Submission
No 61

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Hawkesbury City Council

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Hawkesbury Council Submission to the Standing Committee on State Development – Inquiry into the ability of Local Governments to fund Infrastructure and Services

Council welcomes the inquiry into the ability of local governments to fund infrastructure and services. This submission is made on behalf of Hawkesbury City Council, a peri-urban council on the fringe of Metropolitan Sydney, covering an area of 2,775km2 with a population of 67,862. Council is required to maintain a large asset holding serving a dispersed population, with 27,608 rateable assessments.

Council's preferred stance in relation to achieving long-term financial sustainability and therefore being able to adequately fund infrastructure and services, is that rate-pegging should be discontinued. This has been outlined in submissions made to the Independent Pricing and Regulatory Tribunal (IPART) on the Review of the Local Government Rating System and the Review of the Rate Peg Methodology. There should be a governance framework that permits a certain range of increases from year to year as determined within each Council's Delivery Programs, informed by the Resourcing Strategy, without the need for a Special Rate Variation.

It is Council's view that the determination of the appropriate annual rates increase should be made by each council with the objective of ensuring that the community's expectations are met in a financially sustainable manner, over the long term. Increases would be in line with the required amount as identified in Council's Integrated Planning and Reporting (IP&R) documents, developed through community consultation.

a. **The level of income councils require to adequately meet the needs of their communities.**

   Each council has unique communities with varying expectations in relation to services and infrastructure, different characteristics in terms of demographics, asset structures, services (e.g. sewer, waste facilities, animal shelters etc.), disbursement of population, economies of scale and ability to attract and retain staff.

   Therefore, the level of income councils require is different from each council to council and cannot be determined by a state-wide rate-peg. Each council consults with the community to determine what the expectations are and within the context of the assets and socio-economic and operating environments that are unique to that council, to determine what is required as part of the IP&R – summarised within each Long Term Financial Plan (LTFP).

   Within Council's Draft 2024-2034 LTFP, available at https://www.yourhawkesbury-yoursay.com.au/draft-2024-2025-operational-plan, it has been identified that using the IPART recommended rate-peg assumption of 2.5%, operating deficits will occur from 2026/2027 of $0.9M, peak at $9.1M in 2027/2028 due to the implementation of the Food and Garden Organics mandate, before reducing to $2.6M in 2033/2024. This is without increasing any services that the community currently expects, including building on resilience and climate change adaptation, or additional costs associated with attaining Net Zero.

   Additionally, the Infrastructure Backlog will increase to $162M and present an inadequate level of service to the community and fails to address enhancement to infrastructure required to meet growth, resilience to natural disasters and climate change adaptation.

   It has been projected that additional recurring income of $16.8M commencing from 2025/2026 is required to address the infrastructure backlog, provide necessary enhancements in infrastructure and services, and provide capacity to endure financial shocks, including macro-economic conditions, natural disasters and pandemics.

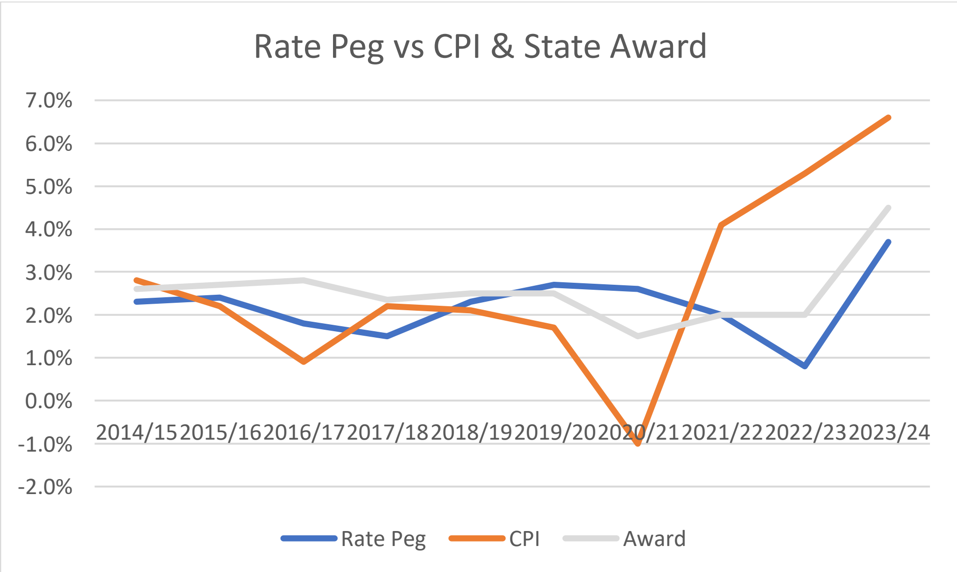
   The rate peg does not generate sufficient income to match increases borne by local governments or to respond to changing expectations of communities, nor increasing bottom line costs. This impacts upon the ability of councils to fund infrastructure and services to their communities. The data presented on page 12 of the IPART Review on the Rates Peg Methodology Issues Paper shows that councils reduce their overall operating expenses to meet Operating Performance Ratios to remain within Operating Income totals, at the expense of appropriately maintaining infrastructure and delivering the full range and quality of services the community expects to be delivered.

Additionally, this clearly indicates that infrastructure renewal and capital enhancements are constrained, as there is very little gap between operating income and expenditure to increase this expenditure. This also constrains councils' ability to weather external shocks (e.g. natural disasters) and to implement new programs, particularly in relation to net zero targets and building resilience, which is becoming more of a focus across communities and strategic directives of governments.

Most social media platforms and community satisfaction surveys of local government will clearly demonstrate that more are demanded by constituents than is currently being delivered.

b. Examine if past rate pegs have matched increases borne by local governments.

The table below comparing the increases to the Sydney All Groups CPI, and the Local Government State Award, which are all main contributors to the costs borne by local governments clearly shows that the increase in rate pegs has not covered these increases. It is also to be noted that the Roads Construction PPI is generally higher than CPI and is a major cost to most regional and rural councils and certainly Hawkesbury.



Cumulatively, the rates peg has increased over the 10 year period 2014/15 to 2023/2024 by 24.4%, compared to 30.1% in relation to CPI, 28.5% for the State Award and 62.9% for the Emergency Services Levy (ESL). Due to the variability of the ESL, it was unable to be included in the table above.

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.

Cost shifting impacts financial performance of councils by reducing the overall income able to be invested in providing services to the community and ensuring infrastructure is at the level required to ensure sound economic, environmental, and social outcomes.

As stated above, programs that councils should be progressing and investments that have potential to reduce social, environmental and economic costs in the long term are unable to be progressed, as operating expenditure is kept aligned with income, predominantly driven by the rate peg.

Over the long term, delays in appropriate asset maintenance, renewals and replacements results in increased costs and degraded services to the community and costs more – both due to the impacts of inflation and that it is generally more expensive to restore a failed asset, then renew at the optimal time. These issues also compound over time, adding further cost pressures.

For Hawkesbury, it is estimated that the lost rates income due to non-rateable properties held by other levels of government is over $3.8 million per year. The use of these properties does consume council assets and increases the demand on council services. This results in higher rates for residents and businesses that could be defrayed across a broader range of properties.

Council incurs significant costs including depreciation of assets used by RFS, direct costs, the Emergency Services Levy, and significant staff time and resources towards the management of the assets, and liaison with both paid RFS staff and volunteers. The current model leads to significant double handling and confusion.

Council calculated that the impact of cost-shifting in 2021/22 was $11.2M, which equates to an average of $419 (or 26% of average rates) per rateable property. This is compared to $7.2M, an increase of 56% since 2015/2016. The rates-peg during this time increased by 16.3%.

d. Assess 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.

As outlined above, the main driver of long term financial sustainability is the community having sufficient understanding of the costs of service and works delivery and agree to pay sufficient rates for the services that they demand. This also enables communities to have a more individualised service provision, with every Local Government Area have unique characteristics. This understanding cannot be built by keeping to a rate peg system.

Again, the external factors that impact and the level of impact will differ from council to council and therefore makes the inclusion within a rate peg system ineffective. For example, the cost of the COVID-19 Pandemic on some councils was significant, but this was not the experience of some councils depending upon their reliance on income generated from the hire of assts, commercial inspections, and rental properties.

Each council has the business knowledge to be able to factor in appropriate buffers to external shocks based on appropriate analysis. This again will give a mechanism for smoothing rates increases over the long term and reducing the overall cumulative impact to ratepayers, while enabling improvements in services and enhanced resilience to external factors.

The rate peg has protected ratepayers from unnecessary rate increases, but at the cost of not receiving enhanced quality and range of services, lower levels of asset renewals, limited additional infrastructure and increased volatility in rates increases due to insufficient levels of rates income to enable proactive responses to external factors. This has been exacerbated by the rate peg not covering additional costs of programs initiated by State Government and passed to Local Government for administration or delivery.

Additionally, the rate peg has reduced local government's ability to attract and retain high-performing staff. The level of reporting and work associated with legislative mandates and changes as significantly increased the workload, but due to the constraints on income, the number of staff has not increased proportionally. This has led to a dramatic increase in the level of turnover experienced by Hawkesbury Council over the past 10 years, leading to loss of business knowledge, negative impacts on service delivery and increased recruitment costs.

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

Setting rates within a range over the four-year Delivery Program timeframe would enable councils to smooth the impact of rate increases and reduce volatility, which reduces the cumulative impact to ratepayers over the long term and enable improvements to services, as demanded by the community.

There are benefits in relation to being able to plan effectively for delivery of projects and planned asset expenditure, provided there is a mechanism to adjust based on unforeseen external shocks. This is optimised if councils themselves can establish the rate peg range for their council of this timeframe, based on the demands of the community, the outcomes to be achieved within the Delivery Program and optimal asset expenditure.

The application of a State-wide rate peg, based on the average costs of predetermined set of council costs, does not reflect the costs and expectations of each individual council's community. Because of this, it does not enable councils to provide appropriate service levels in a financially sustainable manner.

As the award increases are set with annual increases for three years built in, it leads to a level of certainty to be able to effectively build into a council-determined rates increase set within community consulted Delivery Programs. The Workforce Plans of each council would also identify the staff required to service community expectations and legislative requirements.

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 (SRV) process is a time-consuming and resource intensive process for councils and leads to the diversion of critical resources away from service provision to the community.

The current process also lends itself to being perceived as combative or a 'last resort' process that can be perceived by the community as being needed because of some failure on the part of the council, rather than addressing the service and infrastructure expectations of the community within a constrained regulatory and income environment.

It would be more efficient, effective and lead to a more informed market response through an ongoing education process and consultation with communities, with rates increases set within the Delivery Program period, based on the information available at the time. This aligns the strategic direction of council and the consultation process already undertaken to develop IP&R documents, particularly at the start of a new council term.

IPART's role would be to develop an appropriate governance framework and to monitor and approve rates increases in line within this framework set initially as part of Delivery Programs and then adjusted via annual applications, if required to respond to external forces.

g. Any other related matters.

<u>Developer Contributions</u>

While there is an adjustment for population increase to the rate peg associated with development and the construction costs for infrastructure as part of development is partly covered by developer contributions, it does not fully cover the land acquisition, infrastructure construction or asset lifecycle costs. Adjustments based on the level of new development should be incorporated within a council determined rates increase, based on consultation with the community within a rates increase framework overseen by IPART.

Disaster Recovery Funding Arrangements (DRFA)

Hawkesbury Council has encountered the Gospers Mountain Bushfire and seven flood events since late 2019. The current DRFA model does not sufficiently cover the cost of the disaster management and community recovery efforts and fails to recognise the diversion of staff resources required does not entail discontinuing business as usual. Additionally, with over $170 million of essential public asset restoration that requires Council to fund upfront projects within this program has had significant impacts on Council's cashflow and investment income potential.

Ministerial Investment Order

As result of the current Investment Order, a range of sustainability certificates that Council could have generated income from were unable to be taken advantage of as they are secondary derivatives – which also has the impact of lessening Council's ability to achieve Net Zero.

Current Grant Funding Programs

It is Council's experience that it is significantly easier to obtain grant funding to build or upgrade assets, whereas the main driver of the issues of long term financial sustainability are driven by the inability to raise funding sufficient to renew and maintain assets. A broader system of grant funding for asset renewal is required.

Review of the Local Government Act, 1993

Council also notes that some amendments to the Local Government Act, 1993 made in May 2021 are yet to be implemented through the Local Government Regulations (General), 2021. Some of these amendments will help in the flexibility of the local government rating system.

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