Submission No 34

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Queanbeyan-Palerang Regional Council

Date Received: 26 April 2024

27 APRIL 2024

NSW Standing Committee on State Development

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

QPRC welcomes the opportunity to provide feedback to the NSW Standing Committee to support their inquiry. The report and recommendations that arise from this review have the potential to impact ratepayers for decades to come.

In making our submission we acknowledge the previous inquiries and reviews that have been conducted over many years, and the consistent findings that:

- As a sector, local government spends more delivering services to their communities than they receive in revenue from rates, fees, charges, and grants, and
- An ongoing underspend in infrastructure renewal has been increasing the infrastructure backlog for decades.

In particular, we refer the Inquiry to:

1. Local Government and Shires Association of NSW 2006 Final Report into the Financial Sustainability of Local Government and its 49 recommendations
2. IPART 2009 Final Report on the Revenue Framework for Local Government and its 55 recommendations
3. NSW TCorp 2013 Report of the Financial Sustainability of the NSW Local Government Sector and its findings and recommendations
4. Division of Local Government 2013 Local Government Infrastructure Audit and its 17 recommendations
5. IPART 2016 Final Report on the Review of Reporting and Compliance Burdens on Local Government and its 51 recommendations
6. IPART 2016 Final Report on the Rate Peg Methodology and its 42 recommendations
7. LGNSW 2023 (and previous) cost shifting surveys

It is apparent to QPRC that the local government long term financial sustainability crisis can only be solved when all three levels of government work together with an aligned objective, and therefore we welcome the opportunity to contribute to both the NSW Parliamentary Inquiry and the Federal Parliamentary Inquiry into local government financial sustainability.

Previous enquiries have made serious recommendations, and few have been actioned by the Government. QPRC submits this response in good faith and ready to make a real commitment with the Federal and State Governments to openly discuss issues and to reform the local government sector.

QPRC Context

We acknowledge our ratepayers are being subjected to an 18% rate increase per annum for 3 years as a result of the Special Rate Variation (SRV) process that we are using to 'catchup' after many years where revenue has been less than expenditure.

The current legislative structure of rate pegging followed by large 'one-off' increases is inefficient and unfair to ratepayers, and especially awful during a cost-of-living crisis when a higher number of households have become financially vulnerable.

Regrettably, the SRV process is normal, business-as-usual in NSW, where IPART has approved an average 14 SRV applications per annum, 9 in the current financial year. All 9 councils stated "financial sustainability" as a core reason for their SRV application.

There are better, simpler, more equitable, more efficient, and transparent ways for communities and councils to fund essential infrastructure and services and the answers have already been documented in the recommendations of the 7 reviews referenced above.

QPRC is facing many of the same financial impacts as other NSW councils. We are one of 23 NSW councils that has made an operating deficit before capital in our general fund every year for the last 5 years.

QPRC is an amalgamated Council and was prevented from using the SRV process in a timely manner due to the Government's rate freeze policy. Both former councils were financially unsustainable and carried infrastructure backlogs into the merger. We have explained the causes of ongoing general fund deficits within our Long Term Financial Plan, provided as an attachment to this submission.

QPRC's 2023 Application for an SRV submitted to IPART

Council's objective with this application and associated long term financial plan is to achieve financial sustainability. For QPRC this will mean:

- achieving a break-even operating result,
- having sufficient cash to continue service provision, and
- maintain infrastructure at levels that are acceptable to the community.

Additionally, throughout this planning period and process, Council has sought to:

1. Consider affordability options for ratepayers.
2. Prepare a long term financial plan that is acceptable to NSW Treasury Corp to remove the funding risk for major projects already commenced and return Council's access to low interest TCorp loans.

Key Steps in Reaching Decision

- Council has reported ongoing general fund deficits since it was formed in 2016 and has prepared its long term financial plans with strategies to increase revenue and reduce expenses. Whilst Council has made progress and implemented parts of the financial strategy, there have been additional rising costs that have countered the financial improvements.
- Council was unable to apply for an SRV due to government policy and legislation that prevented SRVs for amalgamated Councils.

- The last two Operational Plan budgets have been very challenging and Council has made extensive budget cuts including planned efficiency improvements and unplanned service cuts that were required to balance the budget.
- Council has comprehensively reviewed its operations and budgets to find cost reductions.
- In the last two budgets, additional emergency budget cuts have been made – but are only intended to be short term budget surgery. These have included temporary service cuts, cuts to discretionary maintenance and operations, and cuts to asset renewal.
- Council was still unable to produce a balanced budget and for the first time in 2022-23 the adopted budget had an unfunded cash deficit of $1.14 Million.
- Council engaged Morrison Low to undertake an independent financial assessment, including an organisational review to identify financial improvements that could improve value for ratepayers and minimise the required SRV.
- Morrison Low presented their independent financial assessment to Council and identified that without intervention:
  - the average operating deficit for the 10 year forecast period is estimated at $20.6M per annum
  - the general fund has insufficient money to maintain service levels or asset renewals at levels the community requires
  - inadequate infrastructure renewal will result in the degradation of community infrastructure
  - under funding for expected growth and expanded services required for the growing population.
- Council resolved to place its revised long term financial plan and delivery program on public exhibition with three proposed SRV options. Consultation ran from 16 November – 31 January and unpacked three scenarios that use different approaches to return QPRC to a sustainable financial position.
- Under Scenario 1, the general rate will increase by 12% every year for three years (including the rate peg). This would be a cumulative increase of 41%. Following this, rate increases will follow the rate cap amount set by IPART. This scenario requires significant cuts. There would need to be a strategy to reduce expenses by $12 million per year.
- Under Scenario 2, rates will increase by 18% every year for three years (including the rate peg). This would be a cumulative increase of 64%. Following this, rate increases will follow the rate cap amount set by IPART. This scenario will require cuts to services and annual savings of $5.5 million per year.
- Under Scenario 3, rates will increase by 28% for the first year, 25% for the second year and 23% for the third year. This would be a cumulative increase of 97%. Following this, rate increases will follow the rate cap amount set by IPART. This scenario fully funds the current level of services and includes some additions to environmental programs and infrastructure renewal.
- The results of community consultation were reported to Council in February 2023 and Council resolved to apply for an SRV of 18% every year for 3 years and cut expenditure in accordance with scenario 2 of the LTFP.

NSW Local Government Context

Whist the NSW Audit Office now audits all NSW Councils, it does not report on the sector's financial results as other State Audit Offices do. However, the following information has been compiled by LG Solutions (a local government financial software provider.)

LG Solutions have prepared some analysis of the published financial results for the 5 years to 30 June 2022. They have shown that 74 NSW Councils have had 3 years of operating deficits (before capital) in the past 5 years[1]. LG Solutions have ranked all NSW Councils from highest to lowest financial sustainability rating, based on before capital operating surplus as a percentage of rates. The bottom 23 Councils have had 5 years of operating deficits (before capital) out of 5.

LG Solutions Analysis: Bottom 22 NSW Councils based on 5 years general fund operating result before capital

	General Fund Operating result *(excl. capital income, IPP&E revaluations thru the P&L, JV's and FAG in advnce)*					
Rank	**Council**	**21/22**	**20/21**	**19/20**	**18/19**	**17/18**
107	Cessnock City Council	-5%	-18%	0%	-8%	-11%
108	Broken Hill City Council	-9%	-5%	-33%	-6%	-36%
109	Tamworth Regional Council	-11%	-15%	-10%	-12%	-16%
110	Camden Council	-13%	-35%	-22%	-23%	-15%
111	Murrumbidgee Council	-16%	-43%	-38%	-42%	-73%
112	Glen Innes Severn Council	-17%	-67%	-24%	-31%	-53%
113	Snowy Monaro Regional Council	-17%	-115%	-31%	-32%	-25%
114	Wingecarribee Shire Council	-18%	-7%	-2%	-3%	-6%
115	Bathurst Regional Council	-22%	-13%	-24%	-35%	-5%
116	Byron Shire Council	-23%	-45%	-27%	-27%	-13%
117	Hilltops Council	-24%	-48%	-78%	-64%	-40%
118	Wagga Wagga City Council	-28%	-23%	-23%	-19%	-22%
119	Queanbeyan-Palerang Regional Council	-28%	-11%	-9%	-13%	-22%
120	Weddin Shire Council	-30%	-3%	-18%	-16%	-53%
121	Richmond Valley Council	-35%	-17%	-20%	-54%	-36%
122	Lismore City Council	-48%	-40%	-4%	-9%	-7%
123	Clarence Valley Council	-50%	-39%	-42%	-25%	-21%
124	Dungog Shire Council	-55%	-45%	-50%	-57%	-60%
125	Gwydir Shire Council	-58%	-15%	-41%	-15%	-38%
126	Cootamundra-Gundagai Regional Council	-60%	-70%	-65%	-26%	-107%
127	Snowy Valleys Council	-68%	-42%	-55%	-18%	-33%
128	Liverpool Plains Shire Council	-75%	-105%	-105%	-95%	-115%

A Better Approach

The changes that need to be implemented to improve local government financial sustainability and infrastructure funding have been well-documented and are detailed in published recommendations of the 7 reports listed in the introduction to this submission.

---

[1] Note these operating results have been adjusted before capital income, before fair value impairments, before joint venture results and with financial assistance grants normalised to 100% (regardless of prepayments.) The percentage results represent operating result relative to rates and annual charges income.

The recommendations can be grouped into 5 areas. All of these improvements will require additional processes for transparency and accountability to ensure successful implementation.

1. A new local government revenue framework that gives councils autonomy to work with their communities to raise the revenue required to deliver community priorities.

2. Improved asset management to be facilitated by better reporting and measurement of council results including consistent definition of asset conditions, and audited infrastructure statements.

3. Cost shifting from Federal and State Governments to be reviewed annually and funded.

   The definition of cost shifting is intended to include situations where services are shifted from any other level of government to local government and where previous levels of grant funding for the provision of services is reduced in real terms over time. For example, if funding does not keep up with the cost of providing services and infrastructure.

4. A review of Financial Assistance Grants to Australian local government including to explore options to restore the revenue base to historical levels.

5. Reduced red tape and improved cooperation between three levels of government. This may require structural reform to ensure that all levels of government are recognised and have a voice at the table.

QPRC recommends the following specific issues impacting councils' financial sustainability be considered with this review:

- Better targeting eligibility criteria for rates exemptions. This would help to ensure ratepayers do not subsidise the costs of providing council services to properties where it is not justified on efficiency and equity grounds.

- Councils should be able to choose between the Capital Improved Value (CIV) and Unimproved Value (UV) methods as the basis for setting rates at the rating category level. A council's maximum general income should not change as a result of the valuation method they choose.

  Our submission to the IPART Review of the Local Government Rating System noted that this is a substantial change and additional consultation is required, including analysis of the impact on different socio-economic groups.

- Certain fees for Council services are set by various NSW Government Acts and Regulations, for example development approval fees and stormwater management charges. Financial sustainability impacts should be considered for any statutory charges that may not reflect the costs incurred by councils in providing statutory services.

- A comprehensive state-wide evaluation of existing pensioner concessions should be conducted. Additional initiatives should also be explored to enhance support for vulnerable ratepayers. Clear communication and proactive promotion of available assistance options offered by councils are essential.

- Where councils can demonstrate good financial and asset management the rate peg should allow additional flexibility so that communities can engage with their councils to resource the draft four year delivery program and the community strategic plan that they want.

  The 2009 IPART Review into the Revenue Framework for Local Government includes a proposal to provide autonomy to councils and communities to establish revenue policy to match expenditure plans as long as their councils can demonstrate they satisfy performance measures.

- Form a working group led by the Office of Local Government to implement coordinated asset management capacity building programs and clearly defined and specific asset management reporting for the sector.

- Investigate how cost shifting from other levels of government to local government impacts financial sustainability and the consideration of consider funding mechanisms to take account of these cost transfers.

- Investigate the equity and efficiency of the current systems of grants to local government financial sustainability against the proposition that State and Federal Government increase untied transfers to councils to manage the priorities on behalf of their local communities.

- Consider climate change impacts on local government financial sustainability. Councils don’t have enough funding to both respond to extreme weather events and invest in lowering greenhouse gas emissions to reduce the risk of future adverse weather events. Councils need core funding for this work. Related to this, the rising cost of insurance needs to be addressed.

- A review of the impact of population growth on local government financial sustainability, especially whether the i) structure of developer contributions and ii) the new population factor in the rate peg are effectively addressing these.

Conclusion

Thank you for the opportunity to provide this submission to the Inquiry into the ability of local governments to fund infrastructure and services. The Inquiry is important and has the potential to move NSW to a holistic approach to review of councils' financing model in NSW, improving financial resilience, efficiency and sustainability.

If you have any queries, please do not hesitate to contact me

Yours sincerely,

Kate Monaghan
Director Corporate Services
Queanbeyan-Palerang Regional Council

Extract: QPRC Long Term Financial Plan Page 13 - Review of Financial Sustainability Impacts

Figure 3: Root Cause Analysis – Financial Sustainability