

**Submission  
No 56**

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

**Organisation:** Gunnedah Shire Council

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**Inquiry: Ability of local governments to fund infrastructure and services**

**Submission by Gunnedah Shire Council**

To Whom it May Concern

Please find Council's response to the above inquiry below.

We appreciate the opportunity to make a submission to this inquiry. Local government financial sustainability is one of the top issues for NSW councils. Due to the range of constraints that local government must operate under, including the rate peg mechanism, it's little wonder that a recent Country Mayor's Association survey found that almost 75% of member councils in rural, regional and remote NSW had either implemented a special rate variation in the past two years, or thought they would have to do so in the next five.

The Gunnedah Shire local government area is a population of 13,280 people across an area of 4,992 square kilometres. We have a 1,420km road network to manage and maintain. Our biggest industries are mining and agriculture and we are fortunate, as a large rural council, to have a growing population. We have much lower economies of scale than councils in urban areas and a very different set of community priorities.

This is relevant as legislation determined on behalf of local government by the NSW Government is 'one-sized fits all', however, as a large rural council we face challenges meeting the increasing level of compliance, often determined with urban councils in mind. It is generally not understood that every task requires a minimum level of effort. Achieving compliance often requires the same level of resourcing in every council, regardless of the overall size of the council.

This challenge is exacerbated by the vast range of acts and regulations NSW councils operate under. Each service provided is generally provided under a specific piece of legislation, and it becomes necessary to ensure that you are complying with specific service-related legislation but also the overarching NSW *Local Government Act 1993* and *Local Government (General) Regulation 2021*. A good example in this area is the provision of water and sewerage services, which Gunnedah Shire Council (GSC) provides as a local water utility. These services are provided under the *Water Management Act 2000*, and an associated range of legislation including the *Public Health Act 2010*, *Environmental Planning and Assessment Act 1979*, *Work Health and Safety Act 2011* and *Water Act 2007 (Cth)*. This complexity is difficult to navigate and necessitates the employment of suitably qualified and experienced technical staff to

ensure you can carry out the responsibilities required under various pieces of legislation. There are many other services like this that NSW councils provide including: traffic management and control, planning and development, public order and safety and aged care. These are just a few of the complex services provided by GSC but there are many more.

The result of this is that each NSW council is a unique entity providing a wide range of services, requiring compliance to a large array of acts and regulations. It is therefore difficult to apply a one-size fits all solution to the issue of financial sustainability.

While the rate peg methodology has recently been amended, the reality is that these changes may only represent the ability to try and meet increasing costs in the future. However, councils do not have the ability to have input into the rate peg determined for them and GSC is still finding that even the new methodology is resulting in a funding shortfall when compared to actual costs. An example is the inclusion of a factor of 0.2% into the 2024/25 rate peg for the Emergency Services Levy (ESL), which will still mean GSC will need to fund approximately \$100,000 of the ESL from other funding sources. 1% of GSCs rate income is approximately \$150,000 so this is not a small impost on our budget. For a council with a bigger rate base 0.2% will obviously result in higher revenue.

In respect of cost-shifting, the recent report released by LGNSW on costing shifting “How State Costs Eat Council Rates<sup>1</sup>” found that the burden of cost shifting has skyrocketed 78% in five years to \$1.36 billion a year – more than \$460 per ratepayer annually.

The significant ongoing funding gap that has been created between the historical rate peg indexation and this point in time remains unaddressed for many NSW councils, requiring consideration of a special rate variation. In a submission to the 2022-23 rate peg methodology review, NSW LG Professionals Australia noted that since 2011 there had been 157 SRV applications approved by IPART. This is a strong indication that the rate peg mechanism has not been keeping up with the increasing costs of providing the level of service expected by local communities and is unlikely to do so in future as indicated by the above example. The funding gap remaining for many councils will necessitate them to seek special rate variations to reduce this and to bring their councils into an improved financial position.

In addition to this, financial assistance grant funding, provided by the Federal Government and administered by the NSW Government, has fallen from 1% of Commonwealth taxation revenue to 0.53% and many of NSW council fees and charges are also now capped by NSW government legislation, particularly in areas like planning and development. In real terms, all

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

NSW council major funding sources have been declining over time as compared to the cost of providing services. This will ultimately lead to a greater burden being placed on property owners through the payment of rates by way of the special rate variation process.

Another important consideration for NSW local government financial sustainability is the amount of funding available for roads. A recent report released by the Grattan Institute “Potholes and Pitfalls – How to fix local roads<sup>2</sup>” found that an extra \$1 billion is needed next year just to keep the roads in the same state they’re in today. It also found that spending on transport has fallen from almost half of local government spending in the 1960s to 21% today.

A December 2023 report released by the NRMA “Funding Local Roads<sup>3</sup>” revealed a \$2.2 billion backlog in funding required by NSW councils to maintain local roads across NSW to a safe and satisfactory standard, representing a 14.5% increase over the last 12 months. The report also found that “the overwhelming majority of the backlog burden (\$1.7 billion) fell to regional councils with geographically larger and less populated areas at particular risk of not meeting their funding needs.”

These are sobering findings given that approximately 80% of NSW’s 185,000km road network is managed by NSW councils, but they are in line with the overall decline in NSW councils’ real income as outlined above.

In the absence of NSW and Federal government intervention, the overwhelming financial burden of these findings will fall back onto NSW councils to resolve, who will then be required to pass this burden onto ratepayers in the absence of any other funding being made available. Given the significant contribution made by rural and regional areas to NSW and Australia’s Gross Regional Product, it does raise the issue of how NSW local roads should be funded and whether it is fair to place much of that financial burden back onto individual ratepayers as opposed to a contribution being made by all taxpayers by way of Federal or NSW government funding.

GSC would certainly support an increase in Federal or NSW government funding towards roads to assist with addressing the current roads renewal backlog we face and to reduce the financial burden that we will ultimately need to pass onto ratepayers in the absence of additional Federal or NSW funding being made available.

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<sup>2</sup> <https://grattan.edu.au/report/potholes-and-pitfalls-how-to-fix-local-roads/>

<sup>3</sup> <https://www.mynrma.com.au/media/press-releases/nrma-launches-rate-your-road#:~:text=NRMA%20reveals%20%242.2%20billion%20local,over%20the%20last%2012%20months>