Submission No 35

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

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Submission to the Standing Committee on State Development inquire into and report on the ability of local governments to fund infrastructure and services.

My comment relate to (a), (c) and (g) - in the Term of reference.

I am a Councillor on Dungog Council, and Dungog, like many small Regional Councils, rely on Government Grants to survive and have income adequate to meet the needs of the Community. Our ability to maintain adequate income has also been impacted by the continued cost shifting by the State Government onto the Local Councils. There are many examples of this that I don't need to expand on.

Seventy percent of Dungog's finances come from Grants, as we struggle from a backlog of infrastructure maintenance.

The Grattan Institute report, Potholes and pitfalls: How to fix local roads, has highlighted the shortfall in dollars that are required by small Rural Councils.

An examination of this reports shows There are two main players that are required to fix this problem.

- The Federal Government with Commonwealth -Local Government (Financial Assistance) Act 1995 and
- NSW Government via the State Government Grant's Commission.

Section 6 is the key part of the FAG Act 1995 legislation – it formulates the *National Principles* which the State Government's Grant commission allocates funds to different Shires.

***Section 6 (2) it states*:**

In formulating national principles, the Minister:

(a) Is to have regard to the need to ensure that the allocation of funds for local government purposes under section 9 is made, as far as practicable, on a full horizontal equalisation basis.

Section 6(3) states:

The reference in paragraph (2)(a) to the allocation of funds for local government purposes *on a full horizontally equalisation basis* is a reference to an allocation of funds that:

(a) Ensures that each local governing body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State; and
(b) takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their functions and in the capacity to raise revenue.

Section 4 goes on to say:

The Minister may, after consulting with relevant State Ministers and with a body or bodies representative of local government, *revoke or vary any principles formulated under subsection (1)*

This is an important Section, as it gives a way forward to adjust the inequity in the current NSW Grant Commission funding.

- The minimum payment based on not less than 30% of population, guarantees the Vertical fiscal imbalance but greatly distorts the Horizontal Fiscal Equalisation – this needs to change.
  - ✓ 10% population is suggested in the Grattan report.
  - ✓ This will only occur if the State and Federal governments agree to vary the national principles.

What has been created is horizontal fiscal inequality -and this is been done by the federal government not following the objectives of its legislation.

All Councils want the Federal Government to increase the total FAG dollars, *but that does not address the inequal distribution of the dollars at the State level.*

- An example of this is shown: Dungog receives $10,427 per Km of road; Port Stephens receives $17,719 per km of road and Maitland receives $18,00 per km of road. *Where is the equality in this?*
- The minimum payment based on not less than 30% of population, guarantees the Vertical fiscal imbalance but greatly distorts the Horizontal Fiscal Equalisation.
- The paper by Drew and Dollery in 2015 concludes that the distribution of funds is “chaotic and indefensible”.

I ask the Standing Committee to support changes to the distribution of the FAG dollars to Regional roads, as highlighted in the Grattan Institute report, Potholes and pitfalls: How to fix local roads, and ensure that S6 (3)(a) of the Local Government (Financial Assistance) Act (Commonwealth) is being met, and I ask support for a review of the State Governments Grants Commission, on how the Federal FAG dollars are distributed to the small Regional Councils. This will not be an easy task as the larger Councils will oppose any reduction in their FAG dollars and are just seeking a total increase in the

FAG dollar – this does not address the unequal distribution of the grant money that needs to occur.

Regards,

Digby Rayward