not address their Community Strategic Plans.*

The Inefficiency of Small Grants

Administering a \$50,000 project (SCCF - the Stronger Country Communities Fund minimum amount) often costs the same or more in staff time as administering a \$500,000 project. Multiple small-value grants, strewn across a large geographical electorate, take up significantly more staff time than a larger-value project in one location.

The impact and risk can quickly multiply, as the majority of low-cost projects are overseen by staff at a 'junior officer' level. This is because the charge-out rate for highly remunerated project managers in a council, which may even be external contractors (even more expensive), would quickly consume the 10% project management allowance linked to the small grant.

Secondly, a Project Management Office (PMO) usually has the responsibility of delivering multimillion-dollar projects, which often span more than a year, and are also grant-funded, and therefore on their own grant-induced timeline.

If the real administration and acquittal costs weren't carried by a council, many smaller projects wouldn't be delivered.

The SCCF grant allowance for project administration was only 10%. Most PMOs in councils have an internal client charge-out rate of 15%. But losing 5% wasn't the biggest issue, risk, or expense. Nor is a lack of highly remunerated and otherwise engaged professional project managers.

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The onerous and costly requirement to effectively duplicate community consultation (already done as part of the Community Strategic Plan in all councils) and further the community development was not recognised as part of SCCF. This was the Black Hole councils were forced into.

These pre-election State Government inducements fly in the face of the Act (1993 NSW), as councils spend an enormous amount of time and money to complete their Community Strategic Plans after each local government election to comply with the Integrated Planning and Reporting (IP&R) requirements of the Act.

Capital expenditure, ongoing maintenance, and depreciation expenses form part of the Integrated Planning & Reporting framework (the Act), in the form of having a 10-Year Financial Plan, 4 Year Delivery Plan and 1 Year Operational Plan.

The arbitrary capital additions (voting inducements) - once per election cycle – begs the question why The Local Government Act (1993 NSW) forces councils to spend so much time and money on astute financial planning, community consultation (during the development of the Community Strategic Plan), reducing planned maintenance, and depreciation management only for the warrant to be stood aside when it's politically convenient!

- *Ultimately, small grants impose disproportionate administrative, compliance, and consultation costs on councils, often exceeding the value of the projects themselves. This undermines the integrity of long-term financial planning required under the Act and highlights the inconsistency of politically driven, ad-hoc capital injections.*

Grant Application Complexity

The time taken to apply for the grants has become much more onerous. As the complexity and amount of information sought must be in concert with the latest guidelines on how to stop Pork Barrelling from occurring (again).

Most councils now employ, by absolute (financial) necessity, a professional Grants Officer, or if not, someone who spends much of their week on grant applications. This was unheard of ten years ago and has only become commonplace in the last five or so years.

The need to employ a Grants Officer, or contract it out, has created a new profession, as each year passes, the skills become more finely honed and specific to local government.

Judging by the author's experience, the Pork Barrelling continues. This is both predictable and unfortunate, as it's how our whole electoral system tends to work (as identified by the Nobel Laureate James Buchanan).

Each Opposition castigates the previous government for Pork Barrelling, then changes to grant criteria and assessment inevitably occurs, which drives the increase in sophistication and need for specialist staff.

This, in turn, then equates to increases in the cost to apply for grants (Catch-22), and a greater disappointment when reading the rationale as to why the grant application was unsuccessful.

(There is some irony with the increase in the sophistication of grant criteria. The challenge to the bureaucrats tasked with writing the *Dear John* letter is also far greater, as it's much harder for them to produce believable excuses on why a council missed out when the criteria were so eruditely met.)

- *Increasingly complex grant processes have created a costly cycle of specialised compliance that still fails to eliminate Pork Barrelling and only deepens councils' frustration.*

Timing of Grant Notifications

Every year (NSW), councils have their budgets on display for 28 days during the public consultation period before adoption, which usually occurs in May. The budgeting process takes months, usually commencing in November of the previous year.

Often, a state government knows they'll have a fiscal impact on councils well in advance (before a state government election) but remains silent on their plans that will financially impact councils until just prior, or sometimes even after, councils have adopted their budget. This sleight of hand is never well received and causes stalwarts to lose trust very quickly.

- *Such last-minute disclosures erode confidence and trust, leaving councils blindsided by financial impacts they should have been told about months earlier.*

The Cookie-Cutter Approach

States are as geographically diverse as they are large. The more removed from metro areas, the more bespoke infrastructure development and delivery needs to become based on these simple facts.

Due to capacity and assessment constraints by the grant providers, it is often difficult for bureaucrats and Ministers alike to comprehend local factors. Or even if they do, to have the capacity to adjust accordingly.

Worse still, recently the author has observed that the grant criteria have been so focused on 'metro' that for a regional applicant, the level of scrutiny is unrealistic, as are some assumptions that have led the government to think everything is fair and just.

As a rural council, the author cannot help but think that the NSW State Government has found a new way not to be accused of Pork Barrelling. By writing the grant criteria, with so much emphasis on the areas that a government wants to spend money on, that the result will be predetermined. No Pork Barrelling accusations, as the grant criteria were met 100%.

(In NSW, the Rural Doctors' Network definition of what is 'rural' is just one example. It was once for populations of <10,000, the definition of 'rural' is now for populations <100,000, which takes in fringe metropolitan areas: hardly 'rural'!)

To create economies of scope and scale, a one-size-fits-all grant criterion is usually the standard fare. This makes it extremely difficult for administrators/acquitters of the grants when there are time constraints caused by local circumstances. Or worse, a natural disaster.

- *Ultimately, one-size-fits-all grant criteria ignore the realities of rural communities, creating predetermined outcomes that disadvantage regional councils and undermine fair, needs-based funding.*

Announcement Delays

It is very frustrating for councils to be given a strict grant application due date, or else risk missing funding opportunities, only for the announcement of success to be delayed, ensuring alignment with a bad news day (for the government) or linked to an election announcement (usually a photo opportunity).

A delay by the grant provider often doesn't align with the acquittal date being pushed back by a pro-rata amount. This is especially the case pre-elections. This increases cost, as the time, cost and quality triangle must be in equilibrium. (To decrease time increases cost or reduces quality; the rule of project delivery.)

Councils then bear the brunt of poor-quality outcomes more often than they should, as there is an election approaching, and no time for the council to properly scope the project and time pressures leading to corner-cutting by the contractor.

There is a saying in the Quantity Surveying industry, "*Where there is confusion, there is profit.*" A less than scrupulous contractor, too well knowing the scope is rubbery and council is desperate to meet an unrealistic timeframe (caused by election inducements), uses the gaps in the scope and or contract to apply for extras.

- *Ultimately, politically driven delays and unrealistic timeframes create conditions ripe for poor-quality outcomes and cost blowouts, with councils left to absorb the consequences.*

The Hidden Cost of Compliance

The NSW Local Government Act of 1919 was 344 pages long. The Act, as it stands now, is 749 pages long, excluding Schedules. There is a true and genuine cost to comply with twice as many legal requirements. This is a point not often acknowledged by those introducing the never-ending stream of amendments.

What was once the domain of the old 'Shire Clerk' (pre-1993 Act) is now far too onerous for a General Manager/CEO alone to keep abreast of and manage. The risk of non-compliance, and any resulting reputational damage or other fallout, is very real.

Some larger councils now employ a qualified legal counsel by necessity. Smaller councils aren't immune to spending either, except that the money leaves town, as specialist local government legal companies usually reside in large regional centres.

There are many other legislative examples of increases in responsibilities (costs) harboured by councils, a few of which are as follows:

- Crown Lands,
- Internal Audit & Risk Committee (changes in costs),
- Centralised auditing through the Auditor-General's office,
- Membership of Joint Organisations (previously Regional Organisations of Councils: free),
- Pensioner rebates etc.

Today, councils must comply with hundreds of pages of legislation, regulations, guidelines, mandatory reporting frameworks, and audit requirements. However, funding frameworks have not grown commensurately, resulting in a widening resourcing gap.

- *Overall, councils are being asked to meet a rapidly expanding compliance load without the matching funding required to do so, creating an increasingly unsustainable gap.*

Well-meaning but Poorly Aimed

History continuously shows, when there is wrongdoing by a single council, bodies such as ICAC (NSW) investigate and recommend changes to legislation that add to the administrative burden for all.

However, when aggregated across the whole of NSW, with 128 councils, the solution almost inevitably costs more than the problem.

This is further exaggerated when the cost of the 'solution' is multiplied each year due to the passage of time, and even more so, if multiplied by the years to administer across the whole 537 councils in Australia, as other States copy the legislation.

- *In effect, reforms triggered by isolated misconduct often create statewide burdens that far outweigh the original problem and compound endlessly over time.*

Stacked Committees

To all but seasoned bureaucrats and politicians alike, this submission may appear quite blunt. This was deliberate, as past attempts have obviously been less than successful (1977 & 2006 inquiries delivered almost nothing).

It's sad to read so many reports from inquiries and scholarly articles written over the last thirty years (30) or so, watch videos or listen to podcasts, and then reflect on the number of people who attended National and State Conventions (local government) only to conclude councils aren't any better off than when the author received my first executive role in 1996.

History and past actions have shown our industry, over many different governments of all political persuasions, that local government is almost held in contempt by the other two tiers.

I argue that this is the case because of the huge volume of information and evidence provided by highly respected and qualified people, of all political ilk, which hasn't been acted upon. (See *References*.)

Except for amalgamations (which suited the government of the day), little attention has been paid to what everyone knows and has been saying for at least twenty years. Many local governments don't have the levers to use to raise enough funds, promptly, to be sustainable: at least not without substantial funding.

- *Despite decades of expert evidence and repeated inquiries, governments have consistently ignored the fundamental issue: local government still lacks the timely and sufficient revenue levers it needs to be sustainably funded.*

Trust of the Government

The number one thing both the Federal and especially the State (NSW) Government must do is restore trust between local and state governments.

Too many times, local government, partly due to not being recognised in the constitution and being powerless, has been the recipient of sleights of hand.

Maybe the duplicitousness local government has been the recipient and victim of, and the reason many feel councils are held in disdain, is because it gets down to a simple common denominator, driven by the absolute and pure ambition to get voted back in at any cost. Local government is often collateral damage.

Does the way local government is treated boil down to an 'us, or them'? Because councils and councillors are an instrument of the state, based on the points in this paper, sadly, the answer must obviously be the latter.

All the scholarly papers, the parliamentary reviews, the networking at conferences, the think tanks, the effort by influencers, presentations to leaders, meetings with ministers, and time spent by local government councillors and staff, will mean nothing if the behaviour and attitude of politicians and senior bureaucrats towards local government remains as it is today.

- *Ultimately, none of the research, reviews, advocacy, or engagement will matter unless politicians and senior bureaucrats fundamentally change their behaviour and attitude toward local government.*

Real Independence

One avenue that may assist in bringing faith and trust back would be to set up a panel completely independent of the government (read: not IPART or the Productivity Commission) populated by respected people beyond reproach, such as retired judges or current scholars (who have strong scholarly records).

This panel would report on the action (or inaction) of the government, including the views of local government if (read: when) there is a lack of consensus between the Federal and State with Local Government.

Too many times, based on who holds 'the numbers,' recommendations have been crafted to suit political colours or cherry-picked to appeal to popular opinion (and votes).

- *A truly independent panel of respected, unimpeachable experts—such as retired judges or distinguished scholars—should be established to transparently report on government action or inaction, including points of disagreement with local government, to prevent politically motivated or selectively crafted recommendations.*

Sitting on Reports

There have been many investigations and reports that have been suppressed and sat in Ministers' offices because they weren't aligned with the government of the day's previous statements, objectives, or promises. Also, because the truth may have hurt election chances.

Local government hasn't been immune to this charade. (While Gabrielle Upton was the NSW Local Government Minister, this occurred, despite many attempts to have reports released.)

The author has lost count of the number of consultants' reports that have reported on the failed integration and effectiveness of the E-Planning Portal (NSW), yet these reports don't see the light of day, as the risk of the sole planning system being brought to its knees during an imminent housing crisis is too high.

There was even a consultant appointed to review the Department Planning & Environment's own actions in implementing changes in fixing the flaws in the Portal from local government, which still, to this day, have not eventuated in change. Where did this report go?

(Affordable housing and associated ambitious government targets are the rhetoric used for its justification; however, the very definition of affordable housing in Australia is elusive via agreement, and so too are the agreed regulations to facilitate it.)

Whilst local governments accept that, given the investment, the Portal (Circa \$146 + million) is here to stay, the cookie-cutter approach is alive and well in written form for all to see with this product. If the Portal is the test case for monitoring, reporting and service interactions/delivery for all local government business moving forward in NSW, nothing will save us.

In concluding, somehow, which will be an enormous challenge and possibly a first in our country, there must be a methodology that cannot be interfered with when the report by the Standing Committee is nearing completion or completed, that ensures it sees daylight (unredacted).

- *A transparent, interference-proof process is essential to ensure that completed Standing Committee reports are released in full and not buried for political convenience.*

Cherry-Picking Findings

Lastly, as has been the case with almost every review, even when (read: if) the report is fair (read: not biased), consultative (read: genuine), there has been a propensity for governments to impose on local government the recommendations that fall completely on councils, versus anything the government should address. (Do as I say, not do as I do.)

- *Governments too often adopt review recommendations that impose obligations solely on local councils while avoiding those requiring state or Commonwealth action, perpetuating an inequitable policy burden on local government.*

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FINANCIAL IMPLICATION

Although there is no extra cost to council, other than staff time (CEO) to write the submission, **if** the government listens and acts, there may be a positive benefit longer term, not only for Balranald Shire Council, but the wider industry.

It's no secret that Balranald Shire Council, and the vast majority of regional, rural, or remote councils in NSW, are facing fiscal challenges. The levers open to councils are somewhat outdated and have so many caveats attached that even when enacted (a Special Rates Variation), the financial improvement is likely to be short-lived.

The cost shifting and reduction in the Federal Assistance Grants are only two issues adversely affecting local government sustainability.

Even when, after an expensive and time-consuming process to apply for and enact a Special Rates Variation, the increase in income is inevitably reduced as cost shifting and rates pegging reassert their forces on a council's budget.

Specialist consultants advised staff that their rule of thumb is that an SRV will last about ten (10) years before a council is back to square one.

LEGISLATIVE IMPLICATION

N/A.

POLICY IMPLICATION

N/A

RISK RATING

- What can happen?

The risk for councils is that the Federal Government **cherry picks the findings** of the inquiry based on their own political objectives, and that the time spent by councils across Australia who submitted will be wasted.

- How can it happen?

The whole model of financing local government is completely broken, and what responsibilities councils have gained are almost boundless, as both levels of government abandon regional areas (in particular). The solutions may likely be placed in the too-hard basket, as have the recommendations of past reviews.

- What are the consequences of the event happening?

The challenges local government faces won't disappear. Eventually, with a great deal of predictability, many councils will face a cash-flow issue and either drastically cut services or seek high Special Rate Variations (or both). Ultimately, the fiscal damage flows upwards and adversely affects the GDP of the whole country.

- What is the likelihood of the event happening?

High, but variable depending on local circumstances.

- Adequacy of existing controls?

If the existing paradigm were fine, the Federal Government wouldn't be carrying out this inquiry into local government financial sustainability.

- Treatment options to mitigate the risk?

N/A

CONCLUSION

Local government plays a critically important role that underpins all communities everywhere.

A failure at the grass roots level, which is what has been happening in NSW (at least), for successive Parliaments (over decades) to listen, understand, or act (with sincerity and integrity), has placed local government in a precarious situation.

If ever there was a time to address the previous lack of action, it is now.

Whilst previous State Governments have used challenges faced by local governments to push their own political agendas, without sincerely addressing the real issues, it is hoped that, as this is a Federal inquiry, the Federal Government listens and uses its influence to deliver positive outcomes.

Productivity is not the problem. Structural underfunding, cost shifting, grant distortion, workforce erosion, and political interference are the core drivers of local government financial unsustainability.

Until councils are given stable revenue, genuine autonomy, and properly funded responsibilities, no number of reviews, coordination rhetoric, or compliance reform will fix the system.

ATTACHMENTS

- 1. The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport inquiry into the funding and financial sustainability of local governments in Australia**