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

Inquiry into local government financial sustainability

AlburyCity welcomes the inquiry into the financial sustainability and funding of local government, including the role of the Australian Government.

The Australian Government has a long history of financially supporting local government services and infrastructure through its Financial Assistance Grant program that has been in place since 1974/75, which is provided under the Local Government (Financial Assistance) Act 1995 (Act).

AlburyCity's submission below highlights:

- The significance of the funding support provided by the Australian Government to rural and regional councils, and in turn the sustainability of local communities, cannot be understated.
- It is important to acknowledge the breadth of services and infrastructure provided by rural councils and regional cities and their relative need in comparison to metropolitan councils.
- The value of Financial Assistance Grants provided to local government has declined over the past three decades from 1% of Commonwealth taxation revenue to around 0.55%, which has placed strain on the services and infrastructure provided by rural councils and regional cities to their communities.
- The Financial Assistance Grants provided by the Australian Government are untied in the hands of local government, allowing councils to spend the grants according to local community priorities for the provision of services and maintenance of services and infrastructure.
- This untied grant funding is significant in the hands of rural councils and regional cities, representing the majority of operational grant funding received from other levels of government for the provision of services and maintenance of infrastructure.
- While government capital grants support the renewal and construction of local government infrastructure, the unique nature of the Financial Assistance Grant Program plays a significant role in the sustainability of local government services and infrastructure.
- The requirement that each council receives a minimum per capita share of untied financial assistance prevents the distribution of grants to rural councils and regional cities that require greater based on relative need.

- The Commonwealth decided to pause indexation for three years from 2014/15 to 2016/17 due to budget constraints, which has not yet been reinstated, leaving an ongoing revenue gap for the delivery of local government services, which has been particularly felt by rural councils and regional cities.
- Transitioning away from the minimum grant requirement, reinstating the three-year indexation previously paused, and restoring financial assistance grants to 1%, will support the sustainability of rural and regional communities based on the greatest need.

AlburyCity also recognises:

- Challenges of rural councils and regional cities competing with the private sector and government for skills and the opportunity for the local government sector to be supported by Australian Government skilled migration programs.
- The value delivered to local communities through direct investment by the Australian Government through the previous Local Roads and Community Infrastructure Program, in addition to the sustainability support provided by the Roads to Recovery Program.
- The importance of the Australian Government Regional Precincts and Partnerships Program which supports transformative investment in regional, rural and remote Australia based on the principles of unifying regional places, growing economies and serving communities.

Local Government Share of Commonwealth Taxation Revenue

The value of Financial Assistance Grants provided to local government has declined over the past three decades from 1% of Commonwealth taxation revenue to around 0.55%.

Local governments only collect around 3.5% of taxation nationally and need support from other spheres of government to provide services and maintain the infrastructure their communities need.

This has placed strain on the services and infrastructure provided by rural councils and regional cities to their communities.

Untied Financial Assistance Grants Program is Unique

The Financial Assistance Grants provided by the Australian Government are untied in the hands of local government, allowing councils to spend the grants according to local community priorities for the provision of services and maintenance of services and infrastructure.

This untied grant funding is significant in the hands of rural councils and regional cities, representing the majority of operational grant funding received from other levels of government for the provision of services and maintenance of infrastructure.

While government capital grants support the renewal and construction of local government infrastructure, the unique nature of the Financial Assistance Grant Program plays a significant role in the sustainability of local government services and infrastructure.

Distribution of Financial Assistance Grants

The Financial Assistance Grant program consists of two components:

- General purpose component – distributed between the states and territories according to population, and
- Local road component – distributed according to fixed historical shares.

Local government grants commissions in each state and the Northern Territory recommend the distribution of the funding under the Financial Assistance Grant program to local governing bodies in accordance with the Act and the National Principles for allocating grants.

Minimum Grant Requirement Undermining Distribution Based on Relative Need

The requirement that each council receives a minimum per capita share of untied financial assistance prevents the distribution of grants to rural councils and regional cities that require greater based on relative need. The sustainability of rural councils and regional cities is challenged by the need to find the revenue to provide and maintain services and infrastructure designed to service larger populations.

The National Principles relating to the allocation of general purpose grants under the Act include a minimum grant requirement, where the minimum general purpose grant allocation for a local governing body in a year will be no less than the amount to which the local governing body would be entitled if 30% of the total amount of general purpose grants to which the State or Territory is entitled in respect of the year were allocated among local governing bodies in the State or Territory on a per capita basis.

Councils on the minimum grant generally:

- Have greater revenue raising capacity.
- Are not relatively disadvantaged.
- Have economies of scale.
- Are geographically smaller.
- Experience year on year growth.
- Are in metropolitan areas i.e. Sydney.

As noted by the 2008 Assessing Local Government Revenue Raising Capacity, Productivity Commission Research Report, 'A number of councils, particularly in capital city and urban developed areas, have the means to recover additional revenue from their communities sufficient to cover their expenditures without relying on grants. However, a significant number of councils, particularly in rural and remote areas would remain dependent on grants from other spheres of government to meet their current expenditure. Given the differences in the scope to raise additional

revenue across different classes of councils, there is a case to review the provision of Australian Government general purpose grants to local governments.'

The 2010 Australia's Future Taxation System Report also noted that the '*requirement that each council receives 30% of its per capita share of untied financial assistance grants may prevent state grants commissions from redistributing to councils that require greater assistance.*'

Councils with greatest relative disadvantage are generally rural and remote councils with:

- Small and/or declining populations.
- Limited capacity to raise revenue.
- Financial responsibility for sizeable networks of local roads/infrastructure.
- Relative isolation.

Indexation Pause of Financial Assistance Grants

The quantum of the Financial Assistance Grant pool changes annually in line with changes in population and the Consumer Price Index (the Act provides discretion to the Treasurer to alter this annual indexation).

The Commonwealth decided to pause indexation for three years from 2014/15 to 2016/17 due to budget constraints, which has not yet been reinstated, leaving an ongoing revenue gap for the delivery of local government services, which has been particularly felt by rural councils and regional cities.

Conclusion

Financial Assistance Grants are particularly valuable for local government, as the funding is untied, meaning it can be spent where it is most needed. The significance of the funding support provided by the Australian Government to rural and regional councils, and in turn the sustainability of local communities, cannot be understated.

Transitioning away from the minimum grant requirement, reinstating the three-year indexation previously paused, and restoring financial assistance grants to 1%, will support the sustainability of rural and regional communities based on the greatest need.

AlburyCity has also identified the opportunity for rural councils and regional cities to be supported by Australian Government skilled migration programs.

We appreciate the value delivered to local communities through direct investment by the Australian Government through the previous Local Roads and Community Infrastructure Program, in addition to the sustainability support provided by the Roads to Recovery Program.

AlburyCity also recognises the transformative investment in regional cities and rural communities through the Australian Government Regional Precincts and Partnerships Program.

If you have any questions regarding our submission, please contact Justin Finlayson AlburyCity's Service Leader Strategy and Performance on [REDACTED] [REDACTED] [REDACTED] or via email to

[REDACTED].

Regards,

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Kylie King
Mayor