

**Submission
No 48**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Sutherland Shire Council

Date Received: 25 April 2024



23 April 2024

Hon Emily Suvaal MLC
Chair
Standing Committee on State Development
Legislative Council
NSW Parliament

Dear Ms Suvaal,

Sutherland Shire Council welcomes the NSW legislative Council Standing Committee inquiry into the ability of local governments to fund infrastructure and services.

Our submission addresses each of the terms of reference for the inquiry.

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

Sutherland Shire Council offers a diverse range of services that extend beyond traditional boundaries to meet the evolving needs of its community. Council strives to provide valued services and infrastructure through various funding sources, including rates and annual charges, user fees, and developer contributions. To adequately meet the needs of the community, Council requires sufficient income to support for effective service provision and ensure its long term financial sustainability. We see the following factors as barriers to achieving adequate levels of income to meet the needs of our community:

- *Rates*

The current rate pegging system does not recognise the unique requirements of each community, or provide sufficient flexibility to respond to community expectations and willingness to pay. Whilst we support the recent changes to the IPART rate peg model, the annual increase remains generally below the actual increases in many of our essential costs; it does not consider newly emerging cost areas such as cyber security; and does not provide sufficient funding for the maintenance and renewal of existing infrastructure. Whilst the recent improvements are welcomed, they do not address historical deficiencies that have led to an inadequate starting rate base.

- *User Charges & Fees*

Many services required to be delivered by Council are funded in part by regulated and statutory fees (for example, development application fees, 603 certificates, and stormwater charges). Most council services do not achieve full cost recovery, and this gap increases year on year as costs escalate (eg employee costs, software licences) whilst many regulated and statutory fees remain static for years at a time.

- *Developer Contributions*

The existing developer contributions fails to provide councils with sufficient revenue to meet the lifecycle costs of infrastructure. Restrictions on the use of the funds and maximum caps on development contributions constrains Council's ability to fund community infrastructure attributed to growth of development and populations. Further, whilst developer contributions provide some funding for capital costs in new development, it does not provide for recurrent costs, and councils are required to fund the ongoing maintenance, operating and depreciation expense associated with new infrastructure. An alternative funding model is required.

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

The rate base was established four decades ago, and the annual rate peg applied each year has failed to keep pace with actual cost increases, leading to a consistent decline in revenue relative to costs for Sutherland Shire Council. The historical approach did not keep pace with inflation or reflect actual costs incurred by Council; had a significant lag in calculation of cost increases; did not factor in increasing costs of attracting and retaining skilled staff; or accommodate increased maintenance and renewal costs associated with an increased infrastructure base due to population growth.

Whilst the recent changes to the rate peg methodology are welcome, it does not address the cumulative financial impact of an inadequate indexation system. A correction is needed to re-base the years of deficient pegged increases, and base rates need to be reassessed to check the appropriateness of the value today.

Without adjustments, Council will continue struggling to cover rising operational and capital expenses with insufficient revenue from rates. Grant funding from other government levels often covers only capital investment, leaving Council to fund asset maintenance from existing rates, contributing to infrastructure backlogs.

The prevalence of Special Rate Variation (SRV) requests indicates systemic flaws in the local government financial model. A comprehensive review of council finances should encompass all revenue streams and cost factors, including rates, domestic waste charges, and emerging responsibilities like cybersecurity and organic waste collection. Moreover, NSW councils must build resilience into infrastructure to withstand future hazards, such as those arising from climate change, and develop capabilities to address external impacts affecting long-term strategic goals.

(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

Financial sustainability is crucial for local government, ensuring the long-term viability of essential services and infrastructure while maintaining financial responsibility. It involves effectively managing financial resources, maintaining adequate reserves, and implementing strategic financial planning.

Cost shifting has a direct impact on local government service delivery and financial sustainability. The cost-shifting survey recently completed by Local Government NSW (published in November 2023) found a total cost-shift to Councils of \$1.36 billion in 2021-22. This is an increase of \$540 million since the last report from the 2017/18 financial year. It is equivalent to over \$460 annually per ratepayer.

Key cost-shifts include libraries, the waste levy, rates exemptions, regulatory functions, emergency services contributions, and pensioner rate rebates. Most recently the NSW government has announced that the Beachwatch program, which tests water quality at Sydney

beaches, is in future to be funded by Sydney councils. Given that Sydney councils have no control over sewage outfalls (the major source of bacterial contaminants at beaches, and controlled by Sydney Water), there appears to be no justification for imposing this cost on metropolitan councils.

In order to achieve a sustainable financial position in the short to medium term, Council must balance its budget around cost-shifting, which is achieved through reduced or underfunded services, and or deferral of asset maintenance and renewal.

(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 imposes significant constraints on meeting infrastructure and community service needs in local areas. Councils struggle to address infrastructure backlogs (increasing from \$3.8 billion in 2020-21, to an estimated \$5.6 billion in 2021-22) and replace aging community assets due to financial limitations associated with the rate peg.

Lack of adequate funding available to councils leads to a reduction, or gap in essential community services such as childcare, playgrounds, and libraries, perpetuating digital disadvantages and impeding educational and employment opportunities. Shortages of affordable housing, particularly for essential workers, further compound social and economic challenges.

Rate-pegging has cumulatively eroded Councils' financial sustainability, hindering operational services, infrastructure maintenance, and asset management. Rates failing to keep pace with inflation exacerbate financial constraints, restricting revenue without regard to rising costs. Combined with other financial pressures, the rate peg becomes an unhelpful mechanism for Council, impeding our ability to adequately fund essential services and infrastructure, as well as our capacity to keep pace with changing community needs and evolving service expectations.

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

Council acknowledges the need for a framework that supports the achievement of financial sustainability of local government, whilst also mitigating the risk of unreasonable rate increases. However, the current system of rate pegging is not the most suitable mechanism for achieving this, and councils should be provided with greater autonomy and flexibility in their rating structure.

The IPART has already identified a suite of alternatives to enhance financial sustainability including:

- Allowing councils to use the Capital Improved Value land valuation method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type;
- Better targeting eligibility criteria for rates exemptions;
- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services, so councils do not need to use rates income to cover the costs of providing these services; and
- Developing a mechanism to enable councils found to have insufficient base rates income to achieve financial sustainability.

In the alternative, continued improvements by IPART should be supported. IPART has proposed adjustments to the rate peg on an as-needs basis for new external costs, recognising that climate

change, cyber security and servicing of new community facilities are important cost items. We suggest any review should closely involve councils, to best understand new and emerging costs beyond those currently being contemplated.

(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

Council acknowledges the work that has been done by IPART over the years to improve the SRV process and welcomes the opportunity to work with the NSW Government further improve it.

As referenced earlier in our submission, there are both ongoing and historical challenges with the rates base and peg system, as well as the other primary income sources for local government. These limitations have meant that councils applying for SRVs are doing so typically to fund cost increases above the rate peg, asset maintenance and renewal, to maintain existing services, and achieve financial sustainability.

Unfortunately, pursuing an SRV may create a community perception that their council is doing something out of the ordinary, wrong or has poor financial management; when the process is instead a key mechanism to fund population growth, developer contributions infrastructure, community services and other services expected by a well governed organisation, in order to support an engaged and diverse local community.

(g) other related matters

The local government procurement framework is outdated and not fit for purpose. Local governments achieve cost savings and better efficiency by pooling resources more often for the procurement of common good and services, however the current tender threshold drives most procurements into a disproportionately expensive administrative process. Significant opportunities for cost savings and operational efficiencies could be realised by streamlining procurement guidelines, and rightsizing tender thresholds, whilst maintaining appropriate controls for large, complex and high value procurements.

Council thanks the Standing Committee for the opportunity to make a submission on such a critical subject. Should you require further information in relation to Council's submission, please contact
(Acting Chief Financial Officer)

Yours sincerely,

Clare Phelan
Acting Chief Executive Officer