

Minister for Children and Youth  
Minister for Community Services  
Minister for Aboriginal Affairs

Level 5 4 Salamanca Place HOBART TAS 7000 Australia  
GPO Box 123 HOBART TAS 7001 Australia  
Ph: +61 3 6165 7670  
Email: minister.jaensch@dpac.tas.gov.au



Mr Luke Gosling OAM, MP

Chair

House of Representatives Standing Committee on Regional Development, Infrastructure  
and Transport

RDIT.reps@aph.gov.au

Dear Mr Gosling

Thank you for the opportunity to provide a submission into the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport's inquiry into local government sustainability.

The Tasmanian Government welcomes the inquiry and believes it is timely and appropriate that the Parliament of Australia and the Australian Government turn their attention to how we ensure the long-term financial health and sustainability of the local government sector.

Tasmania's councils are responsible for more than \$11.8bn of non-financial assets held on behalf of their communities.<sup>1</sup> This infrastructure, including roads and footpaths, community buildings, and recreational parks and facilities, underpins our way of life and stretches to every corner of Tasmania. Every Tasmanian would like to ensure they are served by a high-performing, sustainable, and efficient local government system.

Our Government continues to invest in improving the capabilities of Tasmania's councils, through an ambitious ongoing program of legislative and regulatory reform and the recent independent Future of Local Government Review. The Review found Tasmania's councils are in many cases doing more with less in response to increasingly complex and contested community expectations and demands.

The Review also found substantial scope to improve and harmonise the asset management practices of councils to ensure transparency and accountability to communities and to ensure councils budget and plan to maintain the standard of community assets for both current and future generations.

The Australian Government's long-term investments in the capacities of local council across Australia, principally in their local road networks, are a cornerstone of local government sustainability in smaller regional communities, including Tasmania.

Reflecting this, the Tasmanian submission focuses on the extent and quantum of Australian Government financial support provided to local governments and how its distribution might better equalise the standard of local government infrastructure and services available to all

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<sup>1</sup> [https://www.infrastructure.gov.au/sites/default/files/documents/infra6201\\_local-government-national-report\\_2021-22-accessible-version\\_v3-final.pdf](https://www.infrastructure.gov.au/sites/default/files/documents/infra6201_local-government-national-report_2021-22-accessible-version_v3-final.pdf) page 7  
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Australians. In doing so, the Australian Government would support the local government sector to meet sustainably the significant challenges it faces in delivering high quality infrastructure and services to less advantaged regional communities.

The submission also draws particular attention to the substantial and ongoing pressures and disadvantages facing Tasmanian councils in maintaining an extensive (largely sealed) local road network serving a dispersed regional population and highlights the ongoing case for additional and better-targeted support for Tasmanian councils' local road networks. The potential for the Australian Government to support the overall standard of council asset management practices and outcomes nationally is also identified as a key priority for the Committee's consideration.

### **Equity, efficiency, and effectiveness of Australian Government financial assistance**

The Australian Government's policy intent of achieving fiscal equalisation between local governments is articulated through the National Principles made under the *Local Government (Financial Assistance) Act 1995*.

The Financial Assistance Grants paid through states under the Act are the primary source of untied support available to councils. As the Committee would be aware, these grants are paid under 'general purpose' and 'roads' streams based on recommendations made by state-based grants commissions in accordance with varying methodologies, intended to reflect the National Principles.

The Australian Government provides various other recurrent financial support streams, such as *Roads to Recovery*, the pandemic-era *Local Roads and Community Infrastructure Program*, and specific purpose streams available to both state and local roads agencies. These untied streams are complemented by various grant programs offered on a competitive basis within or between state jurisdictions such as the *Growing Regions Program*.

The Australian Government's commitment to increase *Roads to Recovery* grants to \$1 billion per annum by 2027-28, nationally, is welcomed; though it is noted that this coincides with the winding up of the *Local Roads and Community Infrastructure Program*. The Australian Local Government Association has associated that program with a measurable improvement to the quality of local government assets nationally.<sup>2</sup>

Tasmania's high-level position in relation to Australian Government assistance to local government is underpinned by three main points:

- Firstly, and noting the sector's longstanding advocacy on this issue, there should be a structural uplift in the overall quantum of assistance made available to local governments, to bring this closer to historical norms.
- Secondly, the distribution of this assistance should be consistent with and support a fundamental objective of equalising the capacities of local governments to deliver services and construct and maintain infrastructure, both within *and between* jurisdictions. Distribution should have regard to the varying capacities of those local governments to raise their own revenues, and the costs of delivering services and infrastructure. As creatures of state legislation, Tasmania also believes the relative fiscal capacities of state governments to provide fiscal transfers to their local government systems should be taken into account when considering the extent of Australian Government transfers to councils. Consideration should, therefore, be given to alternatives to the current per-capita model for distributing the 'general

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<sup>2</sup> <https://alga.com.au/1-billion-infrastructure-improvement-benefits-local-communities/24/39033/2>

purpose' pool of untied local government financial assistance, which would better equalise the standard of local government infrastructure and services available to all Australians.

- Thirdly, Australian Government transfers should, as far as possible, be predictable, recurring and - with limited exceptions - take the form of untied transfers with streamlined reporting obligations. Consideration should be given to phasing down the volume of fixed-term, competitive grants programs so local government can instead focus on and prioritise the delivery of services and infrastructure in consultation with their local communities, rather than having to divert significant resources to apply for and report on a wide array of one-off funding streams.

#### Increasing overall Australian Government financial assistance to local government

Recurrent Australian Government transfers to local government were first established in the 1970s at a level considerably greater than maintained today. Noting the Australian and Tasmanian Local Government Association's advocacy on this issue over a significant period, Tasmania believes there is a strong case for increasing overall transfers to the sector to a level closer to historical norms, acknowledging in particular the compounding effects of frozen (2014-15 to 2016-17) and inadequate indexation to these funding streams.

The Grattan Institute recently called for a \$1 billion annual increase to Australian Government funding to council road networks. While the Budget increases to both *Roads to Recovery* and the *Safer Local Roads and Infrastructure Program* are acknowledged, these appear to be offset by the cessation of pandemic-area untied assistance, and in net terms therefore achieve much less than the \$1 billion annual expansion called for overall.

Tasmania would strongly support the Australian Government allocating additional untied funds to local governments in subsequent budgets.

#### Re-aligning local government funding distribution with a principle of horizontal fiscal equalisation

The current approach to distributing the general pool of Financial Assistance Grants – the largest recurrent pool of Australian Government assistance for local governments (worth some \$2.26 billion in 2024-25) - to jurisdictions on a per-capita basis is inconsistent with the achievement of an equal standard of local government services and infrastructure for all Australians, both within and between jurisdictions. This is because it does not recognise the disparities between jurisdictions' local government systems revenue capacity; nor the disadvantages faced by their respective local governments in procuring equivalent infrastructure and services.

While all local councils fund services from a mixture of taxes on land, user fees and charges, and fiscal transfers and grants, the composition of the revenue mixes varies substantially depending on whether councils are serving major urban, suburban, regional, or remote communities. Councils serving major urban centres are able to raise own-source revenues (in theory) per ratepayer and per capita at much higher levels. Tasmanian councils, in aggregate, receive a greater share of their revenues from grants than councils

nationally, but also levy above the national per-capita take in municipal rates<sup>3</sup>, and derive a larger share of their revenues from taxation through rates, than the national average.<sup>45</sup>

It is important to note that, unlike some jurisdictions, Tasmania does not impose rate capping on its local councils. Rate capping policies persist despite (improved) land values being generally accepted by economists as being an efficient source of taxation<sup>6</sup> and significantly impact councils' ability to raise own-source revenue in the jurisdictions where they are applied. For example, despite the Commonwealth Grants Commission assessing New South Wales and Victoria as being able to raise in the order of four and three times more, respectively, per capita, from land tax than Tasmania,<sup>7</sup> New South Wales councils *actually* raise less than the national per-capita average, and Victorian councils little more than the average, from council rates.

This gives rise to a situation where Tasmanian councils impose rates 22 per cent higher, per capita,<sup>8</sup> than councils in New South Wales, despite, per capita, enjoying an assessed taxation base (being land values) less than one third of the size.<sup>9</sup> Tasmanian councils also raise less revenue from user fees and charges, reflective of factors including lower household incomes.

Despite the significant constraints that Tasmanian councils face in accessing own-source revenue, they still spend close to the per-capita national average. Importantly, they spend a larger proportion of their expenditure on transport than councils in any state except Queensland<sup>10</sup> (*Tasmanian councils' unique challenges in maintaining its local roads network are discussed in more detail below*). Maintaining (needed) higher expenditure on roads constrains councils' ability to provide other services to Tasmanian communities, including recreational and community infrastructure.

Additionally, Tasmania supports the exploration presently underway under the auspices of the Local Government Ministers' Forum to understand the impacts of a prospective reduction in the "minimum grant" principle under the general purpose pool from the present 30 per cent.

While this work has the potential to improve the extent of fiscal equalisation achieved *within* jurisdictions, it would not directly improve the equalisation achieved between local governments nationally. Such improvement would require the Australian Government to revisit and reconsider the per-capita basis for the distribution of the general purpose pool of Financial Assistance Grants between states more broadly.

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<sup>3</sup> Australian Bureau of Statistics Taxation Revenue, Australia, 2022-23

<sup>4</sup> [https://www.infrastructure.gov.au/sites/default/files/documents/infra6201\\_local-government-national-report\\_2021-22-accessible-version\\_v3-final.pdf](https://www.infrastructure.gov.au/sites/default/files/documents/infra6201_local-government-national-report_2021-22-accessible-version_v3-final.pdf) page 5

<sup>5</sup> <https://www.futurelocal.tas.gov.au/wp-content/uploads/2022/05/FoLGR-UTas-Paper-2-comparative-trends-in-local-government-reform-final-220422.pdf> page 10

<sup>6</sup> <https://grattan.edu.au/wp-content/uploads/2023/11/Potholes-and-Pitfalls-How-to-fix-local-roads-Grattan-Report.pdf> page 21

<sup>7</sup> For the 2022-23 financial year, NSW was assessed as being able to raise 4.13 times more per capita than Tasmania. Victoria was assessed at 2.84 times more per capita than Tasmania. Applying a three-year average, NSW assessed revenue is 3.95 more per capita than Tasmania, while Victoria's assessed revenue is 3.15 more per capita than Tasmania. <https://www.cgc.gov.au/sites/default/files/2024-03/3.%20The%20Assessed%20Budget-Report.xlsx> Table S3-2-2

<sup>8</sup> Australian Bureau of Statistics Taxation Revenue, Australia, 2022-23

<sup>9</sup> <https://www.cgc.gov.au/sites/default/files/2024-03/Occasional%20Paper%2011.2%20-%20GST%20distribution%20to%20states%20and%20territories%20in%202024-25%20final%20version.pdf> page 6

<sup>10</sup> <https://www.futurelocal.tas.gov.au/wp-content/uploads/2022/05/FoLGR-UTas-Paper-2-comparative-trends-in-local-government-reform-final-220422.pdf> page 9  
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As a secondary consideration, the Australian Government should also have regard to the capacities of state jurisdictions to provide transfers from their own-source revenues to their local government systems. Changes in horizontal fiscal equalisation between states resulting from the revised distribution arrangements legislated by the Australian Government in 2018 mean that states in the future will have unequal fiscal capacities after the effect of the Commission's distribution of GST revenues. Jurisdictions benefitting from the new arrangements now enjoy the surplus financial resources to provide grants to councils or otherwise directly provide community infrastructure and services to local communities themselves.

Tasmania is of the view that the impact of revised levels of horizontal fiscal equalisation affects states and territories' capacities to fund services, including support for the provision of services delivered by local government.

*Streamlining and simplifying local government grants*

To reduce administrative burden on smaller councils, Tasmania also believes consideration should be given more generally to increasing funding via recurring, predictable, and untied funding streams and phasing down the number of competitive grants streams, particularly where the quantum of available funding is small. A high volume of low-value competitive funding schemes requires councils to divert resources towards the seeking, and then reporting and acquitting, these funds and can also lead to works being sequenced, constructed, and maintained other than in accordance with the asset and strategic plans councils are required to develop, under state legislation, in consultation with their communities. This effect is felt disproportionately by small regional and remote councils, which are also less likely to enjoy the resources to develop high-quality grant applications in the first instance.

**Disadvantages faced by Tasmanian councils in delivering quality infrastructure and services**

As noted above, Tasmanian councils commit a greater share of their expenditure to transport (being in the main local roads) than councils in all other jurisdictions, except for Queensland. This is especially relevant to the Committee's current inquiry due to the longstanding emphasis on local roads and the Australian Government's programs providing fiscal transfers to local government, reflected principally in the roads component of the Financial Assistance Grants and *Roads to Recovery*.

*Table 1: Tasmanian share of Australian Government recurrent local government funding streams (2024-25)*

Program	FA Grants – general purpose	FA Grants – local roads	Roads to Recovery	Local Roads and Community Infrastructure Program (b)
Tasmanian share	2.13%	5.30%	3.26%	4.08%
National program funds	\$2265.6m	\$1005.3m	\$649.4m	\$291.9m

Source: Australian Government: 2024-25 Budget Paper 3

(a) These programs are superseded by the Safer Local Roads and Infrastructure Program from 2024-25.

(b) Allocations under the Local Roads and Community Infrastructure Program, which has no funds allocated beyond 2025-26, have been highly variable between years, with Tasmania's allocation ranging from 2.5% to 3.6% in phases 1 to 4 of the program.

It is acknowledged that Tasmania's local government sector currently achieves a greater-than-population share of most of these funding streams (see Table 1), and that jurisdictions will have various claims in relation to additional roads funding. However, the basis for Tasmania's councils' expenditure need on transport is clear.

Tasmania's higher share of the local roads component of the Financial Assistance Grants, which is a fixed historical proportion, reflects the unique challenges to Tasmania's local road network. Tasmania's physical and human geography is characterised by dispersed and often isolated towns and hamlets which are home to a substantial share of our total population (see Table 2).

Tasmania is Australia's most dispersed state, by population, with less than 45 per cent of its population living in greater Hobart as the state capital.<sup>11</sup> Tasmania has an approximately four times greater proportion of its population living in areas classified as outer regional, remote, or very remote than is the case nationally.

This settlement pattern, despite recent trends towards urbanisation, leaves Tasmanian councils - and indeed the Tasmanian Government - with an increased burden in delivering infrastructure and services to serve these communities. The nature of Tasmania's local roads network and its regionality combine to increase the comparative preservation costs of its road network, and this is reflected in councils' actual expenditure.

Table 2: State and territory population residing in outer regional, remote, or very remote areas

Jurisdiction	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Population share	5.0%	3.8%	15.5%	14.4%	12.3%	<b>38.1%</b>	100%	0%	9.8%

Source: Australian Bureau of Statistics Population estimates by LGA, Significant Urban Area, Remoteness Area, Commonwealth Electoral Division and State Electoral Division, 2001 to 2023

The Australian Government's longstanding practice of making fiscal transfers to local governments to support local road networks has a sound policy basis, given the benefits arising from a high quality and complete national road network in delivering the safe and efficient movement of people and goods across the nation.<sup>12</sup>

Recent Grattan Institute analysis has supported calls for further Australian Government fiscal assistance for the maintenance of local road networks. Its report argues for the funding distribution to be revised to better address unmet need, stating: "*Taxpayers would ... get better value if the federal government stopped favouring the densely populated states of NSW and Victoria, to the detriment of Tasmania and the NT, and cut back the share of the funding pool it directs to metropolitan councils that are already self-sufficient.*"<sup>13</sup>

The need for additional and better targeted support for Tasmanian councils' local road networks is acute. The Tasmania network (across state and local roads) is the most extensive, per capita, by lane kilometres of paved roads after the Northern Territory and Western Australia, and is 1.33 times the national average length.<sup>14</sup> While Tasmania's local road network, by length and per capita, is at the national average, and jurisdictions such as WA, SA, and the NT have more extensive population-weighted networks, those road networks are overwhelmingly comprised of unsealed roads.<sup>15</sup>

<sup>11</sup> <https://www.abs.gov.au/articles/50-years-capital-city-population-change>

<sup>12</sup> <https://grattan.edu.au/wp-content/uploads/2023/11/Potholes-and-Pitfalls-How-to-fix-local-roads-Grattan-Report.pdf>

<sup>13</sup> <https://grattan.edu.au/wp-content/uploads/2023/11/Potholes-and-Pitfalls-How-to-fix-local-roads-Grattan-Report.pdf>  
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<sup>14</sup> Estimated using the Bureau of Infrastructure and Transport Research Economics Yearbook 2023, Roads data workbook (<https://www.bitre.gov.au/publications/2023/australian-infrastructure-and-transport-statistics-yearbook-2023/road>) and Australian Bureau of Statistics National, state and territory population September 2023

<sup>15</sup> <https://alga.com.au/app/uploads/ALGA-2021-NSoA-Technical-Report-FINAL.pdf>  
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Conversely, Tasmania's local road network is mostly comprised of sealed roads, despite the state population being highly dispersed.<sup>16</sup> Tasmania's State Grants Commission estimates the annual preservation costs of sealed roads as being between 1.3 and 3.1 times higher than unsealed roads, per unit length;<sup>17</sup> and the Grattan Institute estimates the maintenance costs of sealed roads in rural and remote areas are three to four times higher, per resident, than major cities.<sup>18</sup>

Tasmania's unique local road assets reflect the state's challenging topography, geography, climate, and settlement structure, which require sealed roads for safe and efficient travel, and increase the vehicle usage and wear on regional and remote roads. While states do enjoy some policy control over settlement patterns (and so this factor may not be entirely 'policy neutral'), road assets are largely a fixed legacy, and so existing networks are a valid basis on which to apportion Australian Government support.

Tasmania's topography/road gradient and high rainfall (in sections of the State), also lead to a high density of bridges and culverts in the road network. These comprise a sizeable proportion of the total replacement cost of the road network, and are subject to cost pressures associated with the limited availability of specialised labour in regional and remote areas.<sup>19</sup> The Australian Local Government Association reports that Tasmania's local road network features a bridge or major culvert for every 243 people; this means that the burden of maintaining council bridges and culverts, per population, is more than four times higher in Tasmania than nationally, and more than ten times higher than in SA and WA.<sup>20</sup>

There is limited consistency in the share of funding apportioned to Tasmania's local government systems under the various applicable Australian government roads funding streams. However, these programs do generally recognise to varying extents Tasmania's disproportionate infrastructure burden.

The actual basis of these allocations between state jurisdictions is relatively opaque for most roads funding programs, or is based upon historical factors. While Tasmania considers there may be scope to integrate and consolidate these various roads funding streams, it is imperative that any future system is:

- Not distributed on a per-capita basis, but is intended to support the horizontal equalisation of local governments between, and within, jurisdictions;
- Continues the historical (and sound) emphasis of Australian Government recurrent transfers to local government on supporting the maintenance of local road networks; and
- Is based upon the annualised preservation costs of existing or modelled local roads networks, with regard to factors including topography, climate, the nature of the infrastructure (sealed/unsealed), and the much higher costs attributable to regional and remote provision of infrastructure.

While it is not possible at this time to quantify what an appropriate 'share' for Tasmania would be under such a system, the allocation made to the state under *the Safer Local Roads and Infrastructure Program* (being 4.66 per cent in 2024-25) and the roads components of the Financial Assistance Grants more clearly reflect the infrastructure

<sup>16</sup> <https://www.treasury.tas.gov.au/Documents/Discussion%20Paper%20DP22-02-%20Road%20Preservation%20Model%20Review.pdf> page 37

<sup>17</sup> <https://www.treasury.tas.gov.au/Documents/2023-24%20Model%20Summary.pdf>

<sup>18</sup> <https://grattan.edu.au/wp-content/uploads/2023/11/Potholes-and-Pitfalls-How-to-fix-local-roads-Grattan-Report.pdf>

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<https://www.treasury.tas.gov.au/Documents/20180831%20Tasmanian%20Government%20submission%20in%20response%20to%20the%20CGC%20s%20Staff%20Draft%20Assessment%20Papers.pdf> page 55

<sup>20</sup> <https://alga.com.au/app/uploads/ALGA-2021-NSoA-Technical-Report-FINAL.pdf> page 32  
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pressures facing Tasmanian councils. The development of any new and integrated system to support local government road networks nationwide should be undertaken in close consultation with state jurisdictions, including their state grants commissions for technical input, under the auspices of the Local Government Ministers' Forum.

While this submission has focussed on cost pressures primarily applying to local road networks, the delivery of other community infrastructure and services to communities in regional and remote areas is impacted by similar cost pressures, including direct diseconomies of scale and the need to service dispersed and numerous small communities. As noted, less funding is available to meet these needs from Tasmanian councils' expenditure after meeting transport costs, with a reduction in relative service and infrastructure quality the inevitable result.

### **Other opportunities for Australian Government support**

It is well-documented that local governments in rural and regional Australia face difficulties in attracting and retaining skilled technical and professional staff, and suffer from limited competition, quality, and sophistication in markets for services including road maintenance. These problems are experienced broadly in Tasmania's local government system and were identified as a major theme during the Future of Local Government Review.

These issues should be addressed foremost through better consideration of cost disabilities, as outlined above, in the apportionment of Australian Government financial support between state local government systems. However, non-funding based mechanisms would also support improved and more equitable service provision by councils in regional and remote Australia, including Tasmania.

Tasmania would support the Australian Government taking a leadership role to support improvements in council asset management practices nationally, through and alongside state jurisdictions and state local government associations.

Again, the Grattan Institute recommendations relating to a consistent road hierarchy and minimum service standards are worthy of further exploration, acknowledging the large potential impacts of such an initiative and the prospect that harmonisation may not be achievable between state jurisdictions.


Its observations and recommendations regarding the benefits of more sophisticated asset management software, which is often unaffordable or beyond the technical capacity of smaller regional and remote councils, are also noted, as are the benefits of the collection of more sophisticated forms of road condition survey and asset condition data, and the aggregation and publication of those data nationally (or otherwise by state jurisdictions).

It is acknowledged that work underway through the Local Government Ministers' Forum regarding the accounting treatment of assets may provide benefit, however, this work is currently narrowly defined. A more ambitious and funded program to enhance council asset management practices and access to technology could be highly complementary to the Australian Government's substantial investments in local road maintenance; would provide enduring benefit; and be welcomed by Tasmania.



Thank you for again for the opportunity to make a submission to the Inquiry. I hope the Committee's work leads to positive and enduring policy change at the national level which supports the long-run capability, effectiveness, and sustainability of the Tasmanian local government sector.

Yours sincerely



Hon Roger Jaensch MP  
**Acting Minister for Local Government**