

**Submission  
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**INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO  
FUND INFRASTRUCTURE AND SERVICES**

**Organisation:** Berrigan Shire Council

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# Inquiry into the Ability of Local Governments to Fund Infrastructure and Services

Berrigan Shire Council Submission



BERRIGAN SHIRE

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# Inquiry into the Ability of Local Governments to Fund Infrastructure and Service

## Berrigan Shire Council Response

This response considers the intricate landscape of local government funding in New South Wales (NSW), focusing on the various dimensions outlined in terms of reference for this inquiry, namely:

- a) the level of income councils require to adequately meet the needs of their communities,
- b) examination as to whether past rate pegs have matched increases of costs borne by local government,
- c) current levels of service delivery and financial sustainability of local government, including the impact of cost shifting on service delivery and financial sustainability and whether this has changed over time,
- d) assessment of the social and economic impacts of the rate peg in NSW for ratepayers, councils and council staff over the last 20 years and compare these outcomes with other jurisdictions,
- e) compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils and council staff,
- 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 and
- g) any other related matters.

### Introduction

Local government has been recognised for some time as the third tier of government and both federal and state governments seem to agree that it plays a vital role in delivering essential services and infrastructure to communities in NSW. Ensuring adequate funding for these services is available, particularly for rural and remote councils such as Berrigan Shire Council, is a continuing challenge. Berrigan Shire Council's response analyses the ability of local governments such as ours to fund infrastructure and services, in accordance with the focus of this inquiry. By examining each of the listed dimensions, our response provides insights into the experience of local government authorities such as ours and provides some recommendations for enhancing the funding mechanisms for local governments in NSW.



## Roles and Responsibilities of Local Government in NSW

Local government in NSW is responsible for an increasingly complex and wide range of services and infrastructure delivery including waste management, roads and transportation, parks and recreation, planning and development and other direct community services. These services are crucial for maintaining the quality of life and wellbeing of residents.

This list does not consider the increasing complexity of each of those service deliverables. Waste management has moved in 20 years from simply removing household waste to landfill, to implementing the requirements of Net Zero by 2050 and rolling out the collection of food and garden organics by 1 July 2025. This change alone has required councils to consider the increased costs to their ratepayers for the implementation of a third bin (for some councils in our area, this is in fact the implementation of two new bins), consider the costs of freight to recycling facilities and start to consider the increased need to upskill staff to train in order to support increased obligations such as methane management and emissions reporting.

The delivery of roads and transportation has been directly affected by the implementation of the National Heavy Vehicle Regulations which indirectly requires councils to increase their service levels of rural and regional roads. Increases to pavement thickness, road widening and runoff areas represent significant service level increases in rural and remote councils, with no commensurate increase in funding.

Planning and development activities are also affected. This is primarily by the indirect costs of the implementation of the ePlanning Portal, which has required councils to increase staffing levels to adjust to the new regime. Further, the statutory fees and charges allowed by relevant planning legislation do not adequately cover the administration and transactional costs for administering the system and managing local compliance.

## Revenue Sources

Local governments primarily derive their revenue from a range of sources including property rates, user charges, statutory charges and state and federal government grants. Reliance on government grants for rural and remote councils is far higher than those of urban and peri-urban councils. This should be a cause for concern for not only the state and federal governments, but our communities.

For Councils such as ours property rates do not constitute a significant portion of the revenue of council, unlike our counterparts in many larger city councils. The fact is most rural and remote councils rely heavily on grant funding which poses several concerns for Council's like ours. This includes the fact that rural and remote communities do not understand the threat this reliance poses to the ongoing financial sustainability of councils such as ours.



Further, rural and remote councils have very limited ability to create other revenue streams such as parking fees, or private works fees. Regulations that prevent councils from actively competing in the commercial delivery of services means entering commercial delivery of services such as child care or aged care, which are often forced on councils when private and state services withdraw, means councils cannot afford to deliver these services with sufficient margins to make them viable in the long term. Regulations and Award conditions actively restrict councils' abilities to provide these services in any way that is competitive of profitable.

Restrictions on council's ability to charge for the actual cost of delivery of water and sewer further contribute to this complexity, as the costs of delivering those services has increased exponentially. If the state feels we are supplementing our rate income through such services, this is simply not the case.

Essentially rural and remote councils are forced to rely on grant funding, rather than being encouraged to be innovative in their approaches to possible revenue raising opportunities.

### Rate Pegging

Rate pegging is the mechanism implemented by the NSW government to directly influence councils' ability to increase their rates each year. Under this system, the Independent Pricing and Regulatory Tribunal (IPART) sets a maximum percentage by which councils can increase their rates. Councils are grateful IPART has heard our concerns and has recently changed the way in which it assesses the percentage increases allowed for councils. However, this does not address the prescriptive and pecuniary nature of rate pegging in and of itself.

Although rate pegging is intended to be effective in controlling the cost of living pressures for ratepayers, what it actually does is demonstrate to communities that their elected councillors are incapable of making such important decisions themselves. Further, it ensures councils in rural and remote NSW will increasingly face financial unsustainability, reinforcing the need to rely on grant funding to survive. All councils have hardship policies which allow them to consider the financial circumstances of their constituents on a case by case basis, thus allowing them to provide assistance and relief to those who need it most.

Rate pegging is a popular election commitment of state governments to limit the taxes imposed on communities by restricting the only tax that is raised through invoicing. All other taxes imposed by the federal and state governments are garnished through wages under the PAYG system, through the price of goods sold by way of GST or added to the cost of goods sold by way of tariffs etc. The unfortunate effect is that local communities do not understand the cost of the services and infrastructure outcomes they expect their councils to deliver as councils are not provided the opportunity to discuss with their communities the effect of rates on councils' ability to provide those services and infrastructure.



One of the key considerations in assessing rate pegs and whether they provide the outcomes promised by various state governments, is to assess whether they adequately match the increases in costs borne by local governments. The short answer is they do not.

Cost pressures faced by councils include inflation, wage growth, increasing interest rates, regulatory compliance and transactional costs, the effect of cost shifting on council budgets and the increasing service demands of communities. Failure to align rate peg increases with cost increases has severely impacted the financial sustainability of councils and their service delivery capacity. This can be demonstrated by the enormous rate increases sought by numerous rural and remote councils recently to bring their revenue more closely in line with the costs of actually doing business.

Rate pegging therefore limits councils' flexibility to respond to changing economic conditions, population growth and service demands. This affects councils' ability to raise sufficient revenue to provide for the needs of their communities and directly affects their budgeting and service planning processes as a result.

For council staff, the influence of rate pegging affects their employment conditions, job security and the quality of services they are able to provide to their community. Councils are constrained in their ability to recruit and retain skilled staff, invest in professional development and provide competitive remuneration packages. To that end, rural and remote communities are often forced to hire people with lower or inadequate skills to perform the work required leading to less than satisfactory outcomes, particularly in regard to infrastructure delivery such as roads, bridges and other civil construction works that require highly qualified civil engineers. The requirement for civil engineers at specific skill levels is usually a requirement of grant funding for infrastructure delivery such as roads, bridges, water, sewer and asset management. Without the sign off of a suitable qualified engineer, councils are unable to adequately acquit and finalise their grant applications.

### Determining Community Need

The adequacy of income for local councils depends on their ability to understand and meet the diverse needs of their communities. More than providing essential services such as waste management, road maintenance and water and sewer utility, councils in rural and remote NSW are increasingly filling the gaps left by the withdrawal of services by federal and state government and even by the private sector.

Councils have found themselves delivering services such as child care, aged care, bank facilities, general practice (GP) services and many social programs that no one else will deliver for their communities. Rural and remote councils are often told they have "chosen" to deliver these services and therefore these "discretionary" services should not be considered as "essential services" for those communities. That assessment in practicality means councils in



rural and remote areas should quietly accept their communities can never have equivalent access to services available in the cities.

Berrigan Shire Council is experiencing unprecedented growth, particularly in our river towns of Tocumwal and Barooga. Those moving to the area are used to higher levels of service as they tend to come from more highly populated areas. What this demonstrates to us is the accepted inequity of service delivery rural and remote councils must constantly seek to address. The direct result of those issues is that both Mayor Julia Cornwell McKean and I have had to advocate strongly for increased services in areas such as health, emergency response, and digital connectivity.

Advocacy is generally seen as cost neutral however that is not true. We are advocating strongly across a range of issues to represent the importance of equitable access to services for our community. Advocacy takes the time of Mayor Julia and I to travel to and from meetings with stakeholders such as private service providers, government department representatives, appearing at joint selection committee and special commissions of inquiry and meeting with ministers. The preparation of briefing documents, cost of GIPA requests, travel and accommodation requirements is not cost neutral. Those are costs borne by council and therefore our community and they can be significant, especially given the distances we have to travel to be heard.

### Financial Sustainability of Local Governments

Financial sustainability is a critical concern for local governments as it determines their ability to meet current and future obligations without compromising service quality of fiscal viability for future generations. Achieving financial sustainability requires councils to maintain a balanced budget, manage debt responsibly, invest in infrastructure renewal and adopt prudent financial management practices. The truth is rural and remote councils are stymied at every turn in all attempts to ensure their financial sustainability and as noted above, are therefore forced to perpetually rely on federal and state government grants.

Cost shifting is an insidious practice perpetrated by both state and federal governments where they transfer their responsibilities to local councils without providing adequate funding to facilitate those responsibilities for the long term. Cost shifting includes restricting the ability of councils to collect fees sufficient to cover the costs of delivering their regulatory responsibilities.

Berrigan Shire Council has estimated the impact of cost shifting on its own very small budget, is about \$5.9 million. This estimate includes the cost of:

- running an aerodrome (“gifted” to council for \$1 by the federal government),
- the cost of undertaking citizenship services (for which councils receive no funding),



- the cost of running our libraries (which the state used to provide half funding for but has since removed after that service was “gifted” to councils),
- maintaining Crown Land parcels (for which council has been “gifted” care and control),
- the cost of the Emergency Services Levee (for which the state charges councils even though they already collect taxes through people’s private home insurance and which was in fact higher than the increase provided by the rate peg last financial year),
- the mandatory pensioner rebate on rates (which council is not able to recover from the state government who impose the rebate),
- undertaking our regulatory functions including – but not limited to – rural fire service obligations, companion animals, contaminated land management, environmental weeds and pest management, development application fees etc,
- providing CCTV services for police crime prevention services, and
- the provision of mental health services where all have been removed from our local government area.

### Comparative Analysis with Other Jurisdictions

There is significant opportunity for NSW to consider the insights and alternative approaches to local government funding. Jurisdictions may vary in their reliance on property rates, grants, user charges and other revenue sources. Understanding the strengths and weaknesses of the differing funding models should inform policy debates and reform initiatives in NSW.

International experiences also offer lessons that may inform local government reform in NSW. Countries with decentralised federal systems of governance offer a range of innovative funding mechanisms, fiscal incentives and intergovernmental arrangements that support local service delivery and encourage the sustainability and independence of local government financial outcomes.

It is understood grants from state and federal jurisdictions are primarily aimed at ensuring equitable distribution of taxation funding across Australian communities. This may in fact be the cause of much inequity. Berrigan Shire Council feels, the application of subsidiarity, with the aim of providing funding according to genuine need and the outcome of meeting the common good, will see a far more equitable distribution of grant funding.

Application of subsidiarity (which is belief that services are more effectively delivered by the level of government closest to the delivery point) would ensure local government is actively engaged with the process of funding allocation and therefore accountable for the outcomes to its community. It may also address the intergenerational dependence on grant funding to deliver for communities as there would be sufficient funding for local government to deliver the range and services and infrastructure outcomes expected of it.





With regard to rate pegging, alternative approaches could include allowing the revenue diversification of local government, tax reform, fiscal equalisation processes and applying fully user pays principles. Where local government is provided the ability to access these approaches and is actively engaged in the discussions that might bring them about, then councils become increasingly accountable to their communities for their fiscal autonomy and efficiency of service delivery. Exploring alternative funding approaches would require careful consideration and engagement with local government to ensure the implications of equity, efficiency and fiscal sustainability are built into the systems and processes developed as a result.

### Special Rate Variations

The special rate variation (SRV) process is reported to allow councils to apply for additional rate increases above the standard pegged limit, subject to approval by IPART. It is stated SRVs are intended to provide councils with flexibility to address specific funding needs or investment priorities. The process however is extensive, expensive and requires extensive consultation with the community and other stakeholders as well as a rigorous assessment process.

The sheer enormity of the SRV process is in fact a deterrent for councils, with most, particularly in rural and remote areas, putting off the process until the need is dire and requires rate increases well into the double digits over multiple years. The process therefore reinforces the perception of the community that their council has done something wrong to get them to this point. The fact they do not understand the actual costs of service delivery and the dependence of rural and remote councils on grant funding, exacerbated by the fact they do not understand the complexity of the SRV process, means they are under an illusion that this is the “fault” of someone, not a symptom of a system that does not allow local government to raise sufficient funds, nor have adequate conversations with their communities, to provide the service levels expected and that are affordable by their community.

The effectiveness of the SRV process really depends on its transparency, accountability and responsiveness to community needs. The complexity of the process means it is not transparent and the accountability for councils’ inability to raise sufficient revenue is directed to local government without the state being required to admit the restrictions it places on councils due to the rate pegging system and the effect of cost shifting, also must take some of that responsibility. Councils are forced to this system in order to meet the needs of their communities. They do not enter into an SRV because they have somehow been remiss. They certainly enter the process with their eyes wide open to the community backlash that will ensue, primarily due to the ongoing rhetoric that local governments are not competent to perform their duties without the careful oversight of the higher tiers of government.



## Conclusion

This response highlights some of the complex challenges facing local councils. It also highlights the need for ground roots policy reforms to enhance the funding mechanisms and support effective service delivery.

Berrigan Shire Council feels further research into local government funding in NSW may offer insights into the strengths and weaknesses presented by other jurisdictions, including our international counterparts. It is imperative empirical studies are undertaken to fully understand the long term impacts of rate pegging in order to consider alternative funding approaches, the role of equalisation mechanisms and the implications of demographic changes on local government finance. Such research findings will support evidence based policy reform and contribute to ongoing efforts to strengthen local government in NSW.

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