

**Submission
No 6**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Cobar Shire Council

Date Received: 8 April 2024

The Office of the Mayor



“Regional Centre in Western NSW”

05th April 2024

The Hon. Emily Suvaal MLC
The Chair, Standing Committee on State Development

Dear Chair,

Inquiry into the ability of local governments to fund infrastructure and services.

TERMS OF REFERENCE

Thank you for the opportunity to provide the following submission to the Standing Committee on State Development regarding the ability of local governments to fund infrastructure and services.

Unfortunately for Cobar Shire Council, our ability to fund infrastructure and services from our collection of land rates is all but eroded with more than 100% of our rates going to fund what would typically be seen as non-local government functions (i.e.: aged care), or service gaps from a lack of investment in our community. For the past 20+ years grants have been almost entirely for infrastructure with no consideration given to the service provision, depreciation, and other associated costs that councils have to carry once the capital grant is expended.

Cobar Shire Council’s Long-Term Financial Plan (LTFP) is crucial for assessing financial sustainability and Councils ability to fund infrastructure and service delivery. The most recent plan identifies significant ongoing deficits forecast for the next 10 years, confirming the difficulty Council is having in maintaining a large infrastructure portfolio and growing community demand driven by increasing costs and contraction of government services, in real terms, in outback NSW.

Council has a combined rates and charges income of \$8.8 million of which \$4.65 million is collected in land rates each year. This is in stark contrast to forecast expenditure of \$49 million with approximately 50% of the council's income sourced from government grants. This situation makes us highly dependent on external funding and with 50% of rates income derived from the mining sector, extremely vulnerable to any shocks. Given the limited expectation of significant government funding increases in the future, the council must carefully manage its finances to ensure long-term sustainability. To achieve own source revenue at a level to sustain council we would need to significantly reduce services in most cases discontinuing essential services valued by the community to achieve this balance.

In considering the budget for the 2024/25 year Council determined that since the year ending June 2023 council rate revenue has only increased by \$358k. The estimated increased net cost to Council over the same period is expected to be \$3m. If Council attempted to charge rates in line with this to cover the annual shortfall, an additional \$456 per assessment needs to be applied, or an annual rate increase of 76%. This is the stark reality of cost pressures in regional Local Government where there are 4,700 residents and 2,900 ratable properties, creating a disproportionate burden for rural residents.

The Local Government New South Wales (LGNSW) Cost Shifting Report highlights how state cost shifting can impact council ability to generate rates revenue to meet core service functions due to these shifts. Cobar shire is significantly impacted by the rural fire service provision, library services and crown land management, there is also smaller instances that impact our general sustainability from participating in state grant projects including cost of submissions and management that are not provided by the funding allocations or ongoing operational support.

There has been a protracted conversation across NSW with wide industry acceptance, other than the Audit Office of NSW, that mobile and other fire-fighting assets cannot be deemed to be council assets. This stance of vesting assets in Council, applies more financial pressure on Council, even though councils do not have effective management or control of these assets. A position that Cobar Shire Council supports. Despite repeated calls from the local government sector that this is blatant cost shifting from the state government. Interestingly the transitional grants designed to ease local councils into absorbing the increase costs reaffirmed that the state is aware that this constitutes a cost shift.

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The costs associated with Rural Fire Service provision in Cobar Shire Council, have more than doubled since 2018/19. As a rural Council with very limited rate revenue the capacity for ratepayers to fund these levels of service is limited. The 2022/23 year accounted for \$650,278 expenditure on the Rural Fire Service for Cobar Shire Council with an actual cash cost of \$398,387. This equates to 15.17% of the general rate revenue for the same period.

Each year, the Independent Pricing and Regulatory Tribunal (IPART) informs council about the permissible rate increase based on the Local Government Cost Index. This rate peg determines how much income we can raise in rates to cover the rising costs of services and infrastructure. Over the past 5 years Cobar has not had an increase that has been comparable with the wage rise for the period in question, let alone the real costs incurred by local government in the regions. Council through our procurement over the past two years, has identified a 34% increased cost margin to contract costs based on our geographic location alone.

The following table shows the rate increase allowable and the income generated through these increases for Cobar Shire Council.

Cobar Shire Council Rate Revenue	2020-21	2021-22	2022-23	2023-24	2024-25
Rate Peg %	2.6	2	0.7	3.7	4.5
Increase in \$ 000	105	84	29	158	200

This means that we are not able to manage our existing services or renew our assets subjecting the community to diminishing levels of service. Council continues to struggle to source funding for our essential services and heavily relies on grants in the current environment, this additional pressure is disproportionately impacting small rating based councils like ours.

Changing government policy is also identified as a major risk to Council operations. This is demonstrated at a federal level by the lack of Aged Care support for the Lilliane Brady Village, a 44-bed nursing home and hostel facility in Cobar. Over the past 10 years Council has been able to maintain this service with a moderate financial contribution spread across the period, with some years generating a small profit to assist in offsetting losses in other years. Historically this contribution was around the \$300,000 per annum across the period, funded from the \$4.5 million in rates revenue generated by Cobar Shire Council.

The most recent changes to the aged care legislation and increases in wages for the facility has seen the losses increase significantly, with Council previously forecasting ongoing operating losses above \$1.2 million per year, minimum or just below 25% of rates revenue. This forecast will need further review with the announcement of a further significant increase in wages across the aged care sector. This is a vital service to assist people aging in place and one where the cost to provide the service is unattractive to private or public sector organisations and leaves council in the familiar position of provider of last resort.

In considering the option of a special rate variation, council has previously applied for and been successful in gaining a variation however the increase in income only provided a temporary solution that has been eroded due to inflationary pressure. The process also asks our community to prioritise expenditure where we are already providing limited support and other levels of government continue to reduce service provision leading to higher dissatisfaction of residents in the area looking to Council again as the provider of last resort.

Yours sincerely.

Cr Jaffod Marsden
Mayor