

**Submission  
No 24**

**INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO  
FUND INFRASTRUCTURE AND SERVICES**

**Organisation:** Upper Hunter Shire Council

**Date Received:** 23 April 2024

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## **Submission to Parliamentary Inquiry into the ability of local governments to fund infrastructure and services.**

I write to make a submission to the Parliamentary Inquiry into the ability of local governments to fund infrastructure and services.

While the inquiry terms of reference seem to be focused on the rate cap, this submission will focus on the grant subsidy provided to councils and as such falls into category (g) “any other related matters”.

Upper Hunter Shire Council is a rural council with only 14,000 population. However, it owns and operates 1,769 km of sealed and unsealed road and 89 bridges. It is this population, bridges and roads criteria that determine the majority of funding calculations for local government from both the State and Federal governments.

While any funding program will have its flaws with its methodology, the present funding methodology significantly disadvantages regional councils who provide significantly greater services than many of the metropolitan councils, services that extend beyond simply the length of road and population it services.

Other than rate income, Council's other major income sources are from state and federal grants. The two major grant sources that are regular and non-contestable are the state block grant for regional roads and the Federal Assistance grant distributed through the NSW Grants Commission.

### **Regional Road Block Grant**

Under the present Regional Road Block Grant program, the methodology is based on the length of regional road length. Typically the regional road length is a small fraction of Council's overall road network, being 174 km of the total road network of 1,769 km, this methodology leads to councils continually seeking to increase their Regional Road network and reduce the local road network in an effort to increase the funding available to it. In actual fact, in recent road reviews undertaken by Transport for NSW, there has been a continuing trend of downgrading from State to Regional and Regional to Local to transfer the costs from state to councils. This method also ignores other road like structures that provide significant transport benefits to the community and wider region economic uplift – namely airports.

### **Federal Assistance Grant**

Likewise, the Grants Commission's method for distribution of the Federal Assistance Grants in NSW is somewhat complex but is primarily based on population and length of local road network overall with a number of disadvantage measures used to factor these up or down. This method attributes various parts of the grant to functions such as:

- Recreation and Culture,
- Administration and Governance,
- Education and Community,
- Roads, bridges footpaths and aerodromes,
- Public order, safety, health and other,
- Housing and public amenities

The grant amount has no degree of correlation with the level of service provided to the community in each one of these functions by the council.

In essence, the methodology and calculation of the Financial Assistance Grant funding could be seen to be detrimental to small rural communities in comparison to metropolitan councils. To further explain, with the vast areas of landscape that requires maintaining and upgrading by rural councils such as the Upper Hunter Shire, who for example has 8,100 square kilometres of area and 1,769km of road length, three administration centres, four waste facilities, three swimming pools, four libraries and numerous community centres and halls, the cost of delivering service to the community is quite overwhelming, especially when there is only 7,800 ratable assessments.

Although consideration is given to rural councils through road length, in comparison to metro councils, the sheer density of the population within a footprint of say 60 square kilometres provides these councils financial assistance levels that may not be warranted given their ability to generate significant funds through rating assessments, fees and charges based solely on the level of population.

Therefore, review of the distribution of the Financial Assistance Grants should be considered to ensure the financial sustainability of rural council.

### **Issues with present funding mechanisms**

The above methodologies fail to recognise the additional services councils provide in a community.

In many regional communities, services are provided by the council as it is not viable to run that service commercially and as such no private provision of that services exists. Council steps in to ensure services are maintained locally. In the Upper Hunter, an aged person facility would require 25 beds in order to be a viable commercial operation, but in a small town that isn't feasible and so smaller non-commercial sized facilities are operated (and subsidised) by councils to ensure persons who require this level of care can continue to receive it in their home town close to their family and friends.

In fact, Council taking on the uneconomic services makes the viable services run by corporations even more viable for them as there is no pressure on them to cross subsidise within their business, they can simply take the most profitable portion of the market knowing local government will pick up the least or non-profitable portion.

### **Airport services**

Upper Hunter Shire owns and operates an airport in Scone consisting of a 1.4 km runway of 30 m width, associated taxiways and parking aprons, yet no recognition of the cost of operating this transport facility for the region is taken into consideration when determining the Block Grant. This focus on roads while ignoring other transport support that Council provides is a noteworthy flaw in the methodology that needs to be addressed. It might be assumed by many on the panel that an airport generates income and hence should be excluded from any funding model. In our case (and many others) this is sadly not the case. The airport provides important regional linkage and supports industries in the region but does not have the aircraft volume to be profitable, especially without a viable passenger service operating from it, and as such is subsidised by the community.

### **Flood damage**

No one ever wants to see the effects of severe weather events within Australia let alone the regional and rural townships. However, all is not a perfect world and when events occur the community and local councils feel the brunt of the cleanup and restoration of infrastructure damage caused by the events be it storms, flooding, bushfires etc.

The costs of these works are unplanned on a lot of councils and in many respects financially draining to their already limited budget funds. Many of these severe events are predominantly declared as natural disasters with funding made available from the Governments. However, as has been seen with our Council and a number of other small rural councils the reimbursement of funds required to make safe the initial event damage is extremely onerous on the Council and very bureaucratically red tape driven.

With many rural councils that have limited resources, the availability of information pre-dating and during the event such as photographic evidence of the existing road structure is somewhat cumbersome especially when staff are trying to make safe road conditions for residents and community transport needs.

It has become evident through Council's requests and supply of information in attempting to recover much needed cash-flow from the weather events, now over two years ago, is hindered by barriers placed in front of it by respective departments. This lack of funding recover will ultimately will have detrimental effects on the delivery of the replacement infrastructure.

## **Other matters**

### **Annual Rate Peg Methodology**

The methodology of additional incremented level of rate peg percentage for growing population areas has the effect, in Council's opinion, of a methodology that is detrimental to the smaller rural and regional councils. This opinion is based on the fact that the level of rate peg approved is normally below that of the current consumer price index (CPI), meaning Council's ability to maintain the level of service for the community declines due to reduced dollars to spend.

It is noted that with smaller rural communities, that rating revenue is primarily the main form of constant revenue stream that Council can generate, which is obviously outside the delivery of operational and capital grant funding that is not guaranteed. Limiting the level of rate peg percentage to a minimal base rate places these councils into financial strain removing the Council's ability to service the community of basic requirements as in most instances the rate peg percentage doesn't meet the normal cost of living percentage and/or CPI. This is heightened further with the fact that government allows utility and insurance companies to continually increase their costs and premiums by over 10% year on year. This makes you wonder how councils can survive as these form some of their major operational expenditure items.

In addition, with a lot of smaller rural councils, similar to that of the Upper Hunter Shire, the vast rural unsealed and sealed road network places strains on the Council financially and thereby limiting the level of rate peg percentage also reduces Council's ability to maintain and service these roads to the level of satisfaction required by the farming ratepayers. Therefore, it is recommended that when determining the methodology behind the rate peg consideration of the Council's geographical footprint and road network may be prudent.

In summary it is noted that for councils to continue to meet the rising costs of service delivery they are required to go through the rigors of a Special Rate Variation process that is both time consuming and onerous on their limited resourcing capabilities. A consideration should be given to the linkage of the Rate Peg percentage to at least CPI when issued to Council's for future years.