

**Submission
No 26**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Ballina Shire Council

Date Received: 23 April 2024

23 April 2024



The Director
Standing Committee on State Development
Parliament House
Macquarie Street, SYDNEY NSW 2000

Dear Ms Donnelly

Re: Inquiry - Ability of local governments to fund infrastructure and services

The following submission responds to the terms of reference for the above Inquiry. The views reflect my experience in managing regional and rural councils since the late 1970s.

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

There is no simple answer to the correct level of income, with the key point being that local government should have a higher level of control over income, that then allows the council to set income levels to reflect the community's needs.

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

IPART has done an excellent job in setting the rate peg since commencing this process in 2005/06.

The peg limits have, as much as practically possible, recognised the cost pressures facing councils.

The previous system of Local Government Ministers setting the limit was subjective, and regularly resulted in decisions that did not reflect the reality of cost increases.

The latest changes to the process, implemented by IPART for 2024/25, to recognise differences between councils, has further improved the process.

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

LGNSW has regularly provided submissions on the impact of cost shifting to the State Government and the submissions are supported.

Councils are continually asked to deliver additional services to the community, as councils do provide responsive and well managed services, and residents want councils to step in when they see the State and / or Federal Government not delivering.

A current example in our shire, is flood impacted residents seeking a higher level of community and social support, following the 2022 floods.

The Department of Communities and Justice is not adequately funded to deliver a reasonable level of service and once again Council is asked to step in and help support our community by providing an expanded range of social and community based services.

At the same time, the NSW Police is asking Council to install CCTV to assist their policing activities. The cost of this is in the hundreds of thousands of dollars due to the upgraded cabling needed to connect the CCTV.

Our Council has traditionally not funded a high level of social services, preferring to focus on core services such as infrastructure.

This makes it difficult to fund additional services without an increase in revenue.

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

The rate peg has helped to ensure that there is a reasonable balance in respect to rates and charges, particularly since IPART has been the determining authority.

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

The application of the rate peg continues to have merit however the process needs to be further fine-tuned as per the following item.

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 IPART process of determining SRVs has proven to be fair and equitable, however the one concern is the difficulties that councils with comparatively low average rates face in consulting on SRVs and obtaining Councillor support.

It is almost impossible to obtain majority community support for submissions in respect to SRVs and Councillors are often reluctant to pursue SRVs, due to the negative political response.

A lack of political support can result in the long-term deterioration of infrastructure due to underfunding, which ultimately results in higher costs to the community when infrastructure fails. Often councils then have to go for far higher percentage increases to address the infrastructure backlog.

The current SRV process is extremely resource intensive and the broad level of consultation required can create unnecessary angst and discontent within the community.

The inconsistency in this process is highlighted, when for councils such as Ballina Shire, that provide water and wastewater services, there is no peg limit for water and sewer charge increases and no broad consultation required, other than the annual Operational Plan.

Increases in these charges can often have a greater financial impact on ratepayers, as well as tenants who pay water consumption charges, than rate increases.

Since the rate peg limit was introduced, councils with comparatively high average rates have benefited from the compounding of those higher figures, whereas councils that had, and have, historically lower average rates, regularly fall further behind in respect to recurrent rate revenue. This reflects the power of compounding, in financial terms, over time.

Ideally councils should be able to provide services based on a level playing field and to overcome the current anomalies a hybrid SRV model should exist based on the following:

- IPART continue to determine the rate peg
- IPART to also provide a catch-up percentage for councils with rates below a certain benchmark, possibly being the group category average.

To explain this further, the latest information for Ballina Shire Council, on the State Government's Your Council website, which is for 2021/22, is as follows

Item	Ballina	Group Average
Average Ordinary Residential Rate	1,136	1,194
Average Ordinary Business Rate	3,567	4,038
Average Ordinary Farmland Rate	1,784	2,452

IPART could provide a maximum catch-up percentage each year, for example, 2%, or perhaps higher, which would then allow councils to determine whether they wish to apply that catchup.

Based on the above figures, the average residential rate for Ballina Shire is approximately 4% below the group average.

A revised process could see Council apply, for example, an additional 2%, without having to go through the complete SRV process.

This type of approach would then only require councils with average, to higher, average rates to undertake the comprehensive SRV process.

Key issues that IPART would need to address are:

- Up to date average rate and group average figures need to be compiled and determined by IPART. This information could be added to the rating permissible income compliance reports completed each year by all councils.
- Need to determine whether the catch-up percentage applies to an overall average rate per rateable assessment, or by the property category, as per the above example.
- Need to determine whether the group average is the appropriate benchmark or IPART may be able to determine its own affordability benchmark.

This type of methodology would allow councils, who are struggling with low levels of rate revenue, to gradually move towards a more sustainable base.

g) any other related matters

It would be a mistake for the Inquiry to only focus on the rate peg, as the other major impediment to the financial sustainability of local government is State Government constraints on a wide range of fees and charges.

The NSW Office of Local Government (OLG) has previously confirmed that they only determine the following fees and charges:

- **The maximum boarding house tariffs** – not relevant for many councils and not a major revenue source
- **The maximum interest rate payable on overdue rates and charges** – based on the Supreme Court methodology (the Reserve Bank cash rate plus 6%)
- **The section 603 certificate fee** – has been updated on a regular basis
- **The statutory limit on the maximum amount of minimum rates** – part of the current IPART review – does not generate additional revenue

The NSW Department of Planning and Environment (DPE), and historical versions of DPE, is responsible for a range of fees and charges that directly impact the financial viability of councils, where there has been no indexation, or recognition of increased cost pressures, for decades.

Major examples include:

- Stormwater Management Charge – New charge introduced in 2006 that recognised stormwater works were under funded. Set at a maximum charge of \$25 per residential assessment. Never been indexed. Based on the approved rate peg increases since 2007/08, our Council would have generated an additional \$1.5m in revenue to fund essential stormwater works with simple indexation.

The 2022 floods in the Northern Rivers highlighted the lack of recurrent funding for stormwater. If councils had control over the stormwater charge, the overall condition of stormwater across the State would have been significantly improved.

- Compulsory and Non-compulsory Dividend Water and Sewer Dividends – Introduced decades ago and the compulsory dividend of \$3 per assessment has not been indexed for decades.

Indexing the compulsory dividend alone, for the same period as the stormwater management charge, would have generated around \$0.5m extra for our Council.

The non-compulsory dividend process has also been very convoluted, resulting in very few councils implementing such a dividend. It is pleasing to see that a review of that dividend is underway.

- Regulated Planning Fees – Statutory planning fees were not indexed for decades, and this has only recently been recognised by DPE, with increases in some fees of around 17%.

The estimated income foregone by our Council, through this lack of indexing, is around \$4m for the same period as the stormwater management charge. The major concern is that these fees and charges will again not be indexed for many years.

In addition to this non-indexing, DPE no longer permits councils to charge a compliance levy, with our council losing revenue of approximately \$500,000 per annum from this change.

- Section 7.11 Contributions – IPART is aware that the \$20,000 or \$30,000 cap has not been indexed since it was established. Indexing of the contributions collected by our Council during that period indicate that around \$20m in contribution revenue has been foregone.

The last two items are based on some long standing DPE ideology around maintaining housing affordability. This has proven to be incorrect.

Average land prices in Ballina Shire in 2009 were around \$70,000, with the then Section 94 charge set at approximately \$15,000 per lot.

We now have land prices at \$700,000 to \$1m and the cap at \$20,000.

The cap has made no difference to land prices, which are more a reflection of State (particularly stamp duty) and Federal Government (negative gearing, taxation benefits, Reserve Bank) policies.

What has happened is that the lack of contribution income has delayed the delivery of key infrastructure to support our communities. When that infrastructure is delivered it now must be funded from rate revenue.

In addition to this, the lack of planning revenue, from the non-indexation of fees, has limited councils' ability to employ extra resources. This then results in delays in planning assessments and rate revenue is also redirected from infrastructure maintenance and renewal to the employment of planning resources.

The cumulative impact of these types of decisions, or non-decisions, by DPE, is by my estimate, an accumulative loss of revenue of close to \$30m over the last 15 years. This equates to approximately 10% of our rate revenue.

The Inquiry needs to recognise that improving the rate peg process is only one component of the financial sustainability of councils.

This represents a personal submission, based on approximately 40 years of managing local government finances for regional councils, and reflects increasing frustration that different departments within particularly the State Government, have no understanding of how councils, who do deliver key services to their local communities, operate.

A final point I would also look to make on behalf of one of our councillors, is the need for superannuation for councillors to be mandatory. Currently this is based on a Council vote and for equity purposes it should not be a matter for debate.

Yours faithfully

Paul Hickey
General Manager