Submission
No 58

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Northern Beaches Council

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26 April 2024

Chair of the NSW Legislative Council Standing Committee on
State Development
Parliament House
6 Macquarie Street
SYDNEY NSW 2000

Submission via online portal

To the Chair of the NSW Legislative Council Standing Committee on State Development,

Inquiry into the ability of local governments to fund infrastructure and services

Thank you for the opportunity to provide a submission to the Legislative Council Standing Committee on State Development's inquiry on the ability of local governments to fund infrastructure and services.

The Northern Beaches stretches from Palm Beach to Manly, boasts more than half of all the beaches in Sydney and is home to nearly 270,000 people, living in over 105,000 dwellings. The Council manages $3.45 billion of infrastructure assets including buildings, roads, footpaths, stormwater drainage, swimming pools, bridges, wharves, playgrounds, sportsfields and seawalls.

Council's responses to the Inquiry are provided in accordance with the terms of reference below.

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

Council requires sufficient income to fund both the operational and capital expenditure necessary to provide services and facilities to meet the needs and priorities of the local community.

Councils have different capacities to generate income and their financial performance and service needs are variously affected by geography, demographics, community preferences and population growth.

Community needs and service levels are determined in accordance with the Integrated Planning & Reporting (IP&R) framework whereby Council undertakes regular service level reviews to ensure it provides, and continues to provide, a range of quality services that the community needs and that are sustainable in the long term.

The IP&R is a robust framework which provides a pathway for Council to:

- work directly with the community to identify long-term priorities for local identity, growth and lifestyle
- understand the range of services the community wants, the service standards they expect and the infrastructure that will be required
- have meaningful conversations about the cost of meeting community expectations to allocate resources and map out a 4-year strategy to deliver key priorities, projects and services
- set appropriate rates, fees and charges and monitor the Council's progress in delivering priorities, projects and services through the Operational Plan

In looking at the level of income a council requires to adequately meet the needs of the community, it is necessary to look at restrictions which exist on each of the revenue sources available which do not increase in line with the increase in costs associated with services the community wants, the service standards they expect and the infrastructure that will be required.

Rates – The rate peg does not allow councils to adjust their rates to reflect actual changes in their costs and take account of differences between councils. It does not take account of changes in service levels, the impacts of extreme weather events, the impacts of climate change, cost shifting by other levels of government and operational costs associated with growing populations.

Over the past 3 years (to June 2023) inflation has increased by 16.8%, which is more than double the 7.2% increase in rates income over the same period. For Northern Beaches Council this is an accumulative gap of $18 million in lost income from the rates base going forward each year.

Fees and Charges – A range of fees and charges have statutory limits imposed which often at levels below the full costs of providing the services. Annual increases in these fees and charges are generally well below the cost increases to which these services are subject. An example of this is the Stormwater Management Charge. The NSW Government has not updated the legislation, (which is now found in Section 125AA of the Local Government (General) Regulation 2021) regarding the maximum annual charge for stormwater management services since the legislation was enacted in 2006 and as such no longer covers the cost of providing stormwater management services.

Grants and subsidies from the NSW and Commonwealth Governments – Many of the grants are related to government initiatives for infrastructure and facilities which add significantly to Council's ongoing costs to operate and maintain these assets. There is no account for the challenges in applying for funding and complying with the requirements of grant funding programs.

Disaster recovery grants are extremely difficult to claim with onerous reporting, significant gaps in eligible costs, several layers of assurance testing and years in delays in payments. In the past 5 years the Northern Beaches experienced 6 natural disasters at a cost of $14 million, of which $7 million has been recovered to date from the Disaster Recovery Fund.

As well, grants such as the Financial Assistance Grants to councils have slipped from 1% of Commonwealth taxation revenue in 1996 to just 0.52% in 2024.

Developer Contributions – Shortfalls in contributions for new local infrastructure need to be funded by another source, however there is no allowance in the rate peg or ability to increase fees and charges to take account of this issue. The NSW Government previously supported councils through a subsidy to part-cover interest repayments on loans for infrastructure, however these schemes have not been available for several years.

Other revenue including fines, interest and income – As with fees and charges, fines have statutory limits imposed which are generally well below the cost increases to which compliance services are subject and this only adds to revenue levels below the full costs of providing the services.

There are no increases in the above revenue sources which take account of costs related to:

- changes in community risk tolerance and expectations that influence council service levels
- ongoing cost shifting from other levels of government such as NSW Beachwatch program and in the case of the NSW Waste Levy the failure to return these funds to councils to go towards creating a circular economy and litter prevention initiatives
- predicted increases in costs due to the need for climate and coastal adaptation
- changes in community risk tolerance and expectations that influence council service levels
- both operational and capital works funding for built green infrastructure as an emergent class of infrastructure that overlays traditional grey infrastructure.

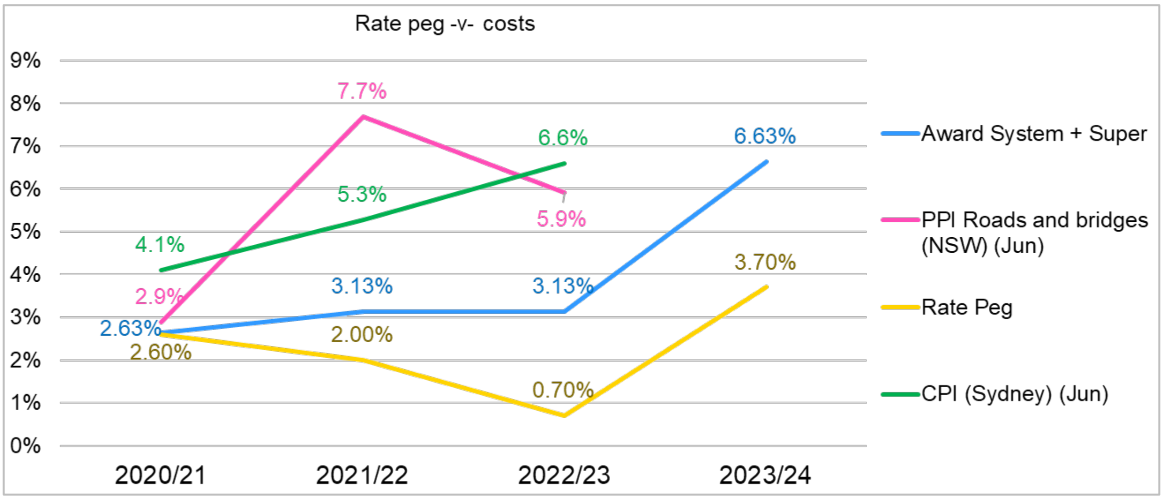
Allowance must exist in any mechanism whether it be a rate peg or an alternate model to enable councils to adjust income annually to adequately meet the needs of their communities.

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

The rate peg has not provided councils with sufficient income to deliver services to their communities as evidenced the number of special rate variations and the size of some of those increases.

The impact of the rate peg has limited Council's ability to generate sufficient income to deliver the services expected by the community, maintain infrastructure to a satisfactory standard while maintaining long term financial sustainability.

The following graph represents the inability of the rate peg to keep pace with the major factors that drive cost increases for local government.



The rate peg has had a significant impact on the long-term financial sustainability of councils and in this regard the current rate peg methodology has not adequately reflected the impact of costs related to the diverse and substantial infrastructure maintained by councils for their community.

The nature of depreciation in particular seems to be neglected. In essence, depreciation is an estimate over time for the decrease in an asset's value due to use, wear and tear or obsolescence. In the first instance, depreciation is a non-cash cost in the Income Statement when it is expensed. However, it is a cash cost once it is expended for the purpose of funding the renewal of infrastructure which has depreciated over time. Capital renewals and upgrades are significant component of all council operations and need to be a consideration in determining an adequate financial model to enable councils to maintain financial sustainability and meet the needs and expectations of their communities.

The following is a summary of IPART's approval of special rate variations since 2011/12.

Year	Applications	Full Approval	Part Approval	Declined	No Determination
2011-12	23	9	10	4	0
2012-13	16	10	6	0	0
2013-14	24	21	3	0	0
2014-15	34	30	3	1	0
2015-16	23	22	1	0	0
2016-17	13	9	1	0	*3
2017-18	8	4	2	2	0
2018-19	13	8	3	2	0
2019-20	13	13	0	0	0
2020-21	1	0	0	0	**1
2021-22	8	7	1	0	0
2022-23	5	5	0	0	0
2023-24	17	14	3	0	0
Total	198	152	33	9	4

* No determination was made by IPART because the 3 councils were dissolved under an amalgamation.
** Withdrawn

Excluding applications where there was no determination, 93% of all special rate variation applications have been approved by IPART.

The majority of these applications have been to address financial sustainability, existing infrastructure backlogs and future infrastructure expenditure obligations which highlights that the rate peg alone has not provided councils with sufficient income to deliver services to their communities.

Developer contributions alone are not sufficient for councils to acquire land and invest in open space, sporting fields and community facilities to the extent required as their community grows. Rates are required to fund this shortfall. As a consequence of rate capping particularly in a period of high asset inflation, the opportunity costs are that income is forgone as well as the ability to purchase land and build appropriate infrastructure assets especially as the demand for open space, sporting fields and community facilities increases with higher density housing.

The above highlights that the past rate pegs have not matched increases in costs borne by Councils and consideration must be given to alternative approaches.

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.

As noted above, community needs and service levels are determined through the Integrated Planning & Reporting (IP&R) framework whereby Council undertakes regular service level reviews to ensure it provides, and continues to provide, a range of quality services that the community needs and that are sustainable in the long term.

The rate peg does not take into account the impact of cost shifting and this has a significant impact on Council's ability maintain service delivery and financial sustainability.

In the latest cost shifting report from LGNSW (Cost Shifting Report) analysis by independent consultants Morrison Low calculated the total cost shifted onto councils in the 2021/22 financial year at $1.36 billion which was an increase of 78 per cent since the 2015/16 financial year, when the total cost shift was estimated at $820 million. In 2013/14, the total cost shift was estimated at $670 million and in 2005/06 at $380 million when the first cost shifting survey was undertaken. The extent of change over time and the ongoing nature of cost shifting can be clearly seen.

As noted in the Cost Shifting Report, challenges arise with respect to how the State and Federal initiatives are, or continue to be, funded. In States where there is not a rate pegging system in place, local councils are able to better manage the financial impacts by adjusting rates or levying specific fees and charges to reflect the change in costs of providing the imposed service, concession, asset, or regulatory function.

The rate peg does not adequately consider the cost shifting impacts on councils which means that councils have to divert funding from other commitments agreed with their communities in their Community Strategic Plan and Delivery Program to fund the cost shift incurred. This has a direct impact on a council's ability to deliver services to the community and overall financial sustainability.

When the Committee looks at the impact of cost shifting, it must ensure it looks at all elements including:

- the imposition of responsibility for providing a certain service, asset or regulatory functions upon local government by other levels of government without the provision of corresponding funding or compensation or the conferral of corresponding and adequate revenue raising capacity including in relation to rural fire service obligations, onsite sewer facilities, companion animals, contaminated land management, protection of environment, noxious weeds and development applications
- the transfer of responsibility to local government for funding certain services or functions (including concessions and rebates) where the responsibility for the funding of which lies with other levels of government including pensioner rebates.
- where local government agrees to provide a service/function on behalf of another sphere of government, but funding is subsequently reduced or stopped, and local government is unable to withdraw because of community demand for the service/function including public library operations, flood mitigation program and road safety
- where another sphere of government ceases or provides insufficient levels of a service/function it is responsible for and local government steps in because of

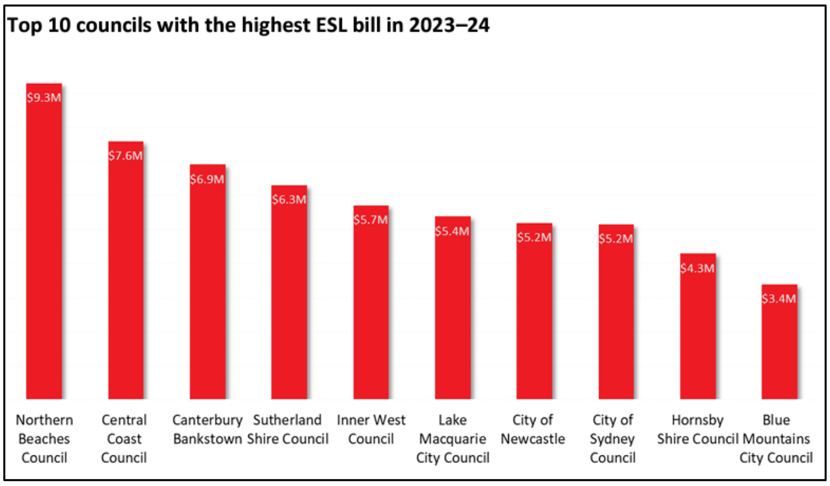
community need/demand for the service/function including citizenship services, crime prevention/policing, transport services, domestic violence, women's shelters
- rate exemptions on government and other properties which includes non-government-owned property exemptions (churches/religious institutions, private schools, private hospitals, private retirement villages), voluntary conservation agreements and rate-exempted properties managed by community housing providers
- Cost shifting examples that do not fit into any of the above categories including Transport for NSW road reclassifications, the waste levy, waste management site licence fee and additional committee governance

On average, this represents an additional cost of $460.67 for every ratepayer across the State.

The Cost Shifting Report (p11) reveals Northern Beaches Council paid the highest Emergency Services Levy in 2021/22 at $6.4 million ($62 per ratepayer), which is 28% more than the next highest Council (Central Coast Council at $5.0 million). Our Emergency Services Levy has increased to $9.3 million this financial year, equivalent to $90 per ratepayer. The Council was required to reduce infrastructure spending by $3.1 million per year to fund this cost increase.

With councils having to fund this ongoing subsidy for the State Government each and every year it means our communities get less or go without. They go without better roads, they go without better parks, they go without important community services that only councils provide, and they and their ratepayers are effectively paying hidden taxes to other levels of government.

For Northern Beaches Council, this cost impost further constrains our ability to maintain our community infrastructure and sustain the same level of service to our community. Our draft Asset Management Plans (AMP 2024-2034) identifies an infrastructure funding gap of $25 million per year. The gap between funding and infrastructure needs has been exacerbated by recent high inflation and the $3.1 million increase in costs to Council associated with the Emergency Services Levy this financial year.



Going forward, councils must be given a mechanism which takes into account the impact of cost shifting when setting income levels as this has such a significant impact on their ability to maintain service delivery and financial sustainability.

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.

In assessing the social and economic impacts of the rate peg in NSW, it is necessary to look at rates and their efficiency as a method of raising income. The Henry Tax Review (Report to the Treasurer on Australia's future tax system – December 2009) found that local rates were the most efficient of all current taxes used by any level of government, because changes in behaviour from rate taxes are small. This was also noted by the NSW Productivity Commission in its submission to Australia Government's Standing Committee on Tax and Revenue Inquiry into and report on the contribution of tax and regulation on housing affordability and supply in Australia. The Henry Review also recommended that States should allow local governments a substantial degree of autonomy to set the tax rate applicable to property within their municipality.

As noted above, the rate peg has not enabled Council to raise sufficient income to meet both the operational and capital expenditure to provide the services and facilities to meet the needs and priorities of the local community. This has a negative impact on ratepayers where services and facilities cannot be provided locally.

When looking at social and economic impacts of the rate peg in New South Wales for council staff, you must look at unplanned turnover which is highly inefficient and limits a council's ability to deliver the services and infrastructure our community expects.

The Australian Local Government Association (ALGA) in the Local Government Workforce and Future Skills Report (2022) found:

- The key reasons behind the skills shortage are the inability of councils to compete with the private sector on remuneration.
- Lack of suitably qualified/experienced candidates available locally.
- High demand across the labour market for certain occupations and remoteness/location making it difficult for councils to attract and retain workers.
- Almost all respondent local governments (over 91%) reported that they were experiencing skills shortages in 2021-22, compared to the 86% of responding local governments in 2018.
- 66% of respondent local governments said that project delivery has been impacted or delayed by vacancies, skills shortages, skills gaps or training needs.
- The most cited skill shortages that local governments are experiencing are engineers (as noted by 60% of 2022 survey respondents), urban and town planners (52%), building surveyors (48%), project managers (40%), and labourers (38%).
- As a result of these skills shortages, local governments said that they resorted to recruiting less skilled applicants for building surveyors, engineers, and water treatment operators.

- Several occupational skill shortages are becoming critical, including ICT professionals, engineers, urban and town planners, building surveyors, and mechanical tradespersons. The proportion of local governments experiencing critical shortages in these occupational areas has also increased since 2018 from a range of approximately 7-45% of responding local governments to approximately 26-65% of respondents in 2022.

When assessing the social and economic impacts of the rate peg in New South Wales for ratepayers, it is necessary to look at a socio-economic analysis and rates affordability.

When preparing the Long-Term Financial Plan, many factors are taken into consideration and a vast array of research and statistics are analysed to forecast the likely revenue that will be available to meet the community's long term objectives. The community's capacity and willingness to pay rates is an important consideration when determining a rating structure, with the majority of Council's income raised through rates and annual charges.

Residential properties

In the 2023/24 financial year, there are 96,109 properties across Northern Beaches Council rated as 'Residential'. These properties include single dwellings, social housing, and multi-unit dwellings.

Housing tenure

In Northern Beaches, 68% of households were purchasing or fully owned their home, 24.5% were renting privately, and 1.6% were in social housing in 2021 (ABS). Home ownership is notably higher on the Northern Beaches compared to Greater Sydney where 62% of households are purchasing or fully owned their home.

The median weekly mortgage repayment across the Northern Beaches was $781 and the median weekly rent was $607[1].

Household income

According to the 2021 Census, the median weekly income of households across the Northern Beaches was $2,592 which was $515 more than the Greater Sydney area.

Employment Status

In September 2023, the Northern Beaches had an unemployment rate of 2.3% (3,633 people), lower than the Greater Sydney rate of 3.4%[2].

Index of Relative Socio-Economic Disadvantage (IRSED)

The Index of Relative Socio-Economic Disadvantage (IRSED) is based on the 2021 Census and is useful in identifying geographic areas that are relatively disadvantaged.

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[1] Source: Australian Bureau of Statistics, Census 2021 Northern Beaches/Greater Sydney, Census All persons QuickStats
https://www.abs.gov.au/census/find-census-data/quickstats/2021/LGA15990
[2] Source: Jobs and Skills Australia, Small Area Labour Markets, September quarter 2023
Small Area Labour Markets | Jobs and Skills Australia

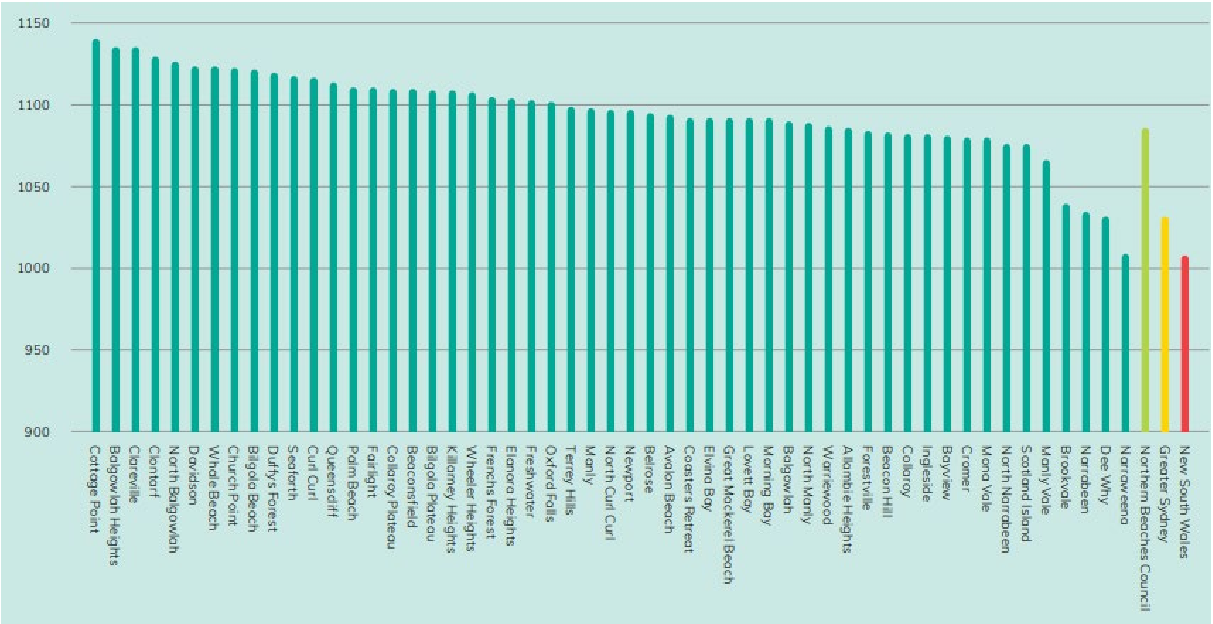
The index is derived from attributes that reflect disadvantage such as low income, low educational attainment, high unemployment, and jobs in relatively unskilled occupations, and is useful in identifying geographic areas that are relatively disadvantaged.

An area with an IRSED of 1,000 is considered average, while a lower score indicates that the area is experiencing more disadvantage.

The IRSED for the Northern Beaches is higher than the average at 1,089. This indicates relatively lower levels of socio-economic disadvantage as compared to other Local Government Areas.

The IRSED index by suburb is outlined below. Whilst there is some variation across the LGA, no area falls below 1,000.

Index of Relative Socio-Economic Disadvantage (IRSED) 2021



* Source: Australian Bureau of Statistics. Socio-Economic Indexes for Areas (SEIFA), Australia 2021

Outstanding rates and annual charges

On 30 June 2023, 3.57% of rates and annual charges levied remained outstanding which remains well under the industry benchmark of 5%. This is an important consideration in setting options for funding within this plan and is one of the indicators of our ratepayers' capacity and willingness to pay for the services of the Council.

Financial hardship and concessions

Council understands that individual ratepayers may experience financial hardship and has options available to provide support through the Rates and Annual Charges Hardship Policy.

Concessions are also available to eligible pensioners.

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

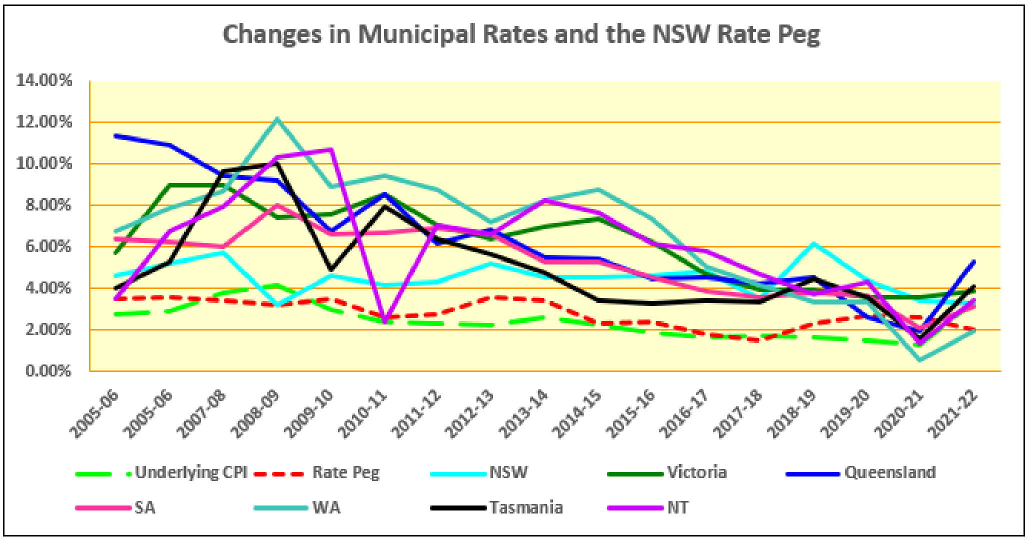
It is essential that the Committee reviews the approaches taken in other States. In its Review of Rate Peg Methodology Issues Paper from September 2022, IPART noted that apart from Victoria, the other states and territories do not regulate rates income. Rather, councils are permitted to adjust the level of their rates income to align with their prepared budget for each financial year.

It also noted these councils meet specified requirements before raising rates e.g., several jurisdictions require councils to publish a public notice of rates and an explanation for the rate increases and, in some cases, to consult with the public. It provided the following table to give an overview of the legal mechanisms that allow rates income to increase in each jurisdiction.

Table - Methods of increasing rates in other states and territories

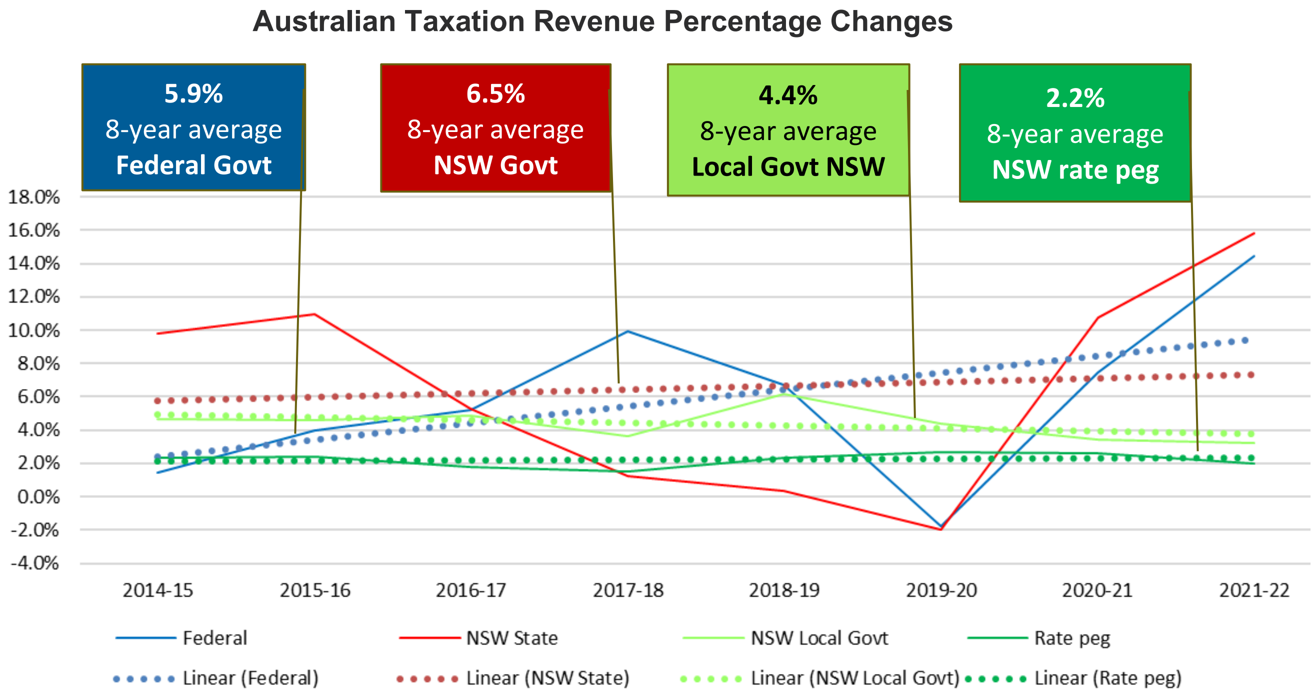
Jurisdiction	Method
Victoria	• Uses a rate cap method, similar to NSW. The rate cap is set equal to the December forecast of the CPI from the Victorian Department of Treasury and Finance. • The Essential Services Commission (ESC) is responsible for recommending rate cap increases to the Minister for Local Government. • The Victorian method is flexible, as shown in 2022-23 when the ESC recommended that the rate cap should not be set outside of the historical range of 1.50% to 2.50%[a] • Councils can seek approval for a higher rate cap from the ESC, if the rate cap decision does not meet their needs. • The rate cap for 2022-2023 was set at 1.75%[b]
Western Australia, Queensland, South Australia, Tasmania and Northern Territory	• In these jurisdictions, councils have the autonomy to set their rates at the level needed to achieve the required income in their budgets.[c] • Each jurisdiction has varying legislative requirements and restrictions on councils, but broadly councils have authority to independently set rates. • An example of a restriction is that in Western Australia, a council's income from general rates is limited, such that income from rates cannot exceed 110% of the budget deficit or be less than 90% of the budget deficit[d]
ACT	• The ACT does not have local governments and instead land rates are set by the ACT government.

a. Essential Services Commission, Advice on the average rate cap for 2022-23, November 2021, p 1.
b. Essential Services Commission, Average annual rate caps.
c. Productivity Commission, 5 Year Productivity Review - Supporting Paper No. 16 – Local Government, August 2017, p 10.
d. Local Government Act 1995 (WA), s 6.34.



Source: Australian Bureau of Statistics: Taxation Revenue, Australia Methodology, 2021-22 financial year

Over the 8 year period to 2021/22, rates income in NSW increased by 4.4%, which included the 2.2% rate peg. By comparison, during the same period, the NSW Government's taxation revenue increased 6.5% and the Federal Government increased 5.9% on average each year.



Source: Australian Bureau of Statistics, Taxation Revenue, Australia 2021-22 financial year

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.

The special rate variation application process is resource intensive, costly and can be politically contentious. IPART has noted that the special rate variation process incurs a significant regulatory burden on councils and the NSW Government.

As noted by IPART in its Review of the Local Government Rating System, councils can apply to IPART for a special rate variation to allow them to increase general income above the rate peg for a range of reasons, including to provide additional services, to replace ageing assets, or improve financial sustainability.

IPART noted while some of their recommendations for the rate peg may reduce some of the concerns expressed by councils but many of the issues raised will not be fixed by the rate peg or the special rate variation process and they consider the financial model for councils needs to be investigated to identify improvements.

Capping rate increases through the rate peg leads to most, if not all, councils applying for variations periodically, or to job losses, reduced non-core services or a deterioration in the quality of community infrastructure over time.

The variation process needs to accommodate different sources of cost pressures and it should be able to respond flexibly in different situations.

A well-designed variation process should:

- support the autonomy of councils to make decisions in the best interests of their communities
- require information in proportion to the magnitude of proposed variations above the cap
- increase the transparency of council decisions for the community to complement the cap component of the framework by addressing individual council needs if the cap proves to be overly constraining
- require from councils good information on impacts of cost changes on services, infrastructure and councils' financial sustainability.
- over time, be able to reward those councils that have a proven track record of performance and effective community consultation, with a more streamlined process.
- be simple and inexpensive to administer.

The Henry Review also recommended that States should allow local governments a substantial degree of autonomy to set the tax rate applicable to property within their municipality.

g) any other related matters.

The following issues should also be addressed as part of the Inquiry:

- Ensuring that statutory charges reflect the costs incurred by councils in providing statutory services.

- Consideration of a rate peg exemption model for councils that demonstrate an agreed level of performance and streamlining and simplification of the special rate Variation process.
- A comprehensive evaluation of existing pensioner concessions should be conducted, including the funding model and support for vulnerable ratepayers.
- The eligibility criteria for rates exemptions.
- The use of the Capital Improved Value to set the variable component of rates.
- The legitimacy of cost shifting from other levels of government to local government and how it impacts financial sustainability as well as funding mechanisms to take account of these cost transfers.

Should you require any further information or assistance in this matter, please contact my office

Yours faithfully

Scott Phillips
Chief Executive Officer