

July 2024

The Hon. Emily Suvaal MLC

Chair

**Standing Committee on State Development – Inquiry into the Ability of Local Governments to Deliver Infrastructure and Services**

Dear Chair

Thank you for the opportunity for representatives of Local Government NSW (LGNSW) to appear before the Standing Committee on State Development Inquiry into the Ability of Local Governments to Deliver Infrastructure and Services.

Please see below responses to questions on notice and supplementary questions.

### Questions on notice

The Hon. SAM FARRAWAY: I quote from your opening contribution, "reduced tax revenues going to local government". I think you highlighted that is one of the issues facing local government since '96, from what you said earlier, Councillor. Would you agree that, squarely, an example of that is the abolishing of the Resources for Regions program, where a portion of that royalty was returned to local government to impacted mining communities, and that program has been abolished.

DARRIEA TURLEY: Can I say that the financial assistance grants, which is what I was referring to, has been a challenge for us which, as we said, have declined from 1 per cent from the Commonwealth taxation revenue in 1996 to just half a per cent today.

The Hon. SAM FARRAWAY: Your statement about reduced tax revenues in general, another example—from a State perspective, not a Federal perspective—is less royalty coming back into the communities where those commodities are extracted and that is a direct result of the now-Labor State Government abolishing the Resources for Regions program.

DARRIEA TURLEY: I'll take that one on notice because I don't think that's what I read.

### LGNSW response

LGNSW was one of the original proponents of a Royalties for Regions Program, which was later successfully introduced as the Resources for Regions Program. Having been

a proponent, LGNSW is of course disappointed that the NSW Government has decided to discontinue the program. LGNSW is strongly opposed to cancellation of programs that support councils and their communities in NSW.

Grant funding from federal and state governments is essential to the effective operation of local government across Australia. As emphasised in the LGNSW submission, grant funding is essential to the viability of rural and regional councils with small own source revenue bases and for councils struggling with rapid growth.

LGNSW persistently advocates for increased funding for councils. Our submission has focussed on federal Financial Assistance Grants (FA Grants) as these grants are by far the largest funding program supporting local government and because of concerns about the long-term decline of FA grants in relative terms. FA Grants will provide \$1 billion to NSW councils in 2024-25, if FA Grants were returned to 1% of Total Commonwealth Government Tax Revenue as advocated by LGNSW, NSW councils would receive around \$2 billion in 2024-25. Apart from being beneficial to councils, this would also be beneficial to the state.

The focus on FA Grants is not meant to detract from the importance of the many other federal and state grants programs for local government. Quite the opposite. The relative decline in FA Grants makes other grant programs even more important. This includes smaller programs like the former Resources for Regions Programs.

The CHAIR: We've got rates income in New South Wales that's lower comparatively to other States in Australia. But overall revenue is quite consistent. Is that the case for local governments?

DARRIEA TURLEY: We'll take that on notice.

## **LGNSW response**

Refer response to Supplementary Question 1 below.

The Hon. EMMA HURST: Something we've certainly heard in this inquiry is that I think it's about 80 per cent of the companion animal registration fee comes to council but that doesn't anywhere nearly cover the costs of the day-to-day running of an impounding service or contracting somebody else to do it. What do you think some of the solutions are? And how far off the mark is that covering? Is it covering, say, somewhere around 5 or 10 per cent? Or is it nearly there and there can be some kind of change of those fees that will help? Or does it need a complete shift in regards to how that's funded?

DAVID REYNOLDS: I'll take on notice the part of the question that goes to what could be done differently in a practical sense. I have to say I've not come prepared to deal with a companion animal series of questions. But I appreciate the context of the question. I think what councils

would say is, "Let's have a discussion around the level of service. Let's have a discussion around council's ability to charge an appropriate amount for that and what the expectation from the community is around that service level. Let's have good engagement with successive governments about that."

But equally, you've got an environment that council's effectively the regulatory provider but the provider of last resort almost in that environment. Other entities with very good ambition and very goodwill can decide to provide or not to provide in some of those circumstances, and that leaves council almost as the last one in some places. I know some councils have invested incredibly heavily in trying to look after the needs of their companion animal community, and they're finding those animal rehoming facilities full from before day one. So it is an area where councils are trying to share resources and share the burden of cost, but the need seems to be outpacing what councils can do.

### **LGNSW response**

The major challenge facing local government, underpinning everything that councils do, is that of financial sustainability. Rate pegging, cost shifting and state and federal funding arrangements that are no longer fit for purpose all conspire to restrict the ability of councils to provide the infrastructure and services that their communities need and deserve – and this extends to services for companion animals.

For the 2021-22 financial year, \$8,271,976 was paid to councils from the Companion Animals Fund, which equates to approximately 80% of total registration fees collected. However, this does not come close to covering the full cost of companion animals functions, such as the need for councils to provide appropriate care for animals including nutrition, veterinary care, enrichment activities, and shelter.

Dogs cost an estimated \$40/day to house and feed (without factoring in training or behavioural assessments that may be required for animals in longer-term care).

In late 2023 LGNSW released a report on cost shifting onto local government. The report found that for management of companion animals, the estimated total cost shift onto NSW councils was \$29.6 million for 2021-22. This is the cost of providing functions under the Companion Animals Act above and beyond the fees and subsidies councils are able to collect.

Councils need additional support to bridge this funding gap. Councils seek additional financial investment from the NSW Government in pound/rehoming facilities, including regional facilities in more densely populated areas. There are already some pounds in Sydney operating as regional hubs, however more capacity is needed right across Sydney and in all parts of rural and regional NSW. This funding would allow for

upgrading of pound facilities, provision of support services to facilitate rehoming, and education to the community about responsible pet ownership.

## Supplementary questions

1. Rates income per capita in NSW is lower comparative to other states, yet revenue per capita is quite similar to other states. How have Councils supplemented their income through other means and do these other means have a deleterious impact on communities?

### LGNSW response

There are a number of factors that explain these outcomes:

- NSW councils are responsible for water and sewerage services in all areas outside those serviced by Sydney Water and Hunter Water. No other states or territories other than Queensland are responsible for providing these services. These extra functions generate additional revenue streams in the form of water, sewerage and access charges. The water and sewerage revenue streams need to be excluded when making local government revenue comparisons with other states and territories, otherwise it is not a like for like comparison.

It should be noted that water and sewerage revenue is ring fenced from council general funds and can only be applied to financing the water and sewerage functions of council. They are not an alternative for rates and cannot be used as a mechanism for getting around the rate peg.

- The revenue constraint of rate pegging has forced NSW councils to become more reliant on fees and charges to meet revenue needs. NSW councils have a higher ratio of fees and charges than councils in other states.

However, there are limitations to the extent that councils can increase fees and charges. These include:

- Community willingness to pay.
- Community capacity to pay (e.g. there is less scope to apply or increase fees or charges in lower socioeconomic areas).
- The nature of some of the services provided by local government – many of the services that councils provide are human services that need to be provided free of charge or at a subsidised rate.
- Opportunities for increasing fees and charges revenue – Opportunities to raise additional own source revenue vary across councils with larger, higher density council areas and tourism hubs typically having greater revenue raising opportunities, e.g. through parking fees and rents.

- NSW councils have also responded to rate pegging through cost minimisation and expenditure deferral. This has variously resulted in the rationalisation of service provision, typified service cuts and cancellation e.g. reduced library hours and closure of aged care facilities. Many councils have also had to defer infrastructure maintenance and renewal expenditure creating the large backlogs identified in numerous submissions to this Inquiry.

2. Are there shortfalls in the accounting system for local government that make it harder for Councillors and the general public to follow how Council money is spent?

### **LGNSW response**

The accounting system for local government reflects the accounting systems applicable to the federal and state governments and the broader corporate sector. There are no particular shortfalls that are unique to local government.

NSW local government financial reporting is comprehensive and adheres to the reporting standards prescribed by the Australian Accounting Standards Board (AASB) and embedded in the NSW Local Government Code of Accounting Practice and Financial Reporting.

Councils already practice high levels of accountability and transparency in reporting their finances. Councils are required to adhere to the Integrated Planning and Reporting Framework (IPR), this requires a high degree of community engagement, well beyond that applied by federal and state governments. This extends from council operating plans (annual budgets) through to their long-term financial plans.

However, it is acknowledged that the financial reports of local government, along with those of other spheres of government are complicated and not easily understood by the general public or elected representatives with a non-financial background.

Recognising the complexity, LGNSW actively encourages councillors to undertake training in local government financial management and provides a specifically designed training course for the local government sector: *Understanding Local Government Finances for Councillors*.

LGNSW also commends the Office of Local Government (OLG) initiative to provide simplified council financial and other performance information through the Your Council website. The service provides high level comparative data and performance indicators that are useful to Councillors and the general public. Its major shortcoming is



that it is based on audited data which, by nature of the auditing cycle, is one to two years out of date. A timelier product is required.

LGNSW would be pleased to work with the OLG and other local government sector representatives to develop user friendly financial reporting tools.

Thank you again for the opportunity to provide evidence to this inquiry. For further information, the committee secretariat is welcome to contact LGNSW Director Advocacy

Yours sincerely

Cr Darriea Turley AM  
**President**

Mr David Reynolds  
**Chief Executive**