Submission
No 18

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Byron Shire Council

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Submission made via online form

Dear Sir / Madam

Submission - NSW Parliament's Standing Committee on State Development inquiry into the ability of local governments to fund infrastructure and services

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

Regional councils such as Byron Shire, face unique challenges in funding infrastructure and services compared to their metropolitan counterparts. These challenges include a smaller rate base, limited revenue sources, vast geographic areas, and diverse community needs. Furthermore, coastal councils contend with the added pressures of the impact of high visitation on infrastructure and services and impacts of erosion related issues.

Council strongly supports and welcomes this review and provides the following commentary in relation to the matters raised in the Terms of Reference:

(a) the level of income councils require to adequately meet the needs of their communities

The primary revenue sources for councils typically include rates, government grants, user fees, and charges. However, an over reliance on rates places significant pressure on ratepayers, many of whom may already be experiencing financial strain. Moreover, regional councils in particular, may face difficulties in generating revenue from user fees and charges due to lower population densities and limited demand for certain services. This revenue stream often proves insufficient to meet the growing demands for essential services and infrastructure upgrades.

Compounding this issue, councils face constraints in generating additional revenue streams due to legislative restrictions and limitations on their taxation powers. Accordingly, consideration should be given to assessing revenue diversification opportunities beyond traditional sources such as rates, fees, and charges. Potential legislative amendments that grant councils greater flexibility to generate additional revenue and enhance their financial sustainability should be explored.

Government grants, while essential, are often insufficient to cover the cost of necessary infrastructure projects and service delivery and/or require a co-contribution from council. Furthermore, grants are often available for new capital works, with the ongoing maintenance costs shifted to councils. Many councils grapple with an infrastructure backlog resulting from years of underinvestment and deferred maintenance. Addressing this backlog requires substantial financial resources, which may not be readily available to regional councils. Without adequate funding, essential infrastructure such as roads, bridges, water and wastewater systems, and community facilities often deteriorate, negatively impacting the quality of life for residents and hindering economic growth. Clearing this type of backlog is near impossible without a significant injection of funding from other levels of government.

To overcome these challenges and fulfil our mandate to serve our community, councils rely heavily on support from all levels of government. Adequate and predictable funding allocations are essential to ensure that councils can deliver essential services, maintain critical infrastructure, and support economic development initiatives. Additionally, targeted funding programs that address the unique needs of regional areas, such as regional infrastructure grants and capacity-building initiatives, are instrumental in strengthening the resilience and sustainability of councils, particularly in regional areas.

(b) examine if past rate pegs have matched increases in costs borne by local governments

The rate peg is a tool to manage rate increases within a framework of fiscal responsibility and affordability, but while it aims to reflect increases in costs borne by local government, it does not always align with the specific financial circumstances of individual councils. Additionally, while councils have various strategies and options available to manage their finances and deliver services within the constraints of the rate peg (e.g. service reviews, process improvements), the costs borne by local government associated with service delivery, including wages, infrastructure maintenance, utilities, and compliance requirements, often exceed the revenue generated.

To assess whether past rate pegs have matched cost increases borne by local governments in NSW, detailed analysis of council budgets, expenditures, and revenue sources over time is necessary. Without this detailed analysis and on the basis of the experience of this Council the answer would be no.

(c) current levels of service delivery and financial sustainability in local government, including the impact of cost shifting on service delivery and financial sustainability, and whether this has changed over time

We suggest that this component of the review be separated, as these are two discrete, and significant elements for consideration on how local governments are funded.

Firstly, the concept of ‘financial sustainability’ is undefined. Previous attempts by State Government to define financial sustainability, for example through the Fit For the Future Reforms, remain contested. At best, the use of the OLG’s performance indicators assist in communicating information to communities about how councils are funded and the general position of the council. However, the current financial benchmarks are flawed and fall short in providing a comprehensive evaluation of local government financial sustainability.

The benchmarks do not encompass all relevant financial factors and focus too heavily on own-source revenue, for example, which is not always an appropriate indicator of financial performance. In this example, the benchmark aims to provide a representation of a council’s self-sufficiency, however it creates disincentives for councils to pursue external funding opportunities. Community perception about council’s financial performance can be influenced by the results of these narrow indicators, without the contextual information to support them. The performance indicators should be complimented with other metrics to provide a more accurate and balanced assessment of financial performance.

Councils play a vital role in delivering essential services to their communities, and the ability to maintain service levels can be impacted by factors such as population growth, changing demographics, and regulatory requirements. Achieving financial sustainability is a key priority for councils, ensuring they can fund ongoing operations, infrastructure maintenance, and capital projects without relying excessively on rate increases or external funding. Financial sustainability depends on factors such as revenue diversity, expenditure management, asset management practices, debt levels, and access to funding sources. As outlined above, some of these factors are beyond Council's control.

We call on the review to consider revising the performance indicators to provide a more robust and appropriate measurement of councils' financial sustainability, with inclusion of factors such as Financial Resilience Measures, i.e. the resilience of councils to financial shocks and emergencies, such as natural disasters or economic downturns.

In regard to cost shifting, it is well documented that in NSW, councils have experienced significant cost shifting from state and federal governments over the years, particularly in areas such as social services, emergency management, and infrastructure maintenance. This places additional strain on council budgets and can affect their ability to maintain service levels and financial sustainability.

LGNSW's latest cost shifting report, released in November 2023, highlighted a total cost shift to councils of $1.36 billion in 2021-22, which is the equivalent of more than $460 per ratepayer annually. This is an increase from $820 million in 2015/16.

According to the LGNSW's report, the most significant examples of cost shifting in 2021–22 were:

- The waste levy, which remains the largest single contributor to cost shifting in NSW, totalling $288.2 million, because the NSW Government did not fully reinvest the waste levy, paid by local councils, back into waste and circular economy infrastructure and programs.
- The Emergency Services Levy and associated emergency service contributions, which totalled $165.4 million and represented the largest direct cost shift to local councils.
- The NSW Government's failure to fully reimburse local councils for mandatory pensioner rate rebates, resulting in councils losing $55.2 million.
- The NSW Government's failure to cover the originally committed 50 per cent of the cost of libraries operations, resulting in an additional $156.7 million in costs to councils.

Adding to this, the State also compulsorily acquired key sources of revenue in the past, such as caravan parks. For regional councils with a low rate base, such as Byron Shire, the effect of this can be crippling.

(d) assess the social and economic impacts of the rate peg in New South Wales for ratepayers, councils, and council staff over the last 20 years and compare with other jurisdictions

An assessment of this nature is essential, as rates are a key source of revenue for councils and, although the methodology has recently been revised, learning from other jurisdictions can inform better practices and policies in NSW. In the local context it's important to consider local factors such as population growth, demographics, and economic conditions when comparing impacts.

<u>Ratepayers:</u>

Achieving a balance between affordable rates for residents and sustainable funding for services is crucial. This could be supported by diversification of revenue sources for councils, for example, to reduce the financial burden to rate payers which can lead to adverse social and economic conditions. On one hand, if rate increases are limited by the peg, it may lead to inadequate funding for essential services, but on the other hand, excessive rate hikes can strain household budgets.

Further, ratepayers' satisfaction depends on the quality of services provided. If rate pegs impede investment in infrastructure and service enhancements, it is likely to have adverse effects on wellbeing, safety, and other social outcomes. This reduction in services aimed at meeting essential needs could lead to a decline in overall community welfare.

Councils:

Rate pegs restrict the ability for councils to generate revenue, which directly affects capacity to maintain and enhance community assets. When required to manage service delivery within the confines of rate pegs, councils are forced to make tough decisions about prioritisation of services and in some cases, provision of services may need to be withdrawn altogether. More broadly, having limited access to funding may hinder innovation and investment in technology, infrastructure, and community programs, in turn risking the exacerbation of inefficiencies for individual councils and more broadly across the sector.

Council Staff:

Staff rely on stable funding for job security, and strained budgets can affect staffing levels, salaries, workload, and resources available for training and development. Insufficient resources may create psychosocial WHS hazards, lead to burnout, and turnover. Conversely, adequate funding contributes to positive staff morale and staff retention, which can provide continuity for projects and service delivery.

(e) compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff

Council acknowledges the recent review of the rate peg methodology, conducted by IPART in 2023. From which IPART recommended the NSW Government commission an independent review of the financial model for councils in NSW. Some of the suggested measures for consideration from that review (Chapter 9.3) included:

- Better targeting eligibility criteria for rates exemptions
- Allowing councils to use the Capital Improved Value method to set the variable component of rates
- Ensuring statutory charges reflect the costs incurred by councils in providing statutory services
- Alternative funding mechanisms to provide essential social services
- Comprehensive state-wide evaluation of the existing pensioner concessions

Implementing these recommendations, would be a positive initial step to considering alternative approaches.

(f) review the operation of the special rate variation process and its effectiveness in providing the level of income councils require to adequately meet the needs of their communities

Councils are required to invest significant time and resourcing into the Special Rate Variation (SRV) application process to achieve the transparency and rigor of the application and review process. This process can be divisive, politicised, and counterproductive; resulting in a diversion of already stretched resources from service delivery.

The SRV process aims to ensure that proposed rate variations are justified and balanced against the interests of ratepayers however, fundamentally, the over reliance on rate revenue to fund the needs of communities continues to be problematic.

Underlying any successful application is the community's willingness and capacity to pay. Balancing this factor with community expectations and essential service delivery is often difficult to achieve. Furthermore, while SRVs provide immediate relief by increasing revenue, their sustainability depends on councils' ability to manage their finances effectively, maintain service levels, and address underlying cost pressures. Without other means to achieve long term financial sustainability, councils are forced to return to the community for additional rate increases, repeatedly.

(g) Any other related matters

The review should consider regional economic disparities and their impact on the financial sustainability of councils. Assess whether current funding models adequately address the needs of economically disadvantaged regions and identify strategies to promote greater equity in resource allocation.

Council requests that consideration also be given to the potential for rates to be calculated on the improved value of properties, rather than the current unimproved capital value and that the necessary research be conducted to inform a position.

Overall, councils in NSW face ongoing challenges in balancing service delivery expectations with financial constraints, exacerbated by factors such as cost shifting and increasing demand for services. Addressing these challenges requires a collaborative approach between local, state, and federal governments, as well as innovative strategies to enhance revenue streams, improve efficiency, and prioritise community needs. Regular review and reform of funding arrangements and intergovernmental relations are essential to support the long-term sustainability of local government in NSW.

Please contact me if you require any further information.

Yours sincerely

Esmeralda Davis
Director Corporate & Community Services