Submission

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

Inquiry into local government sustainability.

Date 31 May 2024

Message from the Chair

Regional Capitals Australia (RCA) is pleased to make this submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport - Inquiry into local government sustainability.

RCA is an alliance of local governments representing regional cities from across the nation. Regional capitals are thriving urban centres that provide a high level of economic activity, amenity and affordability. These cities are strong regional hubs providing a central point to access essential transport, health, business, employment, education and other services.

RCA recognises the role that our individual members, the Australian Local Government Association, Local Government NSW, Municipal Association of Victoria, Local Government Queensland and Local Government Western Australia have in relation to providing the sector wide and local content in relation to this Inquiry. It is not the intention to replicate these viewpoints rather this submission will address two key principles that impact our membership:

1. **The funding environment:** including the current rate pegging (NSW) and rate capping (Victoria) frameworks and variable nature of State and Federal grant funding support which together have created day to day challenges in meeting the increasing costs of services and infrastructure required to run thriving regional cities; and

2. **The expanding delivery role:** for regional city local governments to be strong regional service hubs while simultaneously accommodating a growing population in a cost shifting environment.

Regional capitals can be an important part of the nation's productivity and liveability story. Our member cities are great places to live and work and are growing rapidly. On this basis our cities are undoubtedly a liveable and affordable alternative for people and businesses seeking to relocate from the congested capitals.

However, more action now must be taken to address the imbalance created between the funding environment and the expanding delivery role for Local Governments in regional cities. If no action is taken large pockets of inequity will grow between the metropolitan centres and regional Australia.

Looking to the future, RCA believes the Inquiry is a great opportunity to create clear recommendations to Government that can provide a more equitable and efficient outcome for our communities, ensuring our member cities truly are the liveable alternative.

Kylie King

Cr Kylie King
Chair
Regional Capitals Australia

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Overview

About Regional Capitals Australia

Regional Capitals Australia (RCA) was formed in 2012 to represent the interests of Australia's 51 regional capital cities.

Our mission is to narrow the divide between metropolitan cities and regional capital cities – we advocate for policy outcomes that make our regional capital cities more connected and liveable. We seek a fairer share of government attention and investment than what our cities have traditionally experienced.

Every year regional capital cities generate $225 billion, or more than 16 per cent of national economic activity. All RCA members have a growth agenda and stand ready to ensure a growing Australia means a stronger and more equitable regional Australia.

Regional capitals' role in Australia

Regional capital cities provide a liveable alternative to people and businesses wishing to escape Australia's congested metropolitan cities.
Regional capital cities perform a 'capital city' role within their regions, providing a central point of access to essential services, commerce, employment and education. These services are accessed by residents of the regional capital cities as well as those in surrounding towns and rural areas.
Now is the time to kick-start investment in regional capitals right for the benefit of all Australians.

Vibrant and productive regional capital cities are key to Australia's sustainability and prosperity. Regional capital cities are also growing – all Regional Capitals Australia (RCA) members are striving to continue this trend and as such have a growth agenda for their communities.
RCA's members across regional capital cities see themselves as ready to grow as liveable urban centres providing:

1. **Strong service centres**: that continue to be a central point to access essential infrastructure, services, business, employment and education;
2. **Easing the metropolitan congestion**: encouraging regional migration and decentralisation options for new and existing residents and businesses can take the pressure off major metropolitan capitals; and
3. **An affordable alternative**: providing affordable housing and industrial land options for families and businesses seeking to avoid the inflated property markets of the major metropolitan capitals.

To achieve this vision we must continue to build regional capital cities that are:

1. **Connected**: with roads, rail, airports (and services), broadband and mobile telecommunications.
2. **Productive**: with diverse economies that can be built with government and private sector decentralisation and skilled labour shaped through strong tertiary and continuing education opportunities; and
3. **Liveable**: with high levels of essential services, social amenities and a continued supply of affordable housing options.

Funding for Local Government

Financial Assistance Grants

Despite being considered an imperative revenue source (estimated to be 20 percent of annual operating revenue for around one in four Councils) and the only source of untied grant funding for Local Government, Financial Assistance Grants (FAGs) are in decline.[1]

According to the Australian Local Government Association's (ALGA) analysis, this core Federal funding to local government has significantly declined since the mid-1980s. Local government was initially funded by the Commonwealth Government through a tax sharing arrangement.[2]

This ensured funding was aligned with the growth of the Australian economy. However, this arrangement was subsequently changed to only increase the grant by a population growth and consumer price indexation and has resulted in a significant reduction in the grants from 1% to just 0.53 percent of Commonwealth taxation revenue [3]. Despite this decline the expectation on Local Government to continue to fund services and infrastructure has not declined but increased.

In addition, the effect of the Abbott Government's three year freeze of FAG indexation from 2014 to 2017 must be taken into account. According to ALGA, the indexation freeze is estimated to have cost local communities more than $600 million in services and infrastructure over three years, with the biggest impact felt by Councils in regional and remote Australia.[4]

RCA endorses the call by ALGA and other local government organisations for Financial Assistance Grants to be restored to at least one per cent of Commonwealth taxation revenue.

The Rate Peg and Rate Cap

Councils and municipal organisations in New South Wales and Victoria have noted that the rate peg (in NSW) and the rate cap (in Victoria) have compromised regional Councils' financial sustainability.

Rate caps and rate pegs limit the maximum amount or percentage a Council may increase its general rates and charges. In NSW the rate peg is determined by the Independent Pricing and Regulatory Tribunal (IPART), while in Victoria the Department of Treasury and Finance determines the rate cap.

The introduction of rate pegging and rate capping has created a gap between the revenue Council rates raise and the actual cost of Council expenses and increased the difficulty for Councils of funding the services and infrastructure on which their communities rely.

[1] https://alga.com.au/policy-centre/financial-sustainability/
[2] https://alga.com.au/policy-centre/financial-sustainability/
[3] https://alga.com.au/policy-centre/financial-sustainability/
[4] https://alga.com.au/policy-centre/financial-sustainability/

In Victoria, *The Sustainability Gap – the financial health of Victorian Councils* (November 2022), by The Municipal Association of Victoria (MAV) and Local Government Finance Professionals (FinPro) notes:

> *The current methodology results in a rate cap which doesn't accurately reflect Council expenses. The longer this continues the greater the problem becomes as erosion of the rate base is a compounding problem. Cumulatively, over the first four years of rate capping the gap between the cost base increase and the rate cap was 4.0% for the sector, and for interface Councils and small rural Councils of 11.1% and 9.0% respectively. The rate cap for the current financial year was set at 1.75%, compared to likely Consumer Price Index increases of 7%.*[5]

It also notes that the methodology has the cumulative effect of reducing the rate base over time.

> *Since the introduction of the rate-cap (2016-17), the November/December forecasts (and thus the rate-cap) have varied from the actual CPI figures by an average of 1.44%. This represents a change in Council rate bases in the order of $100 million.*[6]

The MAV contrasts Local Government revenue growth to the revenue growth of other tiers of government:

> *Since 2016 the tax revenue of Victorian Councils has risen 23% in total, compared to a 53% rise in tax receipts for the Victorian Government and 59% for the Commonwealth.*[7]

In New South Wales, there are concerns that rate pegging fails to account for the impact of cost-shifting, as noted by LGNSW in its submission to the NSW government Inquiry into Ability of Local Governments to Fund Infrastructure and Services.

While recent rate peg reforms have ensured the NSW Emergency Services Levy increases will be wholly covered by an adjustment to the rate peg, cost shifting not covered by the rate peg continues to disadvantage Councils, including:

- A requirement for Councils to exempt Government and other organisations from paying rates in the local government area;
- Pensioner rebates where the State Government subsidises only 55 percent of the revenue loss; and
- An interment levy on every cremation, burial and ash interment across NSW (local government authorities operate cemeteries or crematoria and were responsible for 42.8 per cent of burials in 2021-22).[8]

In addition, rate pegging impedes the ability of regional Councils to manage the impact of population growth and provide and maintain the services and infrastructure required.

IPART highlighted this challenge in a 2021 review, noting Council costs have historically increased with population growth. Council expenditure however increases 0.85 percent for every one percent

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[5] The Sustainability Gap - the financial health of Victorian Councils
[6] The Sustainability Gap - the financial health of Victorian Councils
[7] MAV, Submission to Parliamentary Inquiry on Local Government Sustainability, p 19
[8] Local Government NSW (LGNSW) submission to INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES, Pages 27, 28, 35, 36

increase in population, while Councils' general income increases by only approximately one quarter of a percentage point.[9]

LGNSW notes the social and economic impacts of the rate pegging regime including:

- Impacts to services (service cuts, reduced service scope, and compromised quality);
- Delays to infrastructure delivery and deferred maintenance;
- A compounding backlog of asset renewal;
- Lower community protections from natural disaster; and
- A distortion of public expectations of local government service and infrastructure provision.[10]

Despite Council efficiency reforms, it is evident that rate capping and rate pegging is resulting in under-investment in capital infrastructure, and Councils choosing to opt out of discretionary community services due to budget constraints.

RCA supports a reform of the rate cap and rate pegging systems to levy rates that accurately reflect inflation, population growth, cost shifting, the cost impacts of natural disasters and climate change and the real costs to Councils of services and infrastructure delivery.

Variability of Government Grants

Local Governments in regional cities are highly reliant on State and Federal grants to support their operations, services, maintenance and city growth. Grants often reflect the priorities of State and Federal Government rather than what communities deem as priorities or more importantly fundamentally need.

Despite the importance, grants are however variable by nature, dependent on State and Federal decision making and often competitive leaving local governments at risk of further budget pressures or without means to upgrade facilities or invest in important services.

The impact of the variable nature has been provided in examples below.

Local Road and Community Infrastructure Funding

Community Infrastructure

Both State and Federal governments have had various competitive and non-competitive infrastructure funds to support development in regional Australia. While investment is always welcome, these funds are often announced and delivered in an ad hoc nature meaning there is no certainty that growing regional cities can get access to funds when required.

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[9] IPART, Review of the rate peg to include population growth, 2021,(Final Report), Pages 6, 40
[10] LGNSW submission to Inquiry int Ability of Local Governments to fund infrastructure and services, Page 16

As new governments have been installed at the state and federal level, reviews and restructures have delayed the announcement of these programs having a time lag on announcing successful applicants (and the associated funding) for promised programs.

When the new government was installed in 2022 changes were made to regional funding programs.

The new Government discontinued the previous Government's programs:

- **Building Better Regions Fund** ($1.38 billion); and
- **Regional Growth Fund** ($272.2 million).

Instead, the Government established its own two programs for regional funding:

1. The **Growing Regions Fund** of $600 million over three years from 2023-24, with two funding rounds of $300 million. The fund will provide grants of between $500,000 and $15 million, to deliver capital works projects in regional and rural Australia that support community socio-economic outcomes and regional priorities.

2. **Regional Precincts and Partnerships Program (rPPP)** provides funding of $400 million over three years from 2023-24 to support transformative investment in regional, rural and remote Australia based on the principles of unifying regional places, growing economies and serving communities.

In May 2024, it was announced that 40 applicants from both the **Growing Regions Fund** and the **Regional Precincts and Partnerships Program** received approximately $207 million.

Continuation of Coalition's Regional Airports Program

In the 2024–25 Budget, the Australian Government announced the extension of the **Regional Airports Program** with an additional $40 million in competitive grant funding over three years from 2024–25.

The **Regional Airports Program** is a competitive grants program originally announced in 2019-20 with funding of $100 million. The program has dispersed $98.7 million in three funding rounds - June 2020, July 2021, and Jan 2023.

COMMONWEALTH REGIONAL FUNDING PROGRAMS					
Program	**Govt**	**Total Funding $m**	**Start Date**	**First funding**	**End Date**
Growing Regions Fund	Labor	$600	2023-24	May-24	2025-26
Regional Precincts & Partnerships Program	Labor	$400	2023-24	May-24	2025-26
Regional Airports Program	Coalition/ ALP	$140	2019-20	Jun-20	2026-27

COMMONWEALTH REGIONAL FUNDING PROGRAMS					
Program	**Govt**	**Total Funding $m**	**Start Date**	**First funding**	**End Date**
Building Better Regions Fund	Coalition	$1,380	2016-17	Nov-16	Oct-22
Regional Growth Fund	Coalition	$272.20	2018-19	Mar-19	30-Jun-22

Structural changes to eligibility and funding amounts to various programs have also caused challenges and the improbability that local needs can be met in a consistent manner once again leaving local government to bridge any funding gaps.

Funding allocated for these grants also do not reflect the current impacts of inflation, so while the grants are provided in recognition of budget constraints of local government – Councils are left to carry the cost blow outs on projects meaning many projects will not see completion.

In addition, the complexity of application processes and requirements for co-contributions can also act as an impediment to Councils accessing funding. While regional cities are better resourced than smaller regional and rural Councils, some regional cities report that the administrative costs to apply for, implement and acquit funding from some grant programs is such that they may choose not to pursue particular opportunities.

RCA supports the establishment of an ongoing regular and reliable infrastructure fund, similar to the Local Roads and Community Infrastructure Program, that will give Councils funding certainty and allow them to plan for in their annual budget processes.

Regional Capitals Australia completed some case studies on this issue – which can be found here (p10-13).

Roads

While there are important road programs that local government receive annually it is clear that funding for constrained local government budgets from a road perspective is a patchwork approach.

Both State and Federal Governments have rolling and grant based funds that are in practice adjusted, changed or abolished to reflect the respective State or Federal priorities. Increased funding is always welcome, but certainty must be key in addressing issues on our roads such as climate change and increased freight task and often population growth.

RCA welcomes the recent announcement of rolling funding increases to the Roads to Recovery program over the next five years from 2024-2025.

The five year commitment provides Local Government with the opportunity to plan their works programs, staffing and asset renewal programs with a level of certainty while the simplified application and administration of this program also eases the administrative burden on Councils.

To assist Councils to achieve maximum services delivery efficiencies a similar model should be considered for all Government roads and infrastructure programs.

How are regional cities different?

Regional cities face challenges that differ from Australia's other local government areas (metropolitan and rural local governments), particularly in terms of their service and infrastructure obligations, which can include owning and operating facilities such as water utilities and airports, along with managing rapid population growth.

- **Wider service and infrastructure obligations:** regional cities provide a range of services and infrastructure that metropolitan do not supply;
- **Impacts of population growth:** regional cities are rapidly growing creating pressure to meet the services and housing needs to support this growth; and
- **Service hub role:** regional cities are service and infrastructure hubs for their region, servicing not only their communities but those in the smaller rural towns.

These roles increase the pressure on regional city local governments to address service and infrastructure ***gaps left by market failure, inequitable and unreliable funding*** arrangements and also ***unaccounted population growth***. Regional city local leaders face ongoing budget decisions about what can be funded or not, as such the backlog continues to grow.

ALGA's *2021 National State of the Assets Report*[11] found that on average, 10 percent of the nation's local government infrastructure assets are in poor condition with significant defects and require higher order cost and interventions, while 26 percent of local government infrastructure assets are in fair condition with defects requiring regular and/or significant maintenance to reinstate the service.

It was estimated that the replacement cost of all poor to very poor assets would be $51 billion and the estimated replacement cost of fair assets are in the order of $106 billion - $138 billion.

This has been confirmed by the NSW Office of Local Government's Infrastructure Results 2021-22[12] as outlined in the table below which shows that regional cities and towns have a significantly higher infrastructure backlog than metropolitan areas.

Table 1: NSW Office of Local Government - Infrastructure Results 2021-22

Infrastructure Backlog Results	Metropolitan	Regional town/City	Rural
Total cost to bring Infrastructure to satisfactory condition (backlog)	$32.5 million	$80.7 million	$17.4 million
Backlog per capita	$211	$1,269	$5,8398

[11] https://alga.com.au/app/uploads/ALGA_NSotA_SummaryReport2021.pdf
[12] https://www.yourcouncil.nsw.gov.au/nsw-overview/assets/

Examples of where the widening gaps are occurring are stepped out below.

Wider Service Obligations

As stated above regional cities have a wider obligation to provide services and infrastructure that metropolitan cities do not need to supply. If the service or infrastructure is underfunded or in part funded the pressure for regional city local governments to bridge this gap widens exacerbating budget challenges.

Example: Water utilities in regional New South Wales

Water is provided to regional NSW's 1.8 million people by 93, predominantly Council-owned, local water utilities (LWUs), which service a wide range of geographical areas and populations.

Metropolitan Councils do not have any obligation to provide water on behalf of their ratepayers. Regional cities however do have this obligation and it costs almost $300 per capita, per annum.

While in principle there is a cost recovery component to this service, Councils are constrained in how they can expend funds raised. New South Wales legislation provides that Council income generated through the provision of wastewater services can only be expended in the wastewater area and income generated from water provision services can only be expended in the water area.

Allocation of funding from the NSW Government's Safe and Secure Water Program is based on combined Council water and sewerage income levels meaning regional cities generally receive only twenty-five percent of the total cost of any infrastructure project, leaving Local Government to bridge the gap.

Many regional cities therefore find it difficult to fund major capital works and the complex technical resources required for operation of a large LWU.

As noted by the NSW Productivity Commission's *Alternative Funding Models for Local Water Utilities Issues Paper*[13], the current approach to State Government funding – focused on capital grants or meeting critical water needs during times of drought – means long term sustainability may not be being addressed. As our climate continues to rapidly change this is a high-risk scenario for regional communities that need long-term solutions.

Example: Regional Roads

Local roads are considered the bread and butter of local government however these assets take a toll on the bottom line of regional Councils which is evident from the following statistics:

- Almost 85% of Australia's road networks are managed by local government;
- The up-front cost of building a road represents only about one-fifth of its lifetime cost;

13 https://www.productivity.nsw.gov.au/sites/default/files/2024-05/20240522_Alternative-Funding-Models-for-Local-Water-Utilities_Issues_Paper_accessible.pdf

- The cost per person to maintain sealed roads in regional and remote communities is five times higher compared to metropolitan areas; and
- The Local Government Association puts the cost for regional cities to maintain the local road network (including bridges) almost three times ($298) per capita higher than that of a metropolitan Council ($106).

Importantly research has also found that heavy vehicles account for 94% of deep road wear and tear. As most regional cities are important freight hubs, they have to bear the financial impact of heavy vehicles on regional roads, something that metropolitan Councils do not have to account for in their budget for road maintenance.

Example: Health Services

There is an ongoing challenge across the whole of regional Australia to attract and retain health professionals including general practitioners, medical specialists and allied health workers.

While the provision of health services is not the responsibility of local government, in some cases, regional Councils have been forced to step in to ensure communities are not without basic medical services.

In the case of the City of Greater Geraldton, the city has found it necessary to provide incentives to subsidise the provision of a general practitioner for the town of Mullewa. Costs to the city include provision, operation and maintenance of the medical centre and housing for the general practitioner and administrative and nursing staff.

This comes at a considerable cost to the City of Greater Geraldton, and is a financial and administrative burden that metropolitan Councils never face.

Impacts of Population Growth

Example: Developer Contributions/ Infrastructure Charges

Another potentially important source of Council funding are infrastructure contributions that are provided by developers that can be contributed via money, land, works -in-kind or a combination of these. The genesis of this is for developers to share the costs of providing new infrastructure, including footpaths, cycleways, and roads.

Developer contributions are heavily regulated and their use is restricted.

In New South Wales the contributions have been capped since August 2012 at $20,000 per each brownfield dwelling and $30,000 for a greenfield dwelling; without regard to Council's costs in providing related services and infrastructure.

Construction and land costs have increased significantly since August 2012. As an example, an average lot in one NSW city Council sold for approximately $300,000 ten years ago with developer contributions at $30,000 representing 10% of the land value. Today lots are sold for $750,000 and contributions are still at $30,000 (4%). This is an unsustainable figure and is leading to local governments being unable to sustainably develop their communities.

According to the National Housing and Finance Commission, there is no publicly available aggregated data on developer contributions across most states and territories, which makes it difficult to assess how developer contributions have increased over time and how they differ across jurisdictions[14].

However, when rapid population growth in regional Australia is considered, the challenge of managing growth for regional cities is clear. According to the Regional Australia Institute March 2024 Regional Movers Index[15]:

- Regional living retains its appeal, as more continue to head to the regions than into the city.
- Those moving from the cities to the regions now account for an 11.5 percent share of all relocations (up by 0.2 percent on the December 2023 quarter).
- Regional living continues to hold sway with 24.2 percent more people moving from the city to regions than back in the other direction.

In response to previous reviews on Council funding issues, Regional Cities NSW has recommended that the government considers indexing the developer infrastructure contributions on an annual basis. RCNSW requests the Committee to give due consideration to this issue as part of this Inquiry.

Example: Regional Housing

Local Government understands that its primary role in meeting Australia's housing challenge is through planning and zoning processes and the provision of local infrastructure.

There is however a growing demand for local government to partner with the State and Federal Governments to deliver social and affordable housing options, but these partnerships cannot be delivered under current local government financial structures and also without financial support.

The regional housing environment has some key challenges that have been a call to action for local leaders as they seek to build thriving regional cities that can accommodate growth, respond to state and national policy agendas and not leave people behind:

- **A regional rental vacancy rate:** at 0.8%[16] with regional rents increasing by 41% (median advertised weekly rents from March 2020 to April 2024 units).[17]
- **A growing element of derelict housing stock:** that is creating a demand for investment to accommodate more social housing (75% of regional cities report this quality of stock).
- **Growing regional investment – particularly in the renewables space:** whereby housing for project workers is increasing competition for local housing (for example, in the Orana Renewable Energy Zone in regional NSW, development of transmission infrastructure and renewables projects is projected to require 6,000 workers).
- **Inability to create shovel ready land:** local infrastructure costs are often a barrier to land release particularly in smaller local governments (in areas where private development isn't occurring) which often lack the financial capacity to invest in local housing infrastructure.

[14] https://www.aph.gov.au/DocumentStore.ashx?id=b52f4cc5-08b7-4149-9ae9-16d14ce5d431&subId=713387
[15] https://regionalaustralia.org.au/Web/Web/Toolkits-Indexes/Regional-Movers-Index.aspx
[16] https://www.domain.com.au/research/vacancy-rates-february-2024-1266500/
[17] https://www.proptrack.com.au/insights-hub/where-have-all-the-affordable-rentals-gone/

These issues are leading regional city local governments to partner with State and Federal Governments to deliver more housing that meets the diverse needs of regional communities. These partnerships cannot be delivered under current financial structures and also without financial support.

These issues have been further articulated in work from [Regional Capitals Australia Housing Paper.]

Regional Service Hubs

Example: Regional airports

Regional airports are some of the hardest working community assets that are accessed by not only those in the LGA in which the airport is located but also by surrounding towns and rural communities. Surrounding communities however do not contribute to the operations or maintenance of the facilities.

Unlike airports in capital cities, more than 200 regional airports and aerodromes are owned and operated by local governments across regional Australia.

Regional airports kept essential workers and freight moving during COVID-19 lockdowns. These facilities also service fly-in-fly-out employment, support tourism and trade, provide access to emergency health and education and enable support during floods and bushfires in the regions.

Despite the key role that regional airports play in thriving regional cities, many of these airports are not financially viable. They depend on cross subsidisation by their local governments that are already burdened by competing demands on their limited financial resources.

This means that regional city local governments play a role in addressing this market failure the key profile of this role is:

1. Forty per cent of Australia's 61 million annual domestic aviation passengers travel through regional airports;
2. Civil Aviation Safety Authority (CASA)'s regulatory imports are higher for regional and remote airports, comprising 12 per cent of total expenditure, compared to about 4 per cent for major airports and major regional airports;
3. Sixty per cent of regional airports operate at a loss. They depend upon cross-subsidisation by their local government owners who are already burdened by competing demands on their limited financial resources; and
4. Almost 40 per cent of regional airports expect persistent budget deficits over the next 10 years.

Regional cities recognise the importance of regional airports in increasing the connectivity of regional Australia where connectivity by public (and state funded) rail is not available. However, there is no recurrent funding to maintain regional airports.

The recent challenges due to COVID-19 impacts (including population growth) and natural disasters have shown both our regions' reliance on efficient road, rail and air connections and the resilience needed to be built into these systems.

Our members know that solving these issues must be a priority to ensure our communities and economies can continue to thrive.

Regional Capitals Australia have outlined this issue in more detail here.

Example: Arts and Culture

According to the report, *A View from Middle Australia: Perceptions of arts, culture and creativity*[18], 'middle' Australians see arts and culture as playing a significant role in building community, defining identity, stimulating creativity, improving mental health, and enriching children's education.

Access to these opportunities should be a rite of passage for Australians, with equal opportunity to access and experience our nation's rich culture and those of visiting nations.

Regional arts and cultural facilities in regional cities are owned and operated by Local Government but are often considered regional facilities accessed by the communities in the surrounding towns and rural villages.

Like those in metropolitan capitals these facilities also help shape the character of our communities and enable communities to express themselves and represent regional life without a metropolitan lens.

A Breakdown in Funding for Arts and Culture in Australia

According to the *Cultural Funding by Government* - Australia - *2021-2022 Overview*[19] undertaken by the Office for the Arts, Department of Infrastructure, Transport, Regional Development and Communications, the estimated total expenditure funded by the three tiers of government was $8317.5 million for cultural activities, comprising:

- $3165.2m (38% of total) from the Australian Government;
- $3325.6m (40%) from State and territory government; and
- $1826.7.2m (22%) from Local government.

Nationally the local government contribution was over $1.8 billion - 22 per cent of Government financial support.

Apart from direct funding, the Australian Government also aids the operations of these facilities through tax concessions to encourage the donations to public art galleries, museums, libraries and archives.

This is problematic for regional facilities. As an Infrastructure NSW report made clear a small majority (12) of Sydney based arts and culture organisations have had the ability to generate more than half of total private sector funding in New South Wales.[20]

[18] https://newapproach.org.au/insight-reports/a-view-from-middle-australia-perceptions-of-arts-culture-and-creativity/
[19] Cultural Funding by Government - Australia - 2021-2022
[20] https://www.infrastructure.nsw.gov.au/media/ozcjw3qf/repucom_insw_arts_funding_final.pdf

Operational Funding – Art Galleries – A Case Study

The same Infrastructure NSW report highlighted that Art Galleries were the most reliant (50% of their operating budget on average) on public funding. However not all funding is applied to art galleries equally. Recent reports have shown that two key arts institution (State and National) were the recipients of New South Wales and Federal Government funding for operations and maintenance in the 23/34 Financial Year:

- **The Art Gallery of NSW:** September 24 state budget where $40.6 million was allocated for the gallery's running costs in the 2023-24 financial year[21]; and
- **The National Gallery of Australia:** was allocated $76 million to bolster its operations and an extra $42 million for maintenance from the Federal Government.[22]

By comparison the Federal Government's Regional Arts Fund for the same period allocated just over $6million for programs nationally[23] and has a 'national art loan' program and funding available for infrastructure investment.

The NSW Government currently provides program grant funding for regional arts organisations to tour to Sydney[24] and also previously had funding available for infrastructure. There is currently no support for regional arts infrastructure for operations.

Neither level of government provides support for operations and maintenance for regional arts and culture facilities. This role is left to local government alone. For example, the Albury City Council provides three quarters of the total annual operating budget of the Murray Art Museum.

There are similar funding disparities in both Victoria and Queensland.

In 2022-23, the National Gallery of Victoria received $80.5 million in operational grants from the State Government, while its Melbourne neighbour, the Australian Centre for the Moving Image (ACMI) received $36.4 million in operational funding. In contrast, the Regional Arts Fund, Victoria, distributed $508,008 in grants.[25]

Queensland tells a similar story. The Queensland Art Gallery received $34 million in operational funding directly from the State Government, while the Regional Arts Development Fund received $2.2 million from the Queensland Government for the 2023-24 financial year.[26]

While it could be argued that state and national facilities are open and accessible to all Australians the 'cost' to access these facilities is not equitable. If you were to add the transport and accommodation costs into the ticket price to access these facilities it would be clear that the entry fee is out of the realm of affordability for a lot of people living in regional Australia.

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[21] https://www.smh.com.au/culture/art-and-design/art-gallery-of-nsw-faces-multimillion-dollar-government-funding-shortfall-20231031-p5egeq.html

[22] https://www.smh.com.au/culture/art-and-design/art-gallery-of-nsw-faces-multimillion-dollar-government-funding-shortfall-20231031-p5egeq.html

[23] https://www.arts.gov.au/funding-and-support/regional-arts-fund

[24] https://www.nsw.gov.au/grants-and-funding/regional-arts-touring

[25] NGV AR 2022-2023, ACMI Annual report 2022-23 page 111, Regional Arts Fund Victoria AR 2023 page 7.

[26] Queensland Art Gallery Annual Report 2022-2023, pp 7, 10.

To create an accessible opportunity to experience arts and culture – local government in regional cities must bridge the State, Federal and philanthropy gap for day-to-day operations and maintenance which is another burden on the already stretched budgets.

Recommendations

1. **That the level of funding for Federal Financial Assistance Grants to local government be restored to at least one percent of Commonwealth taxation revenue.**

2. **Acknowledgment that rate pegging and rate capping fail to account for real and rising costs incurred by Councils and adjustment to ensure NSW and Victorian Councils are able to raise the revenue to meet services and infrastructure delivery obligations.**

3. **The establishment of an ongoing regular and reliable infrastructure fund similar to the Local Roads and Community Infrastructure Program to give Councils funding certainty and allow for planning in the annual budget processes. Grant applications and administration processes should be simplified and co-contribution requirements eased.**

For More Information

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