



17 December 2025

Shire of Wagin submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport - Inquiry into Local Government Sustainability

The Shire of Wagin's submission to the Inquiry in May 2024 recommended reforms to the Commonwealth's *Local Government (Financial Assistance) Act 1995* to reduce the minimum grant payment to have the effect of increasing the funding apportioned to local governments that most require funding to achieve horizontal equalization.

Due to the Vertical Fiscal Imbalance, the Commonwealth Government collects the majority of government revenue while States and Local Governments have greater expenditure responsibilities.

This makes Commonwealth Grants, especially Financial Assistance Grants, a critical revenue source for Australian communities.

The method of dividing the Financial Assistance Grants is contained in the *Local Government (Financial Assistance) Act 1995*. This legislation operates based on National Principles. The first of these principles is Horizontal Equalisation.

The Commonwealth Government defines Horizontal Equalisation as follows:

“General purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This is a basis that ensures each local governing body in the State or Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State or Territory. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.”

The third of the principles is the Minimum Grant:

“The minimum general purpose grant allocation for a local governing body in a year will be not less than the amount to which the local governing body would be entitled if 30 per cent of the total amount of general purpose grants to which the State or Territory is entitled under section 9 of the Act in respect of the year were allocated among local governing bodies in the State or Territory on a per capita basis.”

The Western Australian Local Government Grants Commission's 2024-25 Annual Report noted that 32 local governments (of the 137 total in Western Australia) received the minimum grant entitlement.



Collectively, the local governments receiving the minimum grant accounted for \$56.5 million (23 per cent) of the total general purpose funding pool of \$246 million.

The problem is that the first principle and third National Principle are contradictory. Horizontal Equalisation is intended to ensure that every Australian, regardless of where they live, receives an average standard of local government services.

However, providing all Councils with at least a minimum grant constantly raise the average of local governments that are already above the service average.

Consider, for example, parks which are a service that local governments across the country provide. A minimum grant local government has the resources to provide parks of a high standard often with high quality landscaping, BBQs, water features and regular maintenance. These parks could be considered above average.

A local government with fewer resources or a more challenging climate might have below average parks with lower amenity.

The principle of the minimum grant means that the local government that can provide above average parks receives funding that it can invest in making its parks even better, increasing the service gap between communities.

Minimum grants work against Horizontal Equalisation.

In Western Australia, \$56.5 million dollars distributed to minimum grant councils went to communities that by definition already had above average service levels.

Providing these Councils with funds only increases the disparity levels.

Redistributing the 23 per cent head start provided to Minimum Grant Councils would provide a better chance for local governments across Western Australia to provide similar levels of service to Australians regardless of where they live.

It would result in remote communities like Derby-West Kimberley receive an extra \$1.9m; Ngaanyatarraku \$1.3m; and Wyndham-East Kimberley \$1.0m. It would also translate to an extra \$376,713 to the Shire of Wagin and an average of \$538,118 to communities that according to the Grants Commission's own formula are most deserving of funding.



If a redistribution of the Financial Assistance Grants to achieve the National Principle of Horizontal Equalisation was considered unpalatable, the Shire suggests that the Commonwealth could consider increasing the available pool. In 2025-26 the Commonwealth Government's Overseas Development Assistance Budget increased by \$135.8 million to \$5.097 billion.

To put that in perspective Overseas Development Assistance (\$5.097B) is 1.5 times the entire Financial Assistance Grants (FAGs) pool for all Australian local governments (around \$3.2B).

Even one recipient country like Papua New Guinea (\$579.7M) gets more than WA's entire allocation.

The tiny coral atolls of Niue and Tokelau receive greater funding every year from the Commonwealth than the Australian citizens and non-citizen residents that call Shire of Wagin their home.

Australian communities that according to the Grants Commission funding most require support could receive funding that would transform the lives of hundreds of thousands of Australians just by freezing the annual increase on Overseas Development Assistance.

It may be tempting for the Inquiry to make conclusions about the financial sustainability because regional local governments fund services largely through grants. Such a conclusion would be ill-informed.

Australia's Federated system creates the Vertical Fiscal Imbalance. If reliance on Commonwealth grants is the determinant of financial sustainability then Tasmania, the Northern Territory and often South Australia are financially weak and are good candidates for amalgamation.

Australia's regional communities are resilient and robust. Changes to the funding arrangements to remove the minimum grant awarded to local government that do not need the funding or reallocating even a small percentage of the \$5.097 billion spent each year on Foreign Aid to Australian communities would ensure that every Australian regardless of where they live has the opportunity to receive reasonable government service.

Dr Kenneth Parker
Chief Executive Officer