

**Submission
No 36**

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

Organisation: Port Macquarie-Hastings Council

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Standing Committee on State Development
Legislative Council
Parliament of New South Wales
6 Macquarie Street
Sydney NSW 2000

Dear Madam/Sir

SUBMISSION TO INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

I write to provide a submission to the Standing Committee on State Development's (the Committee's) inquiry into the ability of local governments to fund infrastructure and services (the Inquiry). Port Macquarie-Hastings Council welcomes the Inquiry as an opportunity to examine and make recommendations on the financial model for councils in New South Wales.

The terms of reference identify a range of important matters that require examination and recommendations for meaningful action. I would like to emphasise some critical issues that are impacting the ability to sustainably fund infrastructure and services for local government and warrant particular attention through the Inquiry.

Cost shifting from other levels of government

Cost shifting from other levels of government is significantly affecting the ability of councils to fund infrastructure and services within current revenue sources. It involves imposing responsibility for providing a service or function onto local government without the provision of corresponding funding or the conferral of corresponding revenue raising capacity other than out of general rates.

The seriousness of this issue was highlighted in the 2021–22 Cost Shifting Survey that was undertaken by Morrison Low on behalf of Local Government New South Wales. It identified that cost shifting onto local government totalled \$1.4 billion in 2021–22, or more than \$460 per ratepayer annually.¹

The increasing burden of these costs is threatening the ability of councils to deliver the infrastructure and services that communities need and expect. Action is required to end this practice and address the negative impact that past decisions have had on councils in New South Wales.

Declining size of the Financial Assistance Grant relative to Australian Government revenue

The Financial Assistance Grant from the Australian Government is an important source of funding for local government in New South Wales. Financial Assistance Grants were originally implemented in 1974 as a base-load mechanism for horizontal fiscal equalisation in local government.

¹ <https://lgsw.org.au/Public/Public/Advocacy/Cost-shifting.aspx>

However, the Australian Local Government Association notes that Financial Assistance Grants declined from 1.2 per cent of Australian Government revenue in 1993-94 to 0.5 per cent in 2021-22.²

A detailed review of how changes in the Financial Assistance Grant compare to changes in input costs for infrastructure and services over time is required, including the significant increase in material and wage costs and the impact of the freeze in indexation between 2014 and 2016.

The Inquiry should examine this matter and consider recommendations for action by the New South Wales and Australian Governments to ensure the revenue base for local government is not eroded compared to other levels of Government.

Capital grants are not accompanied by necessary operating funding

Councils play a significant role in delivering and maintaining critical infrastructure for the community. In doing so, they are heavily reliant on capital grants for projects which are provided by other levels of government.

This contribution is welcome; however, too often upfront contributions of capital are not matched with ongoing operating contributions to support maintenance and ongoing provision of infrastructure and services.

Ongoing realisation of benefits from community infrastructure projects is dependent upon ongoing funding to operate and maintain assets. Without ongoing operating funding from other levels of government, capital projects risk becoming a financial burden on local communities.

The Inquiry should consider the impact this has on councils, and recommendations for a more sustainable approach to funding community infrastructure and services.

Adoption of the Independent Regulatory and Pricing Tribunal Rate Peg by councils

The Independent Regulatory and Pricing Tribunal (IPART) currently determines the percentage amount by which councils may increase their general income for the year through the Rate Peg. The Rate Peg reflects the estimated increase in costs for each council to maintain its existing level of service delivery and is not designed to provide funding for new or improved services.

Given that the Rate Peg is designed merely to prevent service delivery from going backwards, the Inquiry should consider whether the Rate Peg determined by IPART should be automatically applied to council rate bases rather than being subject to council resolution.

Review of the Rate Peg methodology

IPART's Rate Peg methodology was reviewed in 2023 to more accurately reflect the increase in costs for each council, better account for the diversity among councils and ensure ratepayers contribute only to costs relevant to their local government area.

² <https://alga.com.au/app/uploads/Final-Report-SGS-Research-Aug-2022.pdf>

The improvements through this process were welcome, however further independent review of the methodology is needed. Councils face escalating costs and often significant maintenance and asset renewal backlogs which are not adequately reflected through the Rate Peg.

The Inquiry should examine how these matters can be better reflected through the Rate Peg Framework so that councils are properly compensated for real cost increases and able to address maintenance and asset renewal backlogs.

Engagement with regional communities is vital to the Inquiry

In addition to examination of these issues, I encourage the committee to hold some of its hearings for the Inquiry throughout regional New South Wales. This will promote vital engagement and recognise the important voice of regional councils in providing infrastructure and services to local communities. The Port Macquarie-Hastings region is an excellent location for such engagement and has a variety of venues that could accommodate the Committee such as the outstanding facilities of The Glasshouse in Port Macquarie.

Thank you for the opportunity to contribute to this important inquiry. Port Macquarie-Hastings Council looks forward to the findings and recommendations of the Inquiry and action to improve the financial model for councils in New South Wales.

Yours sincerely

Dr Clare Allen
Chief Executive Officer