

Submission
No 52

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Riverina and Murray Joint Organisation

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NSW Legislative Council's Standing Committee on State Development
Ability of local governments to fund infrastructure and services

Dear Emily Suvaal – Committee chair

Submission from the Riverina and Murray Joint Organisation to the NSW standing committee on State Development

The Riverina and Murray Joint Organisation appreciates the opportunity to share its knowledge and commentary to this important inquiry. Our submission draws upon vast experience from our member councils and seeks to address the myriad of challenges in funding and sustaining essential community services and infrastructure, whilst offering commentary on solutions.

Joint Organisations (**JOs**) were proclaimed in May 2018 under the NSW Local Government Act 1993. The Riverina and Murray Joint Organisation (**RAMJO**) represents over 152,000 people covering an area of more than 80,000sq kms, comprising the eleven Local Government Areas of *Albury, Berrigan, Carrathool, Edward River, Federation, Griffith, Hay, Leeton, Murray River, Murrumbidgee and Narrandera*.

Tasked with intergovernmental cooperation, leadership and regional prioritisation, JOs have consulted with their stakeholders to identify key strategic regional priorities. The RAMJO Statement of Strategic Regional Priorities can be found here: [2022-RAMJO-STATEMENT-OF-STRATEGIC-REGIONAL-PRIORITIES-WEB.pdf \(nsw.gov.au\)](#)

Councils across NSW provide necessary services and facilities to their local communities and in many cases, to their surrounding communities also. It is important to acknowledge and differentiate the diversity in services, facilities and infrastructure provided by rural and regional city councils, in comparison to metropolitan councils, noting that this submission has a focus on the issues affecting rural and regional councils within the RAMJO footprint.

It is understood that this inquiry process supersedes that by the Independent Pricing and Regulatory Tribunal (**IPART**) and that the Terms of Reference are as follows, with a focus on:

- a. *The level of income councils require to adequately meet the needs of their communities*
- b. *If past rate pegs have matched increases in costs borne by local governments*
- 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*
- d. *Assessing the social and economic impacts of the rate peg in NSW for ratepayers, councils, and council staff over the last 20 years and compare with other jurisdictions*
- e. *Comparing the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff*
- f. *Reviewing 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*
- g. *Any other related matters.*

To facilitate the clarity of this submission, RAMJO accepts the term financial sustainability to mean “a local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.”¹

1. Financial Sustainability Challenges

Over time, successive State and Federal governments have scaled back, eliminated, or shifted services, despite ongoing and often increasing community needs. This has resulted in the need for rural and regional councils, often disaffected and financially strained, to venture into non-core businesses to compensate for these financial shortfalls.

Within the RAMJO region, member councils provide a diverse range of services including airports, water and sewerage treatment, childcare, housing and aged services, far surpassing the outdated and misleading adage that local governments sole responsibilities are ‘roads, rates and rubbish’. These diverse services are mandated by diverse legislation, which impose significant, everchanging and increasing costs to manage. Local Government NSW ² (LGNSW) has chronicled this escalating challenge and its financial implications. In addition requiring funds for services and facilities, rural and regional councils are required to allocate or anticipate funds for obligations that may be imposed by the State, such as *Disaster Adaptation Plans* under the *NSW Reconstruction Authority Act 2022* and the compulsory Audit Risk and Improvement Framework under the *Local Government Act 1993*, to name but a few.

Additional financial sustainability challenges are be further explored as follows:

- 1.1 *Revenue Sources*: Councils in rural and regional areas face significant challenges in generating sufficient revenue. Rates typically constitute only a part of a council’s total income, with substantial reliance on external grants and contributions, which are often unpredictable and inadequate. Of further significant impact is the reduction to the percentage of *Local Government Federal Assistance Grants* as a share of federal taxation revenue, which has over time further hindered rural and regional council’s ability to maintain financial sustainability. An increase back to 1% of Commonwealth taxation revenue, is called for and supported by RAMJO.
- 1.2 *Rate Pegging Issues*: The current rate pegging system restricts local government’s ability to adjust rates in line with actual cost increases and service demands, greatly hindering council’s financial autonomy and capacity to respond to community needs effectively and adequately plan for the future. Further impacting the financial sustainability challenges of rural and regional councils, as application of the rate peg relies on a special rate variation (SRV) process to gain IPART approval to increase rates above the rate peg, the SRV process is resource intensive, politically contentious and at times a health and safety risk due to an increase in stress on council staff and councillors as a result of community opposition to a potential rate increase. This is particularly true for smaller rural communities. It is abundantly clear that an alternative approach is required, one that recognises the unique challenges of rural and regional councils.

¹ TCORP Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations & Analysis” 2013 found Eurobodalla Shire Council - Attachment 4 - TCorp Financial Assessment.PDF (nsw.gov.au)

² Cost_Shifting_Summary_2018.pdf (lgsw.org.au)

1.3 Regulatory Duplication: This leads to long lasting strain on already lean rural and regional council's resources. Agencies such as the NSW Department of Climate Change, Energy, the Environment and Water often double regulate under their frameworks, for example their *Regulatory and Assurance Framework* duplicates the mandatory Integrated Planning and Reporting Framework (**IP&R**) as mandated by the *Local Government Act 1993*. If NSW Government agencies understood and worked with the existing IP&R regulatory framework seeking to embed their aspirations into IP&R, state agencies are more likely to realise better outcomes, saving time, confusion and tax-payer funds whilst lightening the administrative load of rural and regional councils.

1.4 Cost Shifting and Increased Responsibilities: There is a growing trend of cost shifting from state and federal governments to local governments without corresponding funding, burdening local budgets and impacting service delivery.

Per the Terms of Reference in examining if past rate pegs have matched increases in costs borne by local governments, RAMJO understands that LGNSW possesses significant data³ pertaining to increasing costs imposed on local governments associated with, for example, the Emergency Services Levy, costs of mandatory Audit Risk Improvement Committees and their related activities, increases to the Local Government Award and the increasing severity and frequency of natural disasters, to name a few.

2. Impact of Funding Limitations on Services and Infrastructure

Funding limitations pose significant challenges to rural and regional councils, leading to a range of negative impacts that can hinder their ability to effectively serve and support their communities. These financial constraints result in a myriad of issues, including but not limited to deteriorating infrastructure and reduced public services, to compromised economic growth and even community safety. This lack of funding and financial sustainability forces rural and regional councils to make difficult decisions about resource allocation, which often impact the most vulnerable populations and stall vital community development initiatives. As rural and regional councils increasingly struggle to balance budgets and increasing demands, the consequences of underfunding become more pronounced, affecting every aspect of operations and service delivery, including:

2.1 Infrastructure Maintenance and Upgrades: Limited funding has led to a backlog in essential infrastructure maintenance and upgrades, impacting roads, bridges and public facilities. As required maintenance and upgrades are postponed, the costs associated with said works increases.

2.2 Provision of Facilities: Facilities such as libraries, community centres, sporting and aquatic facilities are under increasing strain, with rural and regional councils struggling to meet growing demands amidst increasing running costs and financial constraints.

2.3 Increased Operational Inefficiencies: Limited funds can prevent the adoption of new technologies or processes that can help improve efficiency. As a result, operations may become less effective, costing more time and money in the long run.

2.4 Strain on Staff and Resources: Financial constraints can lead to hiring freezes, layoffs, or insufficient resources for staff, affecting morale and productivity. It may also hinder the ability to attract and retain skilled workers.

³ [Cost_Shifting_Summary_2018.pdf \(lgsw.org.au\)](#)

2.5 Impact on Economic Growth and Community Development: Insufficient investment in community services, facilities and infrastructure can stifle economic opportunities, affecting local businesses and deterring new investments in the area.

2.6 Higher Long-Term Costs: Ignoring or delaying necessary expenditures can lead to higher costs down the line, whether due to more severe infrastructure failures or because of increased demand on overburdened services.

2.7 Public Safety Concerns: Underfunding can directly impact areas crucial for public safety, such as road maintenance, emergency preparedness, and law enforcement, potentially leading to higher risks and vulnerabilities for the community.

Overall, the impacts of funding limitations highlight the critical need for adequate and sustained financial support to ensure the effective functioning and long-term viability of essential public services and infrastructure.

3. Proposed Solutions

RAMJO's member councils are committed to continuing the delivery of high-quality services, facilities and infrastructure for its communities in line with each member councils unique Community Strategic Plan. However, it is evident that the current financial setting significantly hampers member councils ability to do so effectively.

RAMJO urges the inquiry to consider our recommendations as outlined below, for funding reforms that will empower rural and regional councils to better serve their communities now and into the future.

Furthermore, RAMJO reiterates its wiliness to further engage with the Committee and relevant State agencies and stakeholders to explore these solutions in further detail.

3.1 Reform of Financial Assistance Grants: RAMJO calls for the restoration of *Local Government Financial Assistance Grants* to at least 1% of Commonwealth taxation revenue, to better reflect the current needs and costs faced by rural and regional councils, as well as moving away from the legislated minimum grant requirements and the reinstating of the three (3) year indexation previously paused to support the sustainability of rural and regional communities based on greatest need.

3.2 Reform of the Rate Pegging System: A more dynamic rate pegging system that allows local governments to adjust rates based on real-time economic conditions and cost pressures is crucial.

3.3 Increased understanding and use of, the NSW Local Governments IP&R Framework: A whole of NSW government commitment to understanding and utilisation of the IP&R framework, would result in efficiencies and cost saving, and a reduction in administrative burdens of rural and regional councils.

3.4 Support for Innovative Funding Models: Encouragement and support from state and federal governments for innovative funding mechanisms, including bonds and special levies for specific projects, could enhance rural and regional councils funding capabilities.

Conclusion

Thank you again for your consideration. RAMJO is hopeful that the work conducted in this review will lead to genuine and necessary changes, supporting the ability of local governments to fund infrastructure and services for their communities. RAMJO commends the NSW Legislative Council's Standing Committee on State Development and the NSW government for taking on the challenge.

Should you wish to discuss this submission further, please contact Yvonne Lingua

Sincerely

Yvonne Lingua
Executive Officer
Riverina and Murray Joint Organisation