

Submission
No 42

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Hay Shire Council

Date Received: 24 April 2024

24 April 2024

Committee Secretary
Standing Committee on State Development
Legislative Council
Parliament House
SYDNEY ACT 2000

Re: Inquiry into the ability of Local Government to fund infrastructure and services

We refer to minutes from NSW Legislative Council, 19th March 2024, on State Development Standing Committee inquiry to examine the ability local governments to fund infrastructure and services. Hay Shire Council, at its meeting 23rd April 2024, resolved to make a submission to the inquiry. We make comments as follows:

- Hay Shire Council welcomes the inquiry and supports the initiative to investigate the sustainability and impacts on Council's ability to fund infrastructure and provide service delivery to our communities.
- Overall, Hay Shire Council believes the Terms of Reference (ToR) are appropriate and focusses on the issues that local government is facing, particularly regional and rural councils.
- Local government provides efficient, effective and value for money service delivery. This is evidenced by the high liveability of the people of Hay and the minimal complaints received by Council.
- Successive State and Federal governments over an extended period have reduced, removed, or transferred services, even though communities still required them. This encouraged disaffected and desperate councils to delve into non-core businesses.
- Subsidies related to services for health, aged accommodation, early childcare/education, and community transport – which assist to maintain the social fabric of communities – have become commonplace on council's budgets and service delivery. Add the tyranny of distance found in rural areas, and even more community pressure is placed on local government to fill the gaps after abandonment by the other two tiers of government.
- The NSW Local Government Association recently published a report on cost shifting which tabled the amount at \$460 per rate assessment. Providing the aforementioned (non-traditional) services wouldn't be so challenging, if at the onset, local government was given the financial powers to raise revenue to offset the expenses. Almost always, the cost is shifted without the provision of ways of increasing the income.
- 'Silent cost shifting' is occurring additional to this, via legislative changes where Local Government is forced to take on additional areas of service, which is adding considerable costs to non-recoverable items such as staffing, insurance etc and also

the spin-off costs. This is evidenced by areas now the responsibility of councils such as companion animals, environmental compliance, emergency services, biosecurity, which were never the original responsibility of local government.

- The NSW Local Government Act in 1919 was 344 pages long. The Act, as it stands now, is 749 pages long, excluding Schedules. There is a true and genuine cost to comply with twice as many legal requirements. This is a point not often acknowledged by those introducing the never-ending stream of legislative amendments.
- While NSW had employed a form of rate-pegging between 1901 and 1952, which was discontinued due to its 'impracticality', the genesis of the modern method of rate-pegging may be found in the 1976 state election campaign. Under the Local Government (Rating) Further Amendment Bill, an interim type of rate-pegging was re-introduced in 1977 and further refined into its contemporary form in 1978. While rate pegging achieved some of what it was initially designed to do, historically except for few occasions, the cap was set below inflation. Moreover, the discrepancy is even larger than it might first appear if one considers a true measure of local government inflation rather than the Consumer Price Index. Cumulative effect of rate pegging over the past 20 years shows Hay Shire Council's rate income compared to inflation is \$400,000 less, equating to 15% of the 2023/24 rate income.
- The IPART final report into the Rate Peg Methodology has encouraging aspects include the CPI factors used in the calculations, including employee costs, is forward looking rather than backward looking which often has a lag, as well as a factor for ESL contribution increases. However, there appears though there is a gap between cost increase in 2022/23 and 2023/24 year and the set rate peg will not be able to be caught up. Our calculations Hay Shire Council is forgoing approx. \$180,900 in rate income lost in 2024/25 as a result of the change in methodology at the time of the highest inflation seen in the last 30 years. IPART's comment that Councils are able to apply for a Special Rate Variation (SRV) to cover the shortfall is disingenuous at the least.
- Without grant funding local government in regional and rural areas would not exist. Financial Assistance Grants (FAGs) and Roads to Recovery (R2R) will make up 41% of Council's revenue in 2024/25, compared with 33% from Rates & Charges. These operating grants are essential for rural councils' financial sustainability.
- FAGs were established by the Whitlam Government in the 1970's to assist disadvantaged Councils. Over time it has seen this intent eroded with now 10 of the largest Councils in metropolitan areas in NSW receiving over \$100M in FAGs. Rural and remote councils do not have the ability to generate other revenue, such as parking and facility user fees, and as such relies on operating grants like FAGs for survival. Hay Shire Council is not asking for a bigger FAGs bucket but an equitable redistribution of available funding to councils with the most disadvantage, like Hay. An increase in FAGs allocation of 5% over 5 years would see Hay Shire Council achieve a positive operating result without the need to ask its ratepayers to pay more. We request a change to the FAGs distribution formula to assist rural and remote councils.
- Due to large areas with low population, and subsequently low-rate base, rural councils are unable to generate additional own source revenue and rely on grant funding for its very survival. This is particularly relevant for asset renewals such as the town swimming pool replacement, as well as aging water and sewer assets. A continuation

of programs such as Safe & Secure would greatly assist Local Water Utilities (LWU's) to renew major water and sewer assets when required. Often rural councils continue to defer their priorities as they simply cannot afford them.

- Given the removal of services by other governments, the effective halving of FAGs, the more onerous compliance and legislative requirements, and the gap between rates caps and inflation, rural or remote councils, over the last thirty years, have balanced budgets by reducing their largest expense: transportation (roads). In 1995, rural or remote councils spent 58% of their budgets on transportation. In 2024/25 Hay Shire Council forecasts to spend 30% of its budget on transportation.
- As stated above, Councils now provide many services to the community that it was never set up or funded to undertake, such as youth and seniors services, childcare, economic development, tourism, health (provision of facilities for GP's) and aerodromes. These places added pressure on an already limited budget to continue to maintain service infrastructure requirements, without the ability to raise additional revenue to cover the costs of delivering these services.
- The decline in volunteers in the community often results in local government having to pick up the shortfall, which places further pressure on overall service delivery capability. This is evidenced by Council now having to undertake maintenance of showgrounds, recreational areas, museums and community halls, which were in general previously undertaken by volunteers.
- Emerging industries such as large-scale renewables are placing added pressure on rural communities through worker accommodation demands and impacts on transport routes.
- The attraction and retention of a skilled workforce is a real challenge for rural councils. Hay Shire Council has worked hard on its staff attraction and retention with a grow your own philosophy and other initiatives, which has resulted in currently zero vacancies in the organisation. Local government often requires specialist skills not necessary in other sectors, such as Planners, Building Surveyors, Water Treatment Plant Operators, Rangers, Chief Finance Officers, with all taking years to train and develop the mandatory skills. Being financial sustainable allows councils to compete against other industries in the tight labour market and implement a grow your own philosophy.
- We see local government's partnership with the State Government as vitally important to the wellbeing and liveability of the communities of NSW. Together we can progress towards a more healthy, secure, sustainable, cohesive and prosperous State, particularly in rural and remote regions like Hay.

Thank you for your consideration of our comments. Hay Shire Council is willing to participate in further discussions if required.

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

Yours faithfully

David Webb
General Manager