

HUNTER  
JOINT  
ORG.

COLLABORATION OF HUNTER COUNCILS

# **Federal Inquiry into Local Government Funding and Fiscal Sustainability**

February 2026

Mrs Fiona Phillips MP  
Chair of the House of Representatives Standing Committee on Regional Development,  
Infrastructure and Transport  
PO Box 6021, Parliament House,  
Canberra ACT 2600  
Lodged online

3 February 2026

Dear Mrs Phillips

**Re: Federal Inquiry into Local Government Funding and Fiscal Sustainability**

The ten Member Councils of the Hunter Joint Organisation (Hunter JO) welcome the opportunity provided by the Standing Committee on Regional Development to provide feedback to inform the Federal Inquiry into Local Government Funding and Fiscal Sustainability.

The Hunter JO is the statutory Local Government entity established by the NSW Government, through the *NSW Local Government Act 1993*, to support the ten member Councils of the Hunter Region to work together for better rural and regional outcomes, and to enhance the way Local and State Governments work together to plan and deliver important regional infrastructure and investment.

Member Councils of the Hunter JO include:

- Cessnock City Council
- Dungog Shire Council
- Lake Macquarie City Council
- Maitland City Council
- MidCoast Council
- Muswellbrook Shire Council
- City of Newcastle
- Port Stephens Council
- Singleton Council
- Upper Hunter Shire Council

The core statutory functions established by the NSW Government for the Hunter JO and joint organisations more broadly across NSW include:

1. Strategic planning and priority setting
2. Intergovernmental collaboration
3. Shared leadership and advocacy

Through the [Hunter JO Strategic Plan 2035](#), our Member Councils have identified the following shared priority for the Hunter Region that relate directly to the recommendations included in our submission:

| Strategic Theme                             | Focus  |
|---|--|
| Financial Sustainability and Funding Reform | Financial sustainability achieved through reformed funding processes and secure financial models that ensure the long-term viability and success of local government to deliver services to communities. |

Hunter JO has developed following submission in direct consultation with our Member Councils and drawing on our regional advocacy and capacity building work in this area. Key focus areas and/or recommendations included in the submission include:

- Ensuring the long-term financial sustainability of local government.
- Securing reliable funding for place-based regional collaboration and knowledge sharing.
- Reforming grant funding processes to secure sustainable funding models.

I encourage you to consider our recommendations and would welcome the opportunity to further discuss with you.

Should you have any further queries please don't hesitate to contact Kim Carland, Advocacy and Government Relations Lead ON M 0460 034 614 or E [kimc@hunterjo.nsw.gov.au](mailto:kimc@hunterjo.nsw.gov.au).

Yours Sincerely



Cr Sue Moore  
Mayor, Singleton Council  
Chair, Hunter Joint Organisation



Cr Leah Anderson  
Mayor, Port Stephens Council  
Deputy Chair, Hunter Joint Organisation

*The Hunter Joint Organisation's statutory mandate includes identifying the key regional strategic priorities, advocating for these priorities and building collaboration with other levels of government, industry and community. More information on our shared priorities are outlined in our [Hunter JO Strategic Plan 2035](#) and [Advocacy Priorities](#).*

# SUBMISSION

Local government is the level of government closest to the community and is responsible for delivering a growing range of essential services and infrastructure. However, local governments across Australia are facing a structural and compounding financial sustainability challenge. Councils are being asked to deliver more services, manage growing and increasingly complex infrastructure networks, increased regulations, population growth, and respond to escalating disaster and climate impacts, without a funding system capable of supporting these responsibilities.

This submission responds to the Inquiry's Terms of Reference by outlining the systemic funding challenges faced by Hunter councils and proposing practical, evidence-based reforms.

Case studies and evidence from Hunter Joint Organisation (Hunter JO) Member Councils demonstrates that the current local government funding framework is no longer fit for purpose. Financial pressures are being driven by:

- Long-term and unquantified cost shifting from state and federal governments
- A sustained decline in the real value and equity of Financial Assistance Grants (FA Grants)
- Over-reliance on short-term, competitive grants that undermine strategic planning and workforce stability
- Escalating disaster recovery costs without adequate funding for resilience or betterment
- Rapidly increasing audit fees and regulatory compliance burdens

These pressures disproportionately impact regional and rural councils with some councils relying on up to 60% of total revenue sourced from grants, exposing councils to volatility, administrative burden and uncertainty. At the same time, regional councils collectively manage extensive infrastructure networks with higher per-capita service delivery costs than metropolitan councils, but with significantly less revenue-raising capacity.

Without structural reform, councils will be forced to continue deferring infrastructure renewal, reducing service levels, or shifting costs directly onto communities least able to absorb them. This submission sets out practical, evidence-based reforms to restore fairness, predictability and sustainability to local government funding.

We appreciate that local government is constitutionally a state responsibility, and in NSW the Commonwealth has no direct power over council rate-setting or rate-pegging. The Federal Government's primary lever to influence local government financial sustainability is through national funding frameworks, particularly Financial Assistance Grants, and through the design of Commonwealth programs that impose costs or funding conditions on councils.

The Hunter Joint Organisation urges the Commonwealth Government to take a leadership role in restoring the financial sustainability of local government. This requires moving beyond incremental adjustments and addressing the structural drivers of financial stress, identified consistently across multiple inquiries.

## Summary of recommendations

| Focus Area   | Recommendation   |
|--|--|
| Focus Area 1: The impact of cost shifting on local government                                      | <ol style="list-style-type: none"> <li>1. Review rate exemptions and provide a national framework</li> <li>2. Establish a nationally consistent framework to identify, measure and compensate cost shifting</li> <li>3. Undertake consultation with councils before implementing policy or regulatory change to understand the cost shifting implications.</li> </ol>  |
| Focus Area 2: The adequacy, sustainability and equity of Commonwealth funding for local government | <ol style="list-style-type: none"> <li>1. Restore FA Grants to at least 1% of Commonwealth taxation revenue with additional revenue being distributed to regional councils with large road networks only.</li> <li>2. Reform distribution methodologies to better reflect regional disadvantage and service costs</li> <li>3. Improve certainty and transparency in timing and calculation of FA Grant allocations</li> </ol>  |
| Focus Area 3: The efficiency and effectiveness of Commonwealth grant funding programs              | <ol style="list-style-type: none"> <li>1. Shift toward non-competitive, multi-year block funding aligned with councils' four year Delivery Programs or Commonwealth election cycles</li> <li>2. Standardise reporting and governance requirements across government agencies</li> <li>3. Support regional collaboration rather than competition between councils</li> </ol>  |
| Focus Area 4: local government's role in disaster recovery, resilience and climate adaptation      | <ol style="list-style-type: none"> <li>1. Rebalance disaster funding to prioritise prevention, mitigation and resilience, not just response and recovery</li> <li>2. Enable and fund 'build back better' and resilience upgrades as standard practice in disaster recovery programs</li> <li>3. Include council owned water and sewer infrastructure as eligible assets under disaster recovery funding arrangements</li> <li>4. Provide integrated, multiyear disaster recovery and resilience funding aligned with councils' four-year planning cycles or Commonwealth election cycles.</li> </ol>                                 |
| Focus Area 5: The regulatory and compliance burden placed on local government                      | <ol style="list-style-type: none"> <li>1. Apply a nationwide risk based and tiered audit approach proportionate to council size, complexity and capacity</li> <li>2. Introduce greater transparency around audit fee structures, including early disclosure of cost drivers and risks</li> <li>3. Release the Local Government Code of Accounting and Financial Reporting at the commencement of the financial year, or on a multi-year basis, to enable effective planning and compliance</li> </ol>  |
| Focus Area 6: Local government responsibilities for waste management and environmental outcomes    | <ol style="list-style-type: none"> <li>1. Provide national guidelines on waste levies and taxes across Australia.</li> <li>2. Increase the proportion of waste levies and taxes reinvested directly into local government waste and circular economy initiatives to support delivery of national and state waste reduction and net zero objectives.</li> <li>3. Improve transparency around waste levy expenditure and prioritise reinvestment in the regions from where such levies are collected.</li> <li>4. Support councils to invest in waste infrastructure, education, recycling and circular economy initiatives</li> </ol> |

## Focus Area 1: The impact of cost shifting on local government

Cost shifting occurs when responsibilities are transferred to local government due to increasing regulatory and administrative burden without adequate funding or support. Both Federal and State parliamentary inquiries have identified cost shifting as a primary contributor to local government financial stress.

In NSW, independent analysis has demonstrated that cost shifting to councils exceeded \$1.5 billion in 2023–24, equating to almost \$500 per ratepayer per year.

Examples affecting Hunter councils include:

- Healthcare, aged care and childcare in rural and regional areas due to withdrawal or absence of State/Federal services or market gaps.
- Growth-enabling infrastructure for housing required by higher-level policy objectives, but up-front and long-term costs sit with councils.
- Administration of increasingly complex planning and regulatory systems.
- Disaster recovery responsibilities without sufficient funding.
- Enforcing the EPBC Act, including audits, investigations, and enforcement, without dedicated funding
- Managing vast areas of non-rateable land (national parks, crown land) that still require roads, weed control, and visitor management
- Regional airports contribute to national connectivity and security objectives but are funded locally.

These costs erode councils' capacity to invest in core services and infrastructure.

### **Case Study – Lake Macquarie City Council**

A tangible example of cost shifting is changes in the NSW Planning Portal, which Lake Macquarie City Council calculates has required an additional two fulltime positions in their council alone to absorb additional workload, an additional impost that has not had an impact on reducing processing times.

We appreciate the NSW Government is responsible for this example; however, the Federal Government Inquiry should take these issues into consideration for why local governments are experiencing issues with financial sustainability.

### **Case Study – Lake Macquarie City Council**

The NSW Emergency Services Levy represents cost-shifting at its worst, as it is imposed on councils without any mechanism for them to recover costs. The levy increases for the state's 128 councils in 2023- 2024 amounted to almost \$77 million, with the total cost imposed on the local government sector increasing from \$143 million in the 2022-2023 financial year to \$219 million in 2023-2024. This represented a 53.1 per cent increase, completely dwarfing the base rate peg of 3.7 per cent, as set by IPART for 2023-2024.

We appreciate the NSW Government is responsible for this example; however, the Federal Government Inquiry should take these issues into consideration for why local governments are experiencing issues with financial sustainability.

### **Case Study – Upper Hunter Shire Council**

#### **Aged Care Example:**

Upper Hunter Shire Council has been operating a 16-bed residential aged care facility in Merriwa since the early 1990's (Gummun Place Hostel). Unfortunately, Gummun Place Hostel has sustained significant operating losses for the past six years due to increasing compliance and staffing costs and inadequate aged care funding from the Federal Government. For the 2024/25 financial year, the Hostel incurred a net operating loss of \$1.06 million and for the 2025/2026 financial year, Council has forecasted an operating loss of \$681,000. These operating losses are unsustainable, and Council does not have the funds available to continue subsidising the service that should be a Federal Government responsibility. Numerous requests for financial assistance from the Federal Government have been unsuccessful. As a result, in October 2025, Council resolved to close the residential aged care facility, leaving a gap in local services.

#### **Recommendation**

1. Review rate exemptions and provide a national framework
2. Establish a nationally consistent framework to identify, measure and compensate cost shifting
3. Undertake consultation with councils before implementing policy or regulatory change to understand the cost shifting implications.

## **Focus Area 2: The adequacy, sustainability and equity of Commonwealth funding for local government**

Financial Assistance Grants have not kept pace with inflation and rising costs for essential services and infrastructure. Inequitable distribution leaves regional and remote councils under-resourced compared to metropolitan counterparts.

Nationally these grants remain at 0.51% of Commonwealth taxation revenue. LGNSW, ALGA and Hunter JO have long been calling for these grants to return to the 1% of Commonwealth taxation revenue that was last achieved in 1996. The lack of investment in our communities is a missed opportunity and an enormous contributor to the financial sustainability challenges faced by councils.

In addition, the current distribution methodology does not adequately meet the Federal Principle of Horizontal and Fiscal Equalisation reflecting:

- Higher service delivery costs in regional areas
- Limited revenue-raising capacity
- Climate and disaster exposure
- Large infrastructure networks

### **Case Study – Regional councils versus metropolitan councils**

Metropolitan councils manage a much smaller road network, meaning their funding needs are significantly lower. To put this into perspective, if 5% of the road network were renewed to the

same standard each year, the relative cost would be approx. \$75 per ratepayer in Sydney, compared with over \$250 in Newcastle, \$1,800 in Singleton and more than \$3,800 per ratepayer in Dungog Shire Council. This clearly disadvantages the affordability and capacity of regional and rural councils and their communities to maintain their road networks.

### **Recommendation**

1. Restore FA Grants to at least 1% of Commonwealth taxation revenue with additional revenue being distributed to regional councils with large road networks only.
2. Reform distribution methodologies to better reflect regional disadvantage and service costs
3. Improve certainty and transparency in timing and calculation of FA Grant allocations

## Focus Area 3: The efficiency and effectiveness of Commonwealth grant funding programs

Regional councils rely heavily on grant funding to deliver infrastructure and services. However, the current system is dominated by short-term, competitive grants that:

- Are misaligned with councils' legislated planning frameworks
- Divert scarce staff resources away from service delivery
- Disadvantage smaller councils with limited grant-writing capacity
- Embed stop-start, short-term funding arrangements that undermine councils' ability to sustain programs and retain capability over time
- Increase cost of delivery with boom bust funding cycles.
- Don't factor in CPI increases from the time of applying to delivery of grant funding, which can sometimes be measured in years.
- Don't allow for operational expenditure support through grants – ie grants are usually for capital projects only

Over time, this weakens councils' capacity, creates community frustration, and leads to fragmented outcomes, especially in regional areas where councils may be competing for rather than collaborating to attract grant funding. Instead of supporting long-term planning and delivery, the current grant system often builds vulnerability, distracts from core responsibilities, and reduces the ability of local governments to invest in sustainable, community-led outcomes.

Councils and Joint Organisations require stable, predictable funding to plan and deliver long-term, place-based outcomes.

### **Case Study – Dungog Shire Council**

More than 60% of Dungog Shire Council's revenue is sourced from grants. With a small resource base, operational staffing is reallocated away from essential service delivery to apply for time consuming grant applications and reporting requirements. This undermines Council's ability to perform their core functions.

### Case Study – Lake Macquarie City Council

An example of the financial impact of one-off grants can be demonstrated with the increase in construction costs. Lake Macquarie City Council experienced a 34 per cent increase during the extensive upgrade of the Hunter Sports Centre – a major regional facility in the Lake Macquarie LGA. In just 18 months, costs increased from an initial projection of \$39.4 million to \$52.6 million, due to unprecedented inflationary pressures in the building industry. The Federal Government's contribution of \$10m was gratefully received through the Building Better Regions fund, however with grant top-ups unavailable from either State or Federal Governments, Council had to secure a loan to cover the cost increase and allow the project to proceed, placing a significant impost on budgetary resources. This pattern of steeply increasing costs has been repeated with many smaller Council projects as well. It speaks to a need for indexation of significant infrastructure grants to ensure major projects are not put at risk, or councils forced to underwrite project overruns to cover increased costs beyond their control.

### Recommendation

1. Shift toward non-competitive, multi-year block funding aligned with councils' four-year Delivery Programs or Commonwealth election cycles
2. Standardise reporting and governance requirements across government agencies
3. Support regional collaboration rather than competition between councils

## Focus Area 4: Local government's role in disaster recovery, resilience and climate adaptation

The Hunter region is experiencing increasingly frequent and severe natural disasters, placing sustained pressure on councils' financial and operational capacity. Current disaster funding arrangements are heavily weighted toward response and recovery, with 97% of disaster funding allocated to response and recovery rather than risk reduction, thereby embedding vulnerability rather than building resilience.

Hunter councils report that asset damage from disaster events often runs into the tens or hundreds of millions of dollars, while recovery grants are capped well below actual costs. Councils are required to fund works upfront and wait for reimbursement, a challenge compounded by limited reserves in many regional LGAs.

A tangible example is provided by Upper Hunter Shire Council, where the May 2025 severe weather event left the council with close to \$500,000 in damage to essential water infrastructure. Despite the critical public health function of these assets, water and sewer infrastructure remains ineligible for disaster recovery funding due to their classification as "commercial activities". This represents direct cost shifting to councils and communities least able to absorb these costs.

Hunter councils have also experienced the consequences of stop-start grant funding for community recovery capacity. For example, MidCoast Council's Community Recovery Officer role, funded on a short-term basis, ceased only months before the May 2025 floods. As a result, critical corporate

knowledge, community relationships and recovery capacity were lost immediately prior to a major disaster event, delaying recovery and increasing pressure on council staff.

#### **Case Study – MidCoast Council**

MidCoast Council were the most impacted council during the NSW East Coast severe weather event beginning in May 2025, with MidCoast Council taking on and continuing to manage the enormous response and recovery effort arising from this event. The total estimated cost of the recovery program is \$226.5 million, reflecting the scale of damage across the transport network and the complexity of restoration works.

To date, \$43 million has been expended on emergency works, immediate rectification and ongoing restoration activities, with \$3 million reimbursed under the Disaster Recovery Funding Arrangements (DRFA) nine months later.

While all eligible costs are claimable under DRFA guidelines, the timing of reimbursements and scope adjustments are currently impacting Council's cash flow. Additional resource implications include the need for specialist consultants, increased contractor engagement and internal staff time dedicated to project management, financial reporting and compliance processes to document eligibility for claims, agreeing on categories and competing claims.

These experiences and barriers highlight limited progress in implementing key Colvin Review recommendations relevant to funding design and delivery, reiterating the importance of accelerating implementation of recommendations 36-40 of that federal review process.

#### **Case Study – Upper Hunter Council**

Upper Hunter Shire Council were also impacted by the May 2025 severe weather event, which left the council with close to \$500,000 in damage to essential water infrastructure.

As a consequence, Upper Hunter residents were issued boiled water alerts two separate times during 2025 totalling three months in duration, caused by excessive rain events.

Despite the critical public health function of these assets, water and sewer infrastructure remains ineligible for disaster recovery funding due to their classification as "commercial activities". Yet in this case, with such a small rate base the council fees and charges for water cover the operating costs but we don't generally generate sufficient funds for large capital improvements.

#### **Recommendation**

1. Rebalance disaster funding to prioritise prevention, mitigation and resilience, not just response and recovery
2. Enable and fund 'build back better' and resilience upgrades as standard practice in disaster recovery programs
3. Include council-owned water and sewer infrastructure as eligible assets under disaster recovery funding arrangements
4. Provide integrated, multi-year disaster recovery and resilience funding aligned with councils' four-year planning cycles or Commonwealth election cycles.

## Focus Area 5: The regulatory and compliance burden placed on local government

Audit fees and compliance costs have emerged as a significant and rapidly escalating pressure on Hunter councils. Since 2017–18, Hunter councils have experienced a cumulative 73.7% increase in audit fees, including a 53.4% increase in the 2022–23 financial year alone. Over the same period, the cumulative NSW enforced rate peg increase applied to councils was just 10.6%, meaning audit cost growth has far outpaced councils' capacity to raise revenue.

Councils report limited ability to negotiate audit fees, coupled with a steady expansion in audit scope and increasingly short turnaround times for information requests. This places substantial administrative burden on council staff, diverting resources away from service delivery and strategic planning.

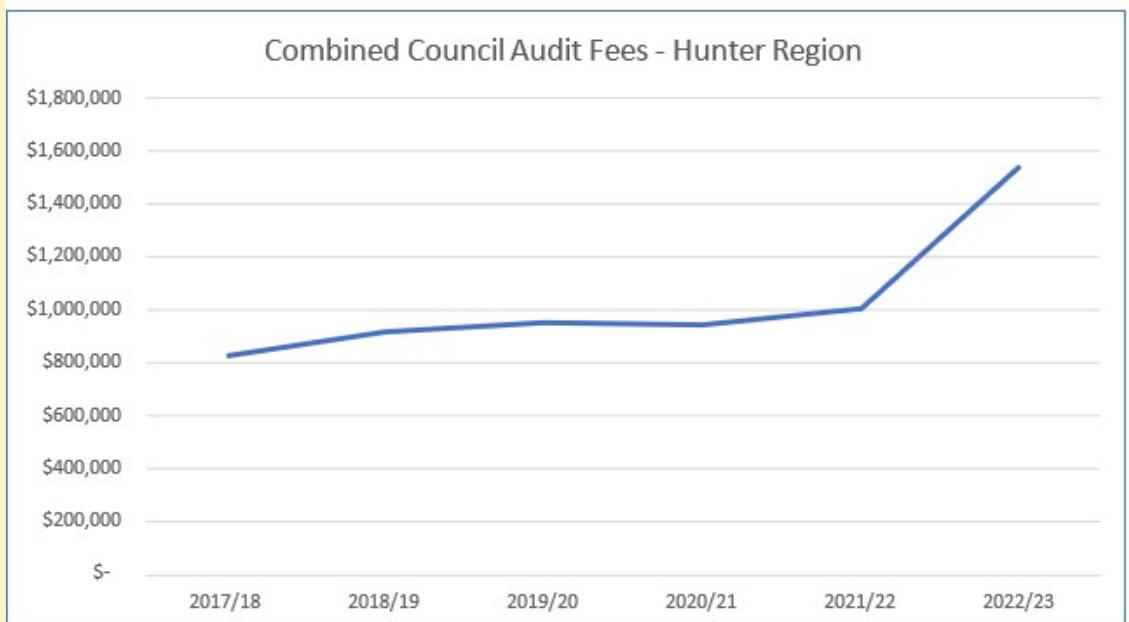
Further compounding this issue is the timing of the annual Local Government Code of Accounting and Financial Reporting. The code is often released late in the financial year, limiting councils' ability to plan and comply efficiently and increasing audit complexity and cost.

### Case Study – 10 x Hunter Councils' increasing audit fees

Figure 1. Combined Hunter Council Annual Audit Fees

| Council                           | 2017/18          | 2018/19          | 2019/20          | 2020/21          | 2021/22            | 2022/23            |
|-----------------------------------|------------------|------------------|------------------|------------------|--------------------|--------------------|
| MidCoast                          | \$185,000        | \$283,000        | \$195,000        | \$216,700        | \$217,200          | \$225,000          |
| Port Stephens                     | \$76,000         | \$82,000         | \$98,900         | \$80,800         | \$87,150           | \$100,505          |
| City of Newcastle                 | \$119,000        | \$126,500        | \$148,600        | \$134,250        | \$138,100          | \$200,000          |
| Lake Macquarie                    | \$86,903         | \$89,000         | \$110,125        | \$96,650         | \$106,300          | \$300,301          |
| Cessnock                          | \$39,000         | \$48,000         | \$56,000         | \$52,000         | \$58,000           | \$106,000          |
| Maitland                          | \$67,058         | \$68,000         | \$78,700         | \$74,150         | \$84,900           | \$109,600          |
| Singleton                         | \$75,700         | \$77,200         | \$88,500         | \$84,050         | \$92,000           | \$105,300          |
| Dungog                            | \$36,000         | \$43,200         | \$47,000         | \$55,000         | \$60,000           | \$110,000          |
| Muswellbrook                      | \$78,230         | \$53,600         | \$72,218         | \$91,082         | \$82,465           | \$200,000          |
| Upper Hunter                      | \$64,450         | \$47,500         | \$58,000         | \$59,700         | \$79,200           | \$85,200           |
| <b>TOTAL</b>                      | <b>\$827,341</b> | <b>\$918,000</b> | <b>\$953,043</b> | <b>\$944,382</b> | <b>\$1,005,315</b> | <b>\$1,541,906</b> |
| <b>Annual % change</b>            |                  | <b>11.0%</b>     | <b>3.8%</b>      | <b>-0.9%</b>     | <b>6.5%</b>        | <b>53.4%</b>       |
| <b>Annual rate peg % increase</b> |                  | <b>2.3%</b>      | <b>2.7%</b>      | <b>2.6%</b>      | <b>2.0%</b>        | <b>1.0%</b>        |

Figure 2. Increase in combined Council Audit Fees



We appreciate the NSW Government is responsible for this example, however the Federal Government Inquiry should take these issues into consideration for why local governments are experiencing issues with financial sustainability.

#### Recommendation

1. Apply a nationwide risk-based and tiered audit approach proportionate to council size, complexity and capacity
2. Introduce greater transparency around audit fee structures, including early disclosure of cost drivers and risks
3. Release the Local Government Code of Accounting and Financial Reporting at the commencement of the financial year, or on a multi-year basis, to enable effective planning and compliance

#### Focus Area 6: Local government responsibilities for waste management and environmental outcomes

In line with the recommendations of the Australian Government's Productivity Commission's 2025 inquiry, *Australia's Circular Economy: Unlocking the Opportunities*, the Australian Government is asking local governments to identify circular economy opportunities and develop place-based plans and/or integrate actions into their other plans and budgetary processes (such as service, infrastructure or community development plans).

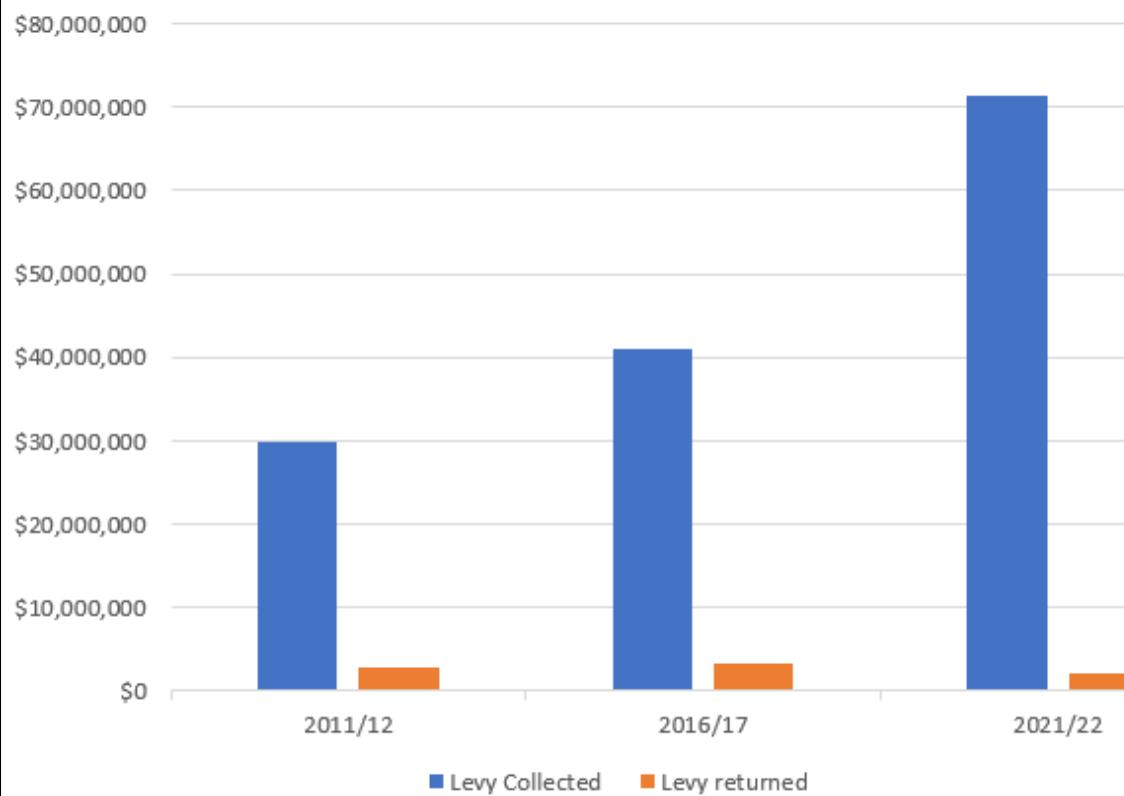
Given the current financial constraints facing local government, dedicated investment is essential to enable the effective implementation of these recommendations to prevent further instances of cost shifting.

While state governments are largely responsible for the legal and policy framework that influences local government waste services, federal policies remain a key driver over these frameworks. A present example is the [NSW FOGO Mandate](#). The Australian Government's National Waste Policy Action Plan 2019 set a target to halve organic waste from landfill by 2030. This target was mirrored by the NSW Government in its [Waste and Sustainable Materials Strategy 2041: Stage 1 2021-2027](#), the current state waste strategy. This culminated in NSW Parliament [passing laws in 2025](#) requiring local councils to provide all NSW households with a food organics and garden organics service by 1 July 2030. This policy change imposes additional operational requirements and costs onto local government.

In some states, significant revenue is collected through a levy, yet councils receive minimal reinvestment from these funds to support waste management, recycling or circular economy outcomes. The proportion of the waste levy returned to councils has also declined sharply, from 9% in 2011–12 to approximately 3% in recent years. This undermines councils' capacity to deliver efficient waste services and meet state and national waste reduction targets, despite councils being responsible for service delivery on the ground.

#### Case Study – 10 x Hunter Councils' waste levy collected versus returned

Waste Levy Revenue (\$) returned to Hunter Councils



We appreciate the NSW Government is responsible for this example, however the Federal Government Inquiry should take these issues into consideration for why local governments are experiencing issues with financial sustainability.

## Recommendations

1. Provide national guidelines on the application of waste levies and taxes across Australia.
2. Increase the proportion of waste levies and taxes reinvested directly into local government waste and circular economy initiatives to support delivery of national and state waste reduction and net zero objectives.
3. Improve transparency around waste levy expenditure and prioritise reinvestment in the regions from where such levies are collected.
4. Support councils to invest in waste infrastructure, education, recycling and circular economy initiatives

## Conclusion

Local government financial sustainability is fundamental to community wellbeing, economic productivity and national resilience. Without structural reform, councils, particularly in regional Australia, will be forced to reduce essential services and defer infrastructure renewal, leading to deteriorating assets, escalating risk exposure and profound consequences for community safety.

The erosion of core services and liveability will also undermine the ability of regional communities to attract and retain primary producers, local industries, essential workers and skilled professionals, placing pressure on food security, regional economies and the industries that underpin the national interest.

In addition, sustained financial pressure over time increases the risk of more councils entering administration, with system-wide implications for governance, service continuity and intergovernmental costs.

The Hunter Joint Organisation urges the Federal Government to work collaboratively with local and state governments to implement funding reforms that are fair, predictable and aligned with long-term community needs.

Alignment of our recommendations to the findings in the [\*Interim Report into Local Government Financial Sustainability \(2025\)\*](#)

### Focus Area 1: Impact of cost shifting on local government

| HJO recommendation  | Alignment with Committee findings | Evidence from the Interim Report   |
|---|-----------------------------------|--|
| <b>1. Establish a nationally consistent framework to identify, measure and compensate cost shifting</b> | Strong alignment                  | Cost shifting is repeatedly identified as a core cause of financial stress, with councils taking on responsibilities formerly held by other levels of government. The Committee explicitly notes the need to “end cost shifting onto |

|  |                   |  |
|--|-------------------|--|
|  |                   | local governments" and canvasses the idea of a new tripartite agreement  |
| <b>2. Reduce or remove state-owned rate exemptions</b>   | Partial alignment | The report highlights the impact of rate-exempt land (e.g. national parks, community housing, government assets) on councils' revenue bases, particularly in regional and remote areas, but does not yet recommend removal of exemptions |
| <b>3. Simplify and streamline regulatory systems that impose administrative burden on councils</b> | Strong alignment  | The Committee repeatedly notes growing regulatory and compliance burdens, particularly environmental, planning and audit requirements, and their disproportionate impact on smaller councils   |

## Focus Area 2: Adequacy, sustainability and equity of Commonwealth funding

| HJO recommendation  | Alignment         | Evidence  |
|---|-------------------|---|
| <b>1. Restore Financial Assistance Grants (FAGs) to at least 1% of Commonwealth taxation revenue</b>                | Strong alignment  | This recommendation is explicitly listed by the Committee as a key proposal raised by submitters and endorsed as a priority issue   |
| <b>2. Reform distribution methodologies to better reflect regional disadvantage, climate risk and service costs</b> | Strong alignment  | The report strongly critiques current distribution formulas, minimum grants, and outdated road components for failing to reflect need, regional disadvantage and cost pressures |
| <b>3. Improve certainty and transparency in timing and calculation of FAG allocations</b>                           | Partial alignment | Concerns are raised about indexation freezes, opaque methodologies and unpredictability, though transparency reforms are implied rather than explicitly recommended             |

## Focus Area 3: Efficiency and effectiveness of Commonwealth grant programs

| HJO recommendation  | Alignment         | Evidence  |
|---|-------------------|---|
| <b>1. Shift to non-competitive, multi-year block funding aligned with councils' strategic plans</b> | Strong alignment  | The Committee records widespread dissatisfaction with competitive, short-term grants and notes calls for untied, multi-year funding (3–5 years) to support planning certainty |
| <b>2. Standardise reporting and governance requirements across programs</b>                         | Partial alignment | Administrative burden and inconsistent requirements are discussed, but standardisation is not yet articulated as a formal recommendation                                      |

|   |                    |  |
|---|--------------------|--|
| <b>3. Support regional collaboration rather than competition between councils</b> | Implicit alignment | The critique of competitive funding and co-contribution models implicitly supports collaboration, though this is not framed as a standalone recommendation |
|---|--------------------|--|

#### Focus Area 4: Disaster recovery, resilience and climate adaptation

| HJO recommendation  | Alignment          | Evidence  |
|---|--------------------|---|
| <b>1. Rebalance disaster funding toward prevention, mitigation and resilience</b>       | Strong alignment   | The Committee explicitly notes the need for greater investment in resilience and risk reduction rather than reactive recovery   |
| <b>2. Enable and fund ‘build back better’ as standard practice</b>                      | Partial alignment  | The report recognises rising recovery costs and climate-driven asset damage but stops short of explicitly endorsing “build back better” as a standard funding principle |
| <b>3. Include council-owned water and sewer assets as eligible for disaster funding</b> | Implicit alignment | Water and wastewater infrastructure vulnerability is recognised, especially in regional areas, but eligibility reform is not yet explicit                               |
| <b>4. Provide integrated, multi-year disaster funding aligned with IP&amp;R cycles</b>  | Partial alignment  | The need for longer-term, predictable funding is acknowledged, though IP&R alignment is not specifically referenced   |

#### Focus Area 5: Regulatory and compliance burden

| HJO recommendation  | Alignment          | Evidence  |
|---|--------------------|---|
| <b>1. Greater transparency around audit fee structures</b>  | Partial alignment  | Audit, accounting and compliance costs are discussed extensively, particularly depreciation and audit impacts, but fee transparency is not yet singled out          |
| <b>2. Risk-based and tiered audit approaches</b>  | Implicit alignment | The report highlights disproportionate impacts on smaller councils, supporting the logic of tiered approaches, though not explicitly recommended                    |
| <b>3. Release the Code of Accounting and Financial Reporting earlier or on a multi-year basis</b> | Partial alignment  | The Committee acknowledges significant concern with accounting standards, depreciation treatment and late changes, but does not yet address timing reforms directly |

## Focus Area 6: Waste management and environmental outcomes

| HJO recommendation  | Alignment          | Evidence   |
|---|--------------------|--|
| <b>1. Increase reinvestment of waste levy revenue into local government</b>                   | Partial alignment  | Environmental and waste obligations are recognised as growing cost pressures, but waste levy reform is not explicitly addressed in the interim report      |
| <b>2. Improve transparency of waste levy expenditure and regional reinvestment</b>            | Implicit alignment | The report acknowledges inequities faced by regions generating revenue but lacking reinvestment, without specific levy recommendations                     |
| <b>3. Support councils to invest in waste infrastructure and circular economy initiatives</b> | Implicit alignment | The Committee recognises councils' environmental responsibilities and the need for dedicated funding streams, which is consistent with this recommendation |