Submission
No 21

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Blacktown City Council

Date Received: 26 April 2024

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The Honourable Emily Suvaal, MLC
Committee Chair
Standing Committee on State Development
NSW Parliament House
6 Macquarie Street
SYDNEY NSW 2000

Submitted online

Dear Committee Chair

Blacktown City Council welcomes the opportunity to make a submission to the Standing Committee on State Development's inquiry into the ability of local governments to fund infrastructure and services.

In summary we submit that:

- Blacktown City's current level of revenue is insufficient to adequately deliver the services and facilities expected by our communities
- the rate peg has not kept pace with our rising costs, resulting in reduced service levels, maintenance and replacement of infrastructure
- the rate peg does not adequately support the increased operational and capital costs of Blacktown City's rapid growth
- the NSW infrastructure contributions system has failed to provide sufficient revenue to deliver and support infrastructure, as Blacktown City has $631 million in unfunded capital costs for community facilities
- cost shifting from the Commonwealth and NSW Government has cost local government $1.36 billion[1] and Blacktown City $33 million per annum, and any transfer of responsibility should be supported by an appropriate revenue source
- the rate peg should be abolished and local government provided with autonomy to independently set rates

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[1] The Local Government NSW 2023 'Cost Shifting Report – How State Costs Eat Council Rates' report.

- the special rate variation process is compensating for the insufficient revenue that rate pegging has caused, in particular for the maintenance and renewal of infrastructure.

We attach the following Council endorsed feedback on the Terms of Reference for the inquiry.

Yours faithfully

Kerry Robinson OAM
Chief Executive Officer

A. The level of income councils require to adequately meet the needs of their communities

The current level of income and funding for local government is not sufficient or reliable to meet community expectations of service.

A-1 Limitations on councils' main sources of income

Rate pegging, along with the limitations of the NSW infrastructure contributions system, has constrained the capacity of councils to generate sufficient revenue to provide local services and infrastructure.

Blacktown City has previously made various submissions to both the NSW Independent Pricing and Regulatory Tribunal (IPART) and the NSW Government regarding the limitations of the rate peg methodology and the impact this has on council's financial sustainability. In particular:

- the rate peg does not properly support the increased costs of addressing the various challenges of responding to an urban council's rapid rate of growth
- the rate peg is generally below the actual increases in many of our essential costs
- it does not allow sufficient funding for the maintenance and renewal of our existing infrastructure.

In 2010, the NSW Government determined that the NSW infrastructure contributions system should not fund community facilities (except for the land cost), and that rates revenue would be sufficient to deliver these facilities.

This has not been the case for Blacktown City, with $631 million in unfunded capital costs for community facilities.

The NSW infrastructure contributions system, as it stands, also fails to provide councils with sufficient revenue to meet the lifecycle costs of infrastructure. Whilst the NSW infrastructure contributions system does provide some funding for capital costs in new development (excluding community facilities), it does not provide for recurrent costs, and councils are required to fund the maintenance and replacement costs of the infrastructure. This was highlighted in the 2020 NSW Productivity Commissioner's review of Infrastructure in NSW.

Council's ability to fund infrastructure is also exacerbated by the conclusion of the NSW Government's Local Infrastructure Growth Scheme, resulting in $250,155,965 in outstanding funding owed to Blacktown City.

This funding will support the provision of essential local infrastructure to our new North West Growth Area precincts with 70% of the outstanding funding benefitting the residents of Marsden Park and Melonba, and is required to support housing development.

Without this funding, new housing development will come to a standstill and our new communities in the City's North West will not have the base level essential infrastructure it needs.

Rates revenue, restricted by the rate peg, is insufficient to deliver the essential infrastructure of urban growth councils, and the additional maintenance and renewal costs required to improve the longevity of assets.

Councils are forced to compromise on asset maintenance and renewal to balance their budgets, resulting in higher infrastructure backlogs.

A-2 Additional income is required to support councils with increased operational and capital costs as a result of growth

The NSW Independent Pricing and Regulatory Tribunal's (IPART) Final Report on the review of the rate peg to include population growth (September 2021), acknowledged that costs of growth are not being fully met for NSW councils in general, with faster growing councils tending to be unable to recover additional revenue through general income in proportion to their growth. This will mean growing councils will be unable to maintain their service levels.

As an urban growth Council, we have additional operational and capital costs that we are unable to fund from rates revenue, developer contributions, grants or fees and charges.

Our experience has been that our community has higher service level expectations, than is what is currently being delivered, particularly in the North West Growth areas where we still have significant development to occur and where it is projected we will have 84,648 additional dwellings and population of 256,100.

Blacktown City is the largest council by population in NSW, with over 10,000 new residents each year.

The population factor in the rate peg methodology is based on the following principles:

- it would enable councils to maintain per capita general income over time as populations grow
- is founded on existing service levels, represented by general income per capita, is the best indicator of the future costs of servicing population growth
- there is a mostly linear relationship between population growth and council costs.

We do not agree with these principles, as our overall operating revenue per capita will reduce as this development occurs, and our additional operational and capital costs listed below that we must fund as a result of our growth, do not reflect a linear relationship.

Our additional annual operational costs per annum, include but are not limited to the following:

- increased green space maintenance costs for an additional 890 hectares of open space - $1.6 million
- increased transport and water management infrastructure space maintenance costs - $1.1 million
- increased information technology costs - $100,000
- increased postage and bank fees - $80,000

- increased cost of local government elections fees - $77,000
- increased street light cost - $67,000
- increased Valuer General fees - $30,000
- increased cost of pensioner rebate - $35,000.

Our additional capital costs, which cannot be funded from developer contributions, include:

- community facilities - $631 million
- a new depot to support our City's growth - $35 million to $45 million
- a new SES facility - $2 million to $4 million
- additional office accommodation to support our increase in staff - $80 million to $100 million
- additional plant and equipment - $760,000 per annum
- additional transport and water management infrastructure - around $230 million annually for the next 20 years.

Our additional rates revenue from population growth is around $4 million per annum. The aggregate of additional operating costs to properly support our population growth is well above this amount, meaning that council needs to compromise on maintenance and service levels to remain within budget.

A-3 The decline in, and limitations of, grant funding for councils and the limited ability to increase revenue

The continued reduction in the amount of Financial Assistant Grants (FAG) to below 1% of the Commonwealth Tax Revenue (CTR), has contributed to a funding shortfall for councils.

Blacktown City will be seeking the restoration of the FAG to at least 1% of the CTR as part of our submission to the House of Representatives Standing Committee national inquiry into local government sustainability.

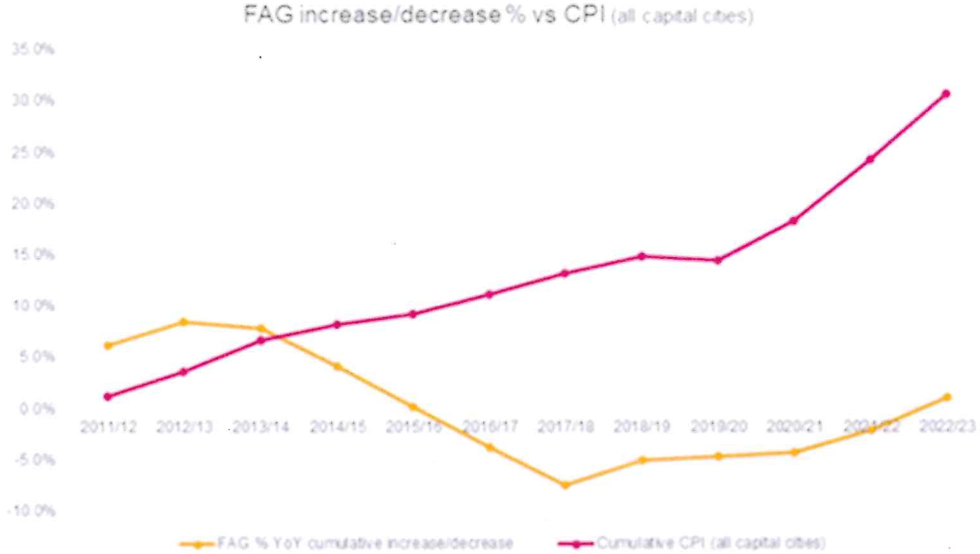
For most if not all councils, the FAG represents one of the largest sources of discretionary revenue after general rates revenue. However, the rate peg methodology does not factor in the ongoing decrease in councils' FAG allocation, in the same way that the FAG allocation does not account for the impact of rate pegging.

Over the years the amount of the Financial Assistant Grants, as a proportion of the CTR, has steadily declined. For the 2021/22 financial year, the Financial Assistance Grants as a proportion of CTR was an estimated 0.6%, being the same amount for the 2020/21 financial year.

Blacktown City is experiencing, in real terms, a continued reduction in the amount of the FAG revenue received per capita. This decline is a consequence of the overall amount of FAG paid to council, having not increased since 2012/13, while our population continues to increase. In 2012/13 the amount of FAG received equated to an amount of $59.29 per capita. In 2020/21 this has reduced to $35.96 per capita.

If the amount of FAG paid to Council for 2020/21 was to be increased so that it remained at the 2012/13 amount of $59.29 per capita and then was indexed in line with CPI, the additional amount of FAG to be paid would be an additional $7.53 million. This would have averaged at annual increases from 2013/14 to 2020/21 of $941,000.

The below graph details that the FAG allocations that Blacktown City has received over the past 11 years are well below the CPI increases for the same period.



We acknowledge that the NSW Government, through its Western Sydney Infrastructure Grants Program, has provided councils with additional funding to provide necessary infrastructure. However, with councils limited ability to increase its own source revenue, and insufficient revenue to maintain existing service levels, capital grants to councils should be augmented by an allocation of operational funding sufficient to maintain and operate new facilities established through the grant for an appropriate period.

Councils ability to increase its own source revenue is constrained by legislation.

For Blacktown City a 1% increase in our rates revenue is broadly equal to a 10% increase in our fees and charges. However, we are unable to increase around half of our fees as they are regulated by the NSW Government, and an increase in some of our fees may mean the service we provide is no longer affordable or competitive with other providers. Most council services do not achieve full cost recovery.

Although the borrowing of funds is a suitable option for one-off capital projects, it does not provide a viable option to fund recurrent costs. As the costs of maintaining expected service levels and growth continues to increase without additional revenue, councils would need to reduce works and/or services to be able to fund loan repayments.

B. Examine if past rate pegs have matched increases in costs borne by local governments

B-1 Past rate pegs have failed to account for increasing costs incurred by councils

Up until the recent changes to the rate peg methodology for the 2024/25 financial year onwards, the annual rate peg did not:

- reflect the actual expenses of council, particularly when inflation is high
- only considered reported costs movements in a budget, not actual costs incurred
- provide revenue at the time the costs were incurred, with a 2 year lag in calculating cost increases
- reflect the actual costs of each council, only measuring the average change in costs of all councils against 26 cost components that were incorrectly weighted in their percentage of councils' overall costs (the former Local Government Cost Index)
- account for increasing employee costs including attraction and retention
- reflect actual additional maintenance and renewal costs for growth council that are required to improve longevity of assets.

The past reg has failed to match the increases in councils' actual costs over the years.

A review of our overall IT operational expenditure (which includes software licensing and support costs, cyber security systems) has shown over the period 2010/11 to 2021/22 our costs have increased by around 245%. While some of this increase is attributable to an increase in the number of staff at Council, it is more a factor of the increased cost of IT systems. Avoidance of these costs would mean lower productivity of our staff, and greater risk of our systems and data being inappropriately accessed.

The cost of commonly used materials and equipment by councils can often increase by a greater amount than the typical goods and services used to measure CPI. These include the materials used in the construction and maintenance of roads, drainage networks and buildings.

Similarly, the standards which some works need to comply with have increased, and subsequently the cost to bring infrastructure up to minimum standard is increasing year by year.

For the 2021/22 financial year we had a backlog of $67.334 million in renewal costs to bring our assets to an acceptable standard, with this amount increasing to $81.407 million in 2022/23.

The roads asset category represents $65 million of our $81.407 million backlog. Other examples include the cost of replacing a playground which in 2012 was $60,000 compared to replacement today at a cost of $165,000.

For roads in particular these costs continue to increase due to environmental factors such as heavy rain.

Councils are also required to manage the impact of climate change and the additional costs to achieve the NSW aspirational targets of net-zero emissions by 2050.

Blacktown City has a 'Responding to climate change' policy and strategy to support the improvement of our energy efficiency and transition to renewable energy and net-zero emissions, however as identified by the Local Government NSW in its May 2023 Policy Platform, an integrated approach to climate change is required across all levels of government, industry and the community.

B-2 The rate peg and CPI have not been in alignment

A comparison of the the rate peg and CPI supports that they have not been in alignment particularly during 2021-22 and 2022-23 which saw a significant increase in CPI (6%) compared to rate peg increases of 2% and 1%.

B-3 Past rate pegs have not captured additional costs of growth

While the new rate peg methodology better reflects cost increases, it still falls short of capturing actual cost increases of councils, particularly for Blacktown City, as the 'population factor' fails to capture the actual cost increases of our growth.

Our increase in rates revenue, attributable to an increase in rateable properties, is insufficient to cover the actual increased costs to Council of maintaining service levels, resulting in council having to compromise on maintenance and service levels to remain within budget.

Since the population factor was added to the rate peg methodology in 2022/23, Blacktown City received a 0% increase for the 2022/23 and 2023/24 financial year. Whilst we received a minimal increase in the 2024/25 rate peg, as a result of receiving less general revenue from supplementary valuations than previous years due to a decline in development, we anticipate future adjustments will return to a lower or 0% population factor.

The rate peg has also failed to consider that growth extends beyond just residential properties to include growth in new business. In the case of Blacktown City, our annual gross regional product is $22.60 billion per annum with 30,000 businesses. This is attributable to a wide range of industries including education, health, logistics and manufacturing. Many of these industries rely heavily on the transport of materials to their business and the resultant transport of completed goods from their business. This is putting an increased strain on our road network, some of which was not constructed to cope with the higher traffic volume of heavy vehicles.

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

C-1 Service delivery is impacted by insufficient funding for the maintenance and renewal of infrastructure

As previously mentioned, IPART's Final Report on the review of the rate peg to include population growth (September 2021), acknowledged that growing councils will be unable to maintain their service levels.

IPART also acknowledged in its Final report of the rate peg methodology (August 2023) that:

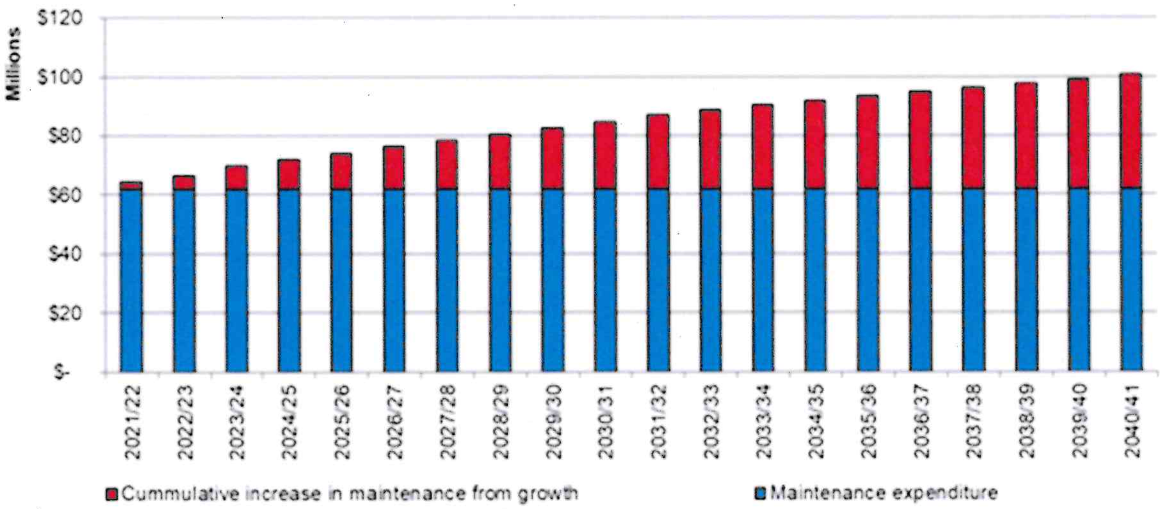
> Councils are concerned about their ability to remain financially sustainable and simultaneously meet the growing demand for new and improved services from their communities. They considered that the rate peg has constrained their ability to fully recover the costs of providing their current services, and this has negatively impacted their financial sustainability….We found more than half of NSW councils do not meet the infrastructure backlog ratio.' [2]

There have been numerous reports which have highlighted the inadequate funding for asset maintenance and renewal, which is a significant issue for the entire local government sector. The deferral of asset maintenance critically impacts the longevity of assets. The earlier that councils can fund maintenance or rejuvenation works, the longer councils will have before they incur the costs of replacing their assets.

The Grattan Institute in its report 'Potholes and Pitfalls – How to fix local roads' November 2023, identified that councils are underspending on road maintenance by at least $1 billion annually.

Through the development of Blacktown City, we will receive new assets anticipated to be in the amount of $2.5 billion over the next 20 years. This will require a significant increase in funding for maintenance of our infrastructure, which is not available from the current rate pegging system. In effect, each new property developed in the City generates greater services expenditure by Council than the extra revenue provided by its rates.

We currently spend over $60 million a year on maintenance of infrastructure assets, however there is an increasing backlog of works. The below graph demonstrates the increase in our asset maintenance costs over the next 20 years, which will be a significant challenge for council to fund given the current rate peg limitations, which will have an adverse impact on the condition and life of our infrastructure assets.



[2] Table D.4 Final report review of the rate peg methodology August 2023.

Our service levels are impacted by the rate peg, as we underfund some of our core services to balance our budget, including our green space maintenance, civil asset maintenance and building maintenance. Over the past 5 years the funding able to be allocated to these areas compared to the levels required have been as follows:

- green space maintenance allocated $6 million, with up to $16 million priority requirements identified for funding (largely driven by City growth as well as rising community expectations)
- civil asset maintenance allocated $1.8 million, with $6.8 million priority requirements
- building maintenance allocated $1.2 million, with $4 million of priority requirements.

To invest the required amount to adequately maintain our assets and balance future budgets, we would need to reduce service levels and capital works and/or apply for a Special Rate Variation at a considerable additional cost to council, to make up the shortfall in revenue needed to maintain service levels.

C-2 Cost shifting has cost Blacktown City $33 million per annum and the local government sector more than $1.36 billion

Cost shifting from the Commonwealth and NSW Government to councils, including the waste levy, superannuation levy, dust diseases levy, public library operations and emergency services levy is estimated to cost Blacktown City $33 million per annum.

The Local Government NSW 2023 'Cost Shifting Report – How State Costs Eat Council Rates' demonstrates the impact on the NSW local government sector of cost shifting, with its 2021-22 survey revealing that the total of cost shifting for the year was $1.36 billion.

Consideration must be given to whether the balance of service responsibilities between NSW state and local government is appropriate, and how effective the present inter government arrangements are in preventing the transfer of responsibilities from the Commonwealth and NSW government to local government without commensurate transfer of revenue sources.

To balance their budgets to account for cost shifting, councils are required to consider reducing service levels and delaying vital maintenance or renewal of infrastructure. Councils having limited ability to reduce service levels given that many of its services are mandated by legislation and community expectations of these services, such as roads, waste and regulatory functions, exceeds a basic level of delivery that the current funding for local government provides for.

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

D-1 NSW has the lowest average rates per capita in Australia

We have reviewed available information on the rates levied by local government in the different states of Australia. In summary, it is overwhelmingly apparent that the application of rate pegging in New South Wales since 1977 has resulted in much lower council rates in that state than others. This is highlighted in the table below which compares average council rates per capita for each state of Australia:

State	Average rates per capita	Percentage difference to NSW
ACT	$1,309	121% higher
Western Australia	$924	56% higher
Victoria	$814	38% higher
Queensland	$786	33% higher
NSW	$591	
All states	**$835**	**41% higher**

D-2 The rate peg has impacted councils ability to recruit and retain staff

The rate peg has exacerbated the gap in revenue required to support actual employee costs in meeting wage increases that councils are required to fund, and did not reflect all employee costs including future superannuation increases, workers compensation and training costs.

This has made it difficult for councils to compete in the market to both recruit and retain qualified and skilled staff, particularly for positions in information technology, planning, finance, engineers, arborists and mechanics. This has also led to increased overtime costs that can result in a higher risk of psychosocial injury from workload.

D-3 The rate peg has failed to account for the diversity and differing costs of councils

The rate peg has failed to account for the diversity of councils and the different services provided. It has only taken into account the average cost increases of councils, without regard for each council's size, economic influence, additional costs of rapid growth, staffing levels, operating budget and asset management and infrastructure needs.

E. Compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff

The rate peg should be abolished and councils provided with greater autonomy and flexibility in their rating structure.

However, in the alternative, other innovative financial models or mechanisms, including but not limited to, value capture should be considered which may provide a more sustainable model for local government.

Councils should be able to receive a proportion of the value uplift gained from changes in planning controls to the provision of public infrastructure, in the same way that the NSW government benefits from the Special Infrastructure Contribution.

We note that IPART's Final report on the rate peg methodology (August 2023) identified the need to review the financial models for councils and has already suggested alternative approaches that should be considered, including[3]:

- Allowing councils to use the Capital Improved Value land valuation method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type.
- Better targeting eligibility criteria for rates exemptions.
- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services, so councils do not need to use rates income to cover the costs of providing these services.
- Developing a mechanism to enable councils found to have insufficient base rates income to achieve financial sustainability.

We support the use of Capital Improved Value (CIV), provided that councils have the option to retain the use of Unimproved Values, and the review of statutory charges in particular the examples cited included the Stormwater management service charge, development application fees and developer contribution caps.

At a minimum, statutory charges should be indexed to reduce the amount of rates revenue that is required to subsidise the costs of providing these services.

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

The special rate variation process has improved over the years, and we acknowledge the work IPART has done to assist in improving the process for councils, however as IPART identified in its Final report on the rate peg methodology (August 2023), the pursuit of this path is at a cost to councils:

> While councils can apply for an SV to improve their financial sustainability and/or meet their communities' service expectations, some councils argued the existing SV process is resource-intensive and can become a contentious issue.[4]

In September 2022, Blacktown City resolved to carry out community consultation on a proposed special rate variation to commence in 2023/24, estimating that the cost to proceed with this application would be in the order of $250,000.

Whist Blacktown City resolved not to procced with the special rate variation due to cost of living pressures faced by our community, it demonstrates the level of additional costs councils must try and find to support this process, along with staff resources, in circumstances where budgets are already exhausted.

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[3] IPART Final Report – Review of the rate peg methodology August 2023 – pg.124-125.
[4] IPART Final Report – Review of the rate peg methodology August 2023 – pg.30.

The limitations of rate pegging have meant that Councils which have applied for a special rate variation have done so most typically to fund:

- cost increases above the rate peg
- asset maintenance/renewal
- maintain services
- financial sustainability.

This was evident in the 17 applications to IPART for a special rate variation to apply from 2023/24 onwards, that sought a variation of generally between 18% to 92.83% over multiple years, and from 2016-2021, 12 urban councils sought an average special rate variation of 20.1% for the same reasons listed above.

This demonstrates that councils are having to rely on the special rate variation process to maintain services and deliver infrastructure, as a means to compensate for the insufficient revenue caused by rate pegging.

G. Any other related matters

We acknowledge that IPART's latest review of the rate peg methodology seems to have resulted in improvements to the amount of rates revenue received, however further changes to the methodology are still required to ensure sufficient revenue is received to adequately deliver the services and facilities expected by our communities.

We propose a non-binding rate peg. This would include setting a minimum rate peg that would account for the common costs incurred across councils, with discretion for councils to increase the rate peg up to a set maximum amount, for e.g. 5% above the minimum, based on localised factors or costs, including supporting financial sustainability or to address infrastructure back logs.

Councils who elect to increase the rate peg up to the maximum discretionary amount would be required to demonstrate the need for the maximum rate peg in their Long Term Financial Plan and Asset Management Strategy. This would also reduce the need for councils to make a special rate variation application for smaller increases that are necessary to support financial sustainability.

Alternatives to a non-binding rate peg could include a separate cost index for growth councils or the addition of an 'asset maintenance and renewal factor', similar to the population factor, to the rate peg methodology for councils that have an increasing asset base due to development