Local governments struggle to fund essential services

By Melissa Harrison

State governments have handballed their responsibility for managing natural disasters, such as the recent floods in New South Wales and Queensland, to local governments, which are expected to shoulder this responsibility despite ever-dwindling funding.

Local governments around Australia are experiencing increasing financial pressure. According to the Australian Local Government Association (ALGA), there has been a fourfold increase in local government expenditure over the past 25 years. Likewise, the ever-expanding responsibilities of local governments have increased to include the delivery of over 150 services. Contributing factors include community demand, cost-shifting, and the need to support regional areas where it is not commercially viable for the private sector to supply essential services, such as aged care or childcare.

ALGA asserts that "[w]hile the roles and responsibilities of local government have grown significantly over time, its revenue base has not". Revenue comes from rates (38 per cent of total revenue), charges and sales (28 per cent), and grants from federal and state governments (14 per cent). Regional areas can be dependent on grants for more than 50 per cent of their total revenue.

In the event of a natural disaster, local governments may receive federal funding from the Disaster Recovery Funding Arrangements (DRFA, formerly the Natural Disaster Relief and Recovery Arrangements); however, this funding is geared towards recovery and clean-up, rather than prevention or mitigation. (Australia senselessly spends 97 per cent of natural disaster funding on post-disaster recovery, and only 3 per cent on mitigation). DRFA rules restrict councils from upgrading infrastructure to meet best practice or to be more resilient for future natural hazards, and do not allow councils to build proactive works for mitigation. Moreover, the "co-funding" rules are so burdensome that many councils have opted out of the scheme because they would be financially worse off. (*AAS*, 16 March 2022.)

ALGA reports that many local governments do not have sufficient revenue-raising capacity to maintain or upgrade their essential infrastructure. Their struggle is compounded in the event of a natural disaster. As the President of Floodplains Management Australia, civil engineer Ian Dinham, stated in 2017: "local councils are the lowest level of government and the least able to afford to maintain their assets, let alone fix them after natural disasters."

Inadequate local government funding has been a problem for decades. In 1974, Prime Minister Gough Whitlam observed that many essential community services were "financed inadequately and unfairly or not financed at all". Whitlam therefore determined that the increasing responsibilities shouldered by local councils required direct financing from the federal government.

Under the Fraser government, funding arrangements returned to financing local governments through grants made to the states; introducing new measures which allocated funding via a share of income tax revenue, of which local governments would receive up to 2 per cent.

The Hawke government, intending to limit public sector spending by directly controlling financial assistance to the states, dropped the link between state and local government funding and income tax revenue, returning to grants. Local governments experienced a significant decline in funding as a result. The Hawke government also introduced the current funding arrangements, Financial Assistance Grants.

Local Government NSW President Darriea Turley is warning councils face financial ruin.

In 2000 the Howard government radically changed financing arrangements for state governments, by tying funding to the Goods and Service Tax (GST). However, local government funding remained unchanged. While GST revenue has steadily increased, the value of Financial Assistance Grants has decreased by about 43 per cent in relative terms, since the latest iteration of local government funding legislation was enacted in 1996.

In 2014 the Abbot government froze indexation of the grant scheme. By the time indexation was restored under the Turnbull government three years later, this had cost local communities over $927 million in infrastructure and services.

Local governments slugged

In some states rate-capping has been introduced by state governments, a practice which is claimed to promote "municipal efficiency". ALGA argues that research on rate-capping has not found any evidence to support this claim. Instead, the practice places an artificial block on councils, preventing them from responding properly to the needs of their communities. Unintended consequences of rate-capping have included "excessive cuts in expenditure on infrastructure leading to mounting asset renewal and maintenance backlogs, as well as the potential shift of the cost to the next generation".

On 1 March 2022 the ABC reported that some NSW local councils are now facing financial ruin, because the NSW Independent Pricing and Regulatory Tribunal has controversially capped rates at 0.7 per cent for 2022-23, the lowest peg in twenty years, rather than the expected 2 per cent that councils had budgeted for. This determination will cost local councils $100 million in revenue and could lead to 1,000 job cuts, severely limiting local councils' ability to respond to the ongoing impacts of COVID-19 and natural disasters, such as the recent floods which have devastated the NSW region of Lismore.

An ongoing concern for local governments is cost-shifting—when they are burdened with the responsibility for providing a service after the state or federal government has withdrawn from providing it.

In 2006, ALGA commissioned PricewaterhouseCoopers (PwC) to examine the long-term financial sustainability of local governments, taking into account their ever-increasing responsibilities. PwC found an estimated shortfall of $14.5 billion for infrastructure renewal work. ALGA reports that a key reason for the shortfall was the impact of cost-shifting, which is an ongoing problem today "as councils divert funding from long-term infrastructure projects to vital short-term human services, while at the same time being increasingly squeezed by additional fiscal pressures". In 2018, the *National State of the Assets Report* identified that $30 billion is needed to replace ageing infrastructure. A national infrastructure bank, for which the Citizens Party is advocating, is urgently needed to fund crucial infrastructure in Australia's communities. Through a national bank, local governments can access credit to carry out the responsibilities they have been shouldered with.