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31 May 2024

Inquiry into local government sustainability
Committee Secretary
House of Representatives Standing Committee on Regional Development, Infrastructure
and Transport

By email: rdit.reps@aph.gov.au

Inquiry into local government sustainability

Thank you for the opportunity to provide a submission to the inquiry into local government sustainability. This submission has been prepared by the Local Government Association of Tasmania (LGAT) in collaboration with our members; all 29 of Tasmania's councils.

LGAT is incorporated under the Tasmanian *Local Government Act 1993*, and we are the representative body and advocate for local government in Tasmania. Part of our function under the Act is to promote an efficient and effective system of local government in Tasmania. Our response seeks to balance those functions and focuses on matters that are shared across the sector and is guided by our perspective from over 110 years of being the peak body for local government.

Where a council has made a direct submission to this process, any omission of specific comments made by that council in this submission should not be viewed as lack of support by us for that specific issue.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Dion Lester', is positioned below the text 'Yours sincerely'.

Dion Lester
CHIEF EXECUTIVE OFFICER

LGAT Submission: *Inquiry into local government sustainability*

The role of councils has changed significantly over the years, growing from a more minimalist ‘services to property’ model to also involve providing a broader range of ‘services to people’. Despite, or perhaps because of this, local government is under continuous pressure to provide contemporary best practice across foundational areas like asset management, and at the same time addressing emerging challenges, like health and wellbeing and climate change.

The evolution and expansion of council’s role reflects community needs and expectations, a local service delivery role on behalf of other levels of government and policy and market failures. These market and policy failures often result in local government being called upon as the provider of last resort. For example, providing general practitioner service due to lack of coordinated State and Federal health policy and funding or councils growing (and to date very successful) role in jobs hubs¹, connecting local job seekers with training and employment opportunities.

Notwithstanding these challenges, a recent report commissioned by the Australian Local Government Association (ALGA)² shows local government is an efficient provider of government services when compared to other spheres of government. It is also key to building productivity in the wider economy, for example through:

- Waste management – increasing the waste recovery rate by 5 per cent increases Australia’s GDP by an estimated \$1 billion³. Councils support this by facilitating garbage, recycling, and organics collection services.
- Responding to climate change – councils help via emissions reduction, engagement / advocacy, collaboration, and adaptation where every dollar spent on resilience building and preparedness can save at least \$2 in recovery costs⁴.

At the same time, by international standards, investment in Australian local government is small, forcing councils to operate with very modest resources.

Put simply, councils are doing more with less in an already efficient and effective manner.

The ALGA report also identified several constraints to the productivity and role of local government, most notably cost pressures impacting financial sustainability. These

¹ See https://www.it.tas.gov.au/regional_jobs_hub

² Research for Submission to Local Government Productivity Inquiry: <https://alga.com.au/app/uploads/Final-Report-SGS-Research-Aug-2022.pdf>

³ Ibid 53.

⁴ Ibid 63.



pressures include cost shifting, declining and ad-hoc grants and management of an increasing number of depreciating assets that support communities and the economy.

Also identified, were the difficulties in securing the right quantum and mix of skills to support local government service provision and a lack of coordination between state governments and councils in strategic planning.

The ALGA 2022 *Local Government Workforce Skills and Capability Survey*⁵ found that local government is major national employer, playing a critical role as an anchor organisation and increasing productivity in rural and remote areas. However, councils continue to experience skills shortages in multiple occupations, with 9 out of the 10 respondents to the survey indicating that they had experienced skills shortages in 2021-22, compared to 69% in 2018.

The most common drivers of skills shortages for our sector include a market shortage of suitably skilled candidates, an inability to compete with the private sector on salaries, and an ability to offer permanent positions with many roles associated with grant funded projects. While the solutions to these challenges are multifaceted, an increase in untied revenue, such as Financial Assistance Grants, goes some way to addressing at least the salary gap and availability of ongoing funding for positions.

The State and Federal Governments compound these challenges through their funding approaches and revenue distribution that continuously challenge local government's financial sustainability.

Councils often secure grant funding from State and Federal Governments to support project delivery, but with the inevitable delay between funding commitment and issuing of the grant deed project costs can escalate by over 1/3, as illustrated below in Figure 1, with further case studies in [Appendix 1](#).

⁵ <https://alga.com.au/app/uploads/LG-Workforce-Skills-and-Capability-Survey-National-Report.pdf>



Figure 1: Case study cost escalation.

Inflation over the last two years has highlighted the need for grants from the State and Federal Governments to be at least indexed to cover for cost escalation, otherwise councils are left to fund the inevitable shortfall. Many projects funded by the State and Federal Governments are aimed at regional communities however unless the current funding arrangements are altered the situation will be that many councils in rural areas will be unable to complete the projects once tenders are called or will have to removed significant parts of the development to meet the funding available.

Compounding this, councils are constantly enticed into grants for capital works that carry long-term financial and asset management commitments that are not backed by sustainable funding sources.

In other cases, the State and Federal Governments will collect sustainable demand or user-based charges but not distribute them equitably to local government to sustain the services they are charged on or convert ongoing revenue streams into short term grants for capital works that generate a bigger infrastructure maintenance and depreciation burden, rather than to sustain the existing asset load, as is intended. A prime example of this is the Tasmanian Government's Heavy Vehicle Motor Tax⁶, a charge to recover road construction and maintenance costs resulting from heavy vehicle road usage⁷. The government does not distribute this revenue to councils equitably to cover the costs of heavy vehicle impacts. Councils are then forced to raise rates and subsidise heavy vehicle

⁶ See: https://www.transport.tas.gov.au/fees_forms/registration_fees/accordian/motor_tax_heavy_vehicles

⁷ See: *Fuel Tax (Road User Charge) Determination 2023*
<https://www.legislation.gov.au/F2023L00681/asmade/2023-06-02/es/original/pdf>

road access while the Tasmanian Government reserves the revenue that is specifically designed to recover costs from heavy vehicles.

In Tasmania, our councils don't even have the right charging system, connected to demand or usage, to properly defend their financial sustainability, even when good model systems exist elsewhere in Australia. New South Wales, Victoria, and Queensland all have advanced infrastructure charging systems that provide reliable, sustainable revenue to enable the longer-term infrastructure planning and delivery needed to sustain growth. In contrast, Tasmanian councils have a very basic and vulnerable system that forces councils to rely on rates, to meet growth management needs. Relying on general revenue forces councils to use ratepayer funds to choose between the needs of existing contributing ratepayers and developer needs. Tasmania is at a disadvantage relative to mainland states. Infrastructure charges are a sustainable growth-linked demand charge that supports development and council financial sustainability – a fundamental tool that Tasmanian councils do not have.

It seems perverse to blame our councils for financial sustainability challenges when they don't have all the tools they need to achieve it and do not control the funding arrangements that create these outcomes. These serious holes in the current system constantly work against financial sustainability on a day-to-day basis and must be properly addressed.

Despite this challenging funding environment, communities rely on councils to get things done for them. Councils understand local economies in ways that State and Federal Governments do not and are uniquely placed to leverage local synergies with the private sector and community organisations.

So, while councils are often best positioned to deliver many public services with their local knowledge and understanding, they are not funded sufficiently to do so.

This fact has been acknowledged by the current Federal Government, who made an election commitment to provide 'fair increases' to Financial Assistance Grants, recognising the key role Federal Financial Assistance Grants play in supporting a sustainable local government sector. This is long overdue, as over the past 30 years Financial Assistance Grants have slipped from 1 per cent of Commonwealth taxation revenue, to just half a per cent. This decline has been most strongly felt in regional, rural and remote councils, where Financial Assistance Grants often make up a much higher component of their annual operating revenue. It seems perverse that this decline has occurred in the period when the range of services delivered by councils as a result of cost shifting from higher level of government and changing community expectations has only grown.

It is critical that this inquiry recommends that this untied and non-competitive funding be restored to at least one per cent of Commonwealth taxation revenue. This reform alone would provide the long-term certainty councils need to plan for their community's future and the flexibility to prioritise their spend on safer, more productive and more liveable communities.

In addition, grants provided from the Federal Government towards local government projects should be indexed to at least cover inflationary costs between grant commitment and final deed.

Tasmanian context

Relative to the rest of Australia, Tasmanian councils are small, both in terms of population and area. We have the third highest number of local government areas per capita in the country – 18,650 people per council area on average⁸. Tasmania also has more councils for its land area than any other Australian state or territory. This is related to Tasmania's small geographic size and its regionally dispersed population, with 38% of our population living in outer regional and remote areas, where service costs are higher, compared to the national average of 10%⁹.

This smaller scale is one reason why Tasmanian councils are reliant on a greater proportion of their revenue from grants and subsidies than the national average – 14 per cent versus 10 per cent nationally. Although sources of Tasmanian councils' revenues - particularly the share of grant income - are highly variable across the state. For example, the smaller councils, such as Flinders, King Island, Central Highlands, and Southern Midlands rely on grants for 25% or more of their revenue, while others, like the urban councils of Devonport, Hobart, Launceston and Clarence, this figure is less than 10 per cent¹⁰.

Alongside our smaller scale, the Tasmanian population has aged considerably, both in absolute terms and relative to the mainland states, with a median age of 41 versus 38.4 nationally, see Figure 2. Crucially, Tasmania's ageing population is also more decentralised than in other jurisdictions, with a median age of 43.9 for Tasmanians outside of Greater

⁸ Funding Tasmanian local government in the future: Key issues and reform options: https://www.futurelocal.tas.gov.au/wp-content/uploads/2023/11/Final-Local-Govt-Funding-Paper_-Revised-25-Oct-2023.pdf

⁹ Commonwealth Grants Commission 2024 Tasmanian Snapshot: <https://www.cgc.gov.au/publications/state-snapshots/tasmania#gst-distribution-in-202425>

¹⁰ Funding Tasmanian local government in the future: Key issues and reform options: https://www.futurelocal.tas.gov.au/wp-content/uploads/2023/11/Final-Local-Govt-Funding-Paper_-Revised-25-Oct-2023.pdf

Hobart¹¹. Tasmanian councils are already under significant pressure to meet community service needs, and this will only grow in the years to come.

2022–23 median age by state/territory.



Figure 2: Median age by state / territory.

Tasmanian councils manage more than \$11 billion worth of vital infrastructure across the state, ranging from major arterial roads through to local playgrounds and barbecue facilities. The infrastructure councils decide to provide and maintain is important to local communities, but it can also have significant social, economic, and environmental impacts at both the regional and state-wide level. For instance:

- Councils are responsible for a significant amount of Tasmania’s passenger transport and freight routes, owning and managing approximately 80 per cent of the state’s total road network. Well-maintained local roads are essential to support both safety and economic productivity.
- Councils play a key role in planning and shaping urban and suburban environments to support a range of wellbeing objectives, particularly through the provision of infrastructure (e.g. green corridors, transport accessibility, supporting community sport and recreation and local cultural activities).
- The design and provision of stormwater infrastructure is crucial in helping to protect local communities from the impacts of extreme wet weather events, which are predicted to increase with the effects of climate change.

¹¹ Centre for population, 2023 Population Statement:
<https://population.gov.au/sites/population.gov.au/files/2023-12/2023-population-statement.pdf>
https://population.gov.au/sites/population.gov.au/files/2023-01/population_statement_2022_0.pdf

Tasmanian councils are under pressure to balance spending across both new and existing infrastructure assets and meeting new demands for a broader range of community services, while being at a distinct disadvantage to many mainland councils on the basis of scale and an ageing population.

While some of our councils have the capacity, capability and scale to deal with these challenges, other communities are at risk of being left behind. These pressures are inherently structural and relate to things like growing demand for more (and more costly) services, shrinking rate bases, input cost increases, labour force and skills shortages and climate change impacts. However, the problem is not with individual councils, but with the broader funding environment of the Tasmanian local government sector itself. Our councils face a range of pressures beyond their control and have only limited options available to them within their current funding envelope to respond.

Importantly, untied Financial Assistance Grants represent the largest pool of local government grant funding in Tasmania. This makes them of critical importance to Tasmanian councils. However, the current national distribution methodology for Financial Assistance Grants does not recognise the unique nature of many of the challenges Tasmanian councils face.

The general purpose component of Financial Assistance Grants is distributed between the states and territories according to population. In 2024 Tasmania councils will receive 2.2% of the funding pool. This is despite the *Local Government (Financial Assistance) Act 1995* noting Financial Assistance Grants are provided for the purposes of improving “*the capacity of local governing bodies to provide their residents with an equitable level of services*” and also the National principles for the allocation of Financial Assistance Grants having horizontal equalisation as a core tenement for the distribution of the general purpose component to councils by State Grants Commissions in each jurisdiction.

Contrast this with the distribution methodology for the Goods and Services Tax (GST), which is also underpinned by the principle of horizontal fiscal equalisation. For the 2024/25 financial year Tasmania is estimated to receive 3.9% of available GST revenue, see Figure 3, with the Commonwealth Grants Commission noting:

Overall, with below-average capacity to raise revenue and above-average costs of delivering services, Tasmania receives a per person GST distribution above the national average.¹²

¹² Commonwealth Grants Commission 2024 Tasmanian Snapshot: <https://www.cgc.gov.au/publications/state-snapshots/tasmania#gst-distribution-in-202425>

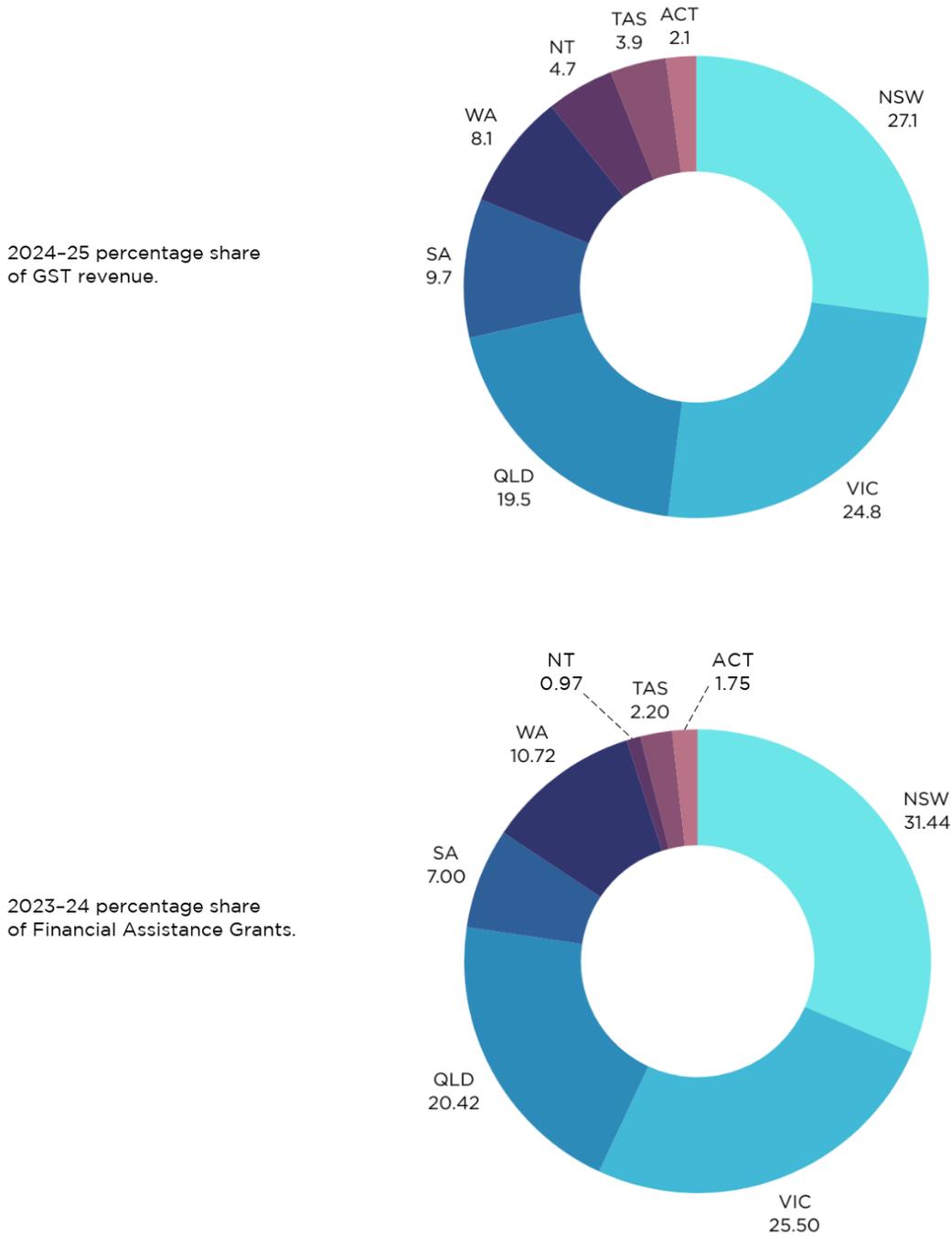


Figure 3: Percentage share of GST and FA Grants revenue.

The Commonwealth Grants Commission has recognised Tasmania’s relative need is greater than on just a per capita basis, yet this is what our councils receive in general purpose Financial Assistance Grants?



It is important that each local governing body is able to function at a standard not lower than the average of local governing bodies in other states and territories. The current distribution of the general purpose component of Financial Assistance Grants to each state on a population basis does not achieve this outcome.

Conclusion

Councils already support community wellbeing and the economy in a range of important ways. There are things local councils can do better than other spheres of government, assuming they have the right capability and resources at their disposal. This requires a fairer re-distribution of Commonwealth taxation revenue.

There is compelling evidence that the ability to develop and tailor local solutions to complex policy problems is becoming more important. This means local government will play an increasingly vital role in shaping and supporting strong and sustainable communities.

This makes it inevitable that councils will face increasing demands on their already-strained resources in the years ahead due to complex and growing community needs. With the challenges to be most acutely felt in regional and remote communities where capability is already often stretched too thinly or is absent.

To meet these challenges Tasmanian councils strongly support ALGA's calls for the Financial Assistance Grants to be restored to at least one per cent of Commonwealth taxation revenue, for grants to be indexed to cover inflationary costs between grant commitment and final deed and for the general purpose component of the Financial Assistance Grants to be distributed to each state on a needs basis to provide the fiscal capacity for Tasmanian councils to provide their residents with a level of service equivalent to their mainland counter parts.

Appendix 1 – Case Studies



Recreation ground redevelopment

- Original estimate \$1.5 million, council, State and Federal Government contributions on a 1/3, 1/3, 1/3 basis of this original estimate.
- The project has recently been tendered and the cost has now escalated to \$2.7 million resulting in the Council now funding two-thirds of the total project costs with the State and Federal Governments making a combined contribution of one-third of the cost.



Coastal pathway

- Original estimate \$3 million, with 1/3, 1/3, 1/3 contribution.
- Updated estimate \$3.5 million, with the council increasing their contribution to cover the shortfall.



Redevelopment of public open space and camping facilities

- Original estimate \$5.3 million, with a Federal Government contribution of \$4 million and council the remainder.
- Tendered amount \$7.2 million, requiring significant parts of the project to be removed to meet the funds available.



GP Clinic

- Direct cost losses covered by general rates revenue of between \$131,220 and \$376,425 per annum over the past 4 years.
- Council Senior Management time to manage the service of between 20 – 40%.
- Extreme difficulty in attracting and retaining GPs.

The images used above are representative only.