

**Submission
No 62**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Leeton Shire Council

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LEETON
SHIRE COUNCIL

26 April 2024

Standing Committee on State Development
NSW Parliament
Macquarie Street
SYDNEY NSW 2000

To the Chair of the NSW Standing Committee on State Development

[Inquiry into the ability of local governments to fund infrastructure and services](#)

Below please find Leeton Shire Council's response to the inquiry.

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

This will be / must be different for each council as determined by the council after close consultation with their community (see a1).

Achieving an appropriate level of income requires a responsible blend of the following, with no direct interference from State Government and no rate pegging.

a1. Honour the law in full

a1.1 The LG Act provides for Integrated Planning and Reporting (IPR). This robust framework means each community gets to set its own priorities and citizens have reason to actively engage with their local council about all manner of decisions in order to shape and hone the direction of their local Council. Current rate pegging makes for lazy citizenship as residents rely on IPART to ensure rate increases are affordable. Rate pegging needs to be abandoned and communities should be free-ed up to exercise a (responsible) level of self determination.

Through IPR, residents can be engaged in negotiations about service levels and their costs, what savings can be made with what consequences, what structural changes might save money and how best to price fees and charges.

a1.2 The LG Act provides Councillors a clear charter to follow in terms of fiscal responsibility / prudence and they need to be held accountable by their local community who should be empowered to be active citizens of their local government area.

Rate pegging, by default, disempowers ratepayers from being active and informed citizens.

a2. Support Councillors to be financially capable

- a2.1 At the very least, Councillors should be required to undertake compulsory high level financial training (accredited) within 3 months of taking the oath of office.
- a2.2 Maintain regular reporting by Audit, Risk and Improvement Committee Chair to the elected Council.

a3. Help build Council capability to undertake robust and whole-of life asset management planning

- a3.1 Council management should be made to vouch for the correlation between adopted asset management plans and depreciation levels reported in end of year financial statements, and provide evidence. Councils are asset heavy organisations and there should be significant focus in any forward plans and reports about how assets are being appropriately management and funded. Councils who fail to stay abreast of asset renewals are, by default, carrying an implicit debt and the community and OLG should be supported to be aware of these hidden financial risks.

Note: If there remain concerns that some councils may act unreasonably, the OLG, LGNSW, LG Professionals and the wider sector could negotiate new measures or benchmarks for financial sustainability that may trigger investigation by the OLG (or their delegate) if breached or looking to be breached. This should be undertaken on a case by case basis only when problems are identified and other councils should be left to get on with the business of the business without undue interference.

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

Rate-pegging has harmed, not helped, local councils or their communities.

b1. Rate pegs have clearly not matched the costs borne by Council

- b1.1 This is a widely held view across the sector, evidenced by the unprecedented number of Council seeking SRVs (Special Rate Variations) in recent years. Also see recent IPART changes in rate peg methodology and reports from Professors Joseph Drew and Brian Donnelly. Comparing local council costs with regular CPI is ludicrous - the cost of concrete alone has increased by 20% and steel by 30% in recent times. Along with bitumen and fuel, these are the materials that have driven costs significantly above household inflation levels.

Local councils are slipping by at least 2 – 3 % each year as costs are simply not keeping up with inflation. This compounds annually and makes councils more and more financially unsustainable.

b2. Rate pegs must reflect reality

b2.1 If the government retains rate pegs, they need to fully accommodate award negotiations, inflation impacting the sector (not just CPI), disaster recovery and disaster mitigation, insurance increases, cost shifting etc as a matter of course.

c.) Current levels of service delivery and financial sustainability, including cost shifting

c1. Service levels to be determined via IPR

c1.1 Levels of service delivery for each council are enshrined in the LG Act via the IPR framework. See point a above. Each community is, theoretically, empowered under law, to determine its future, and should be left to do so without undue interference.

c2. IPR and Rate Pegging as mis-matched frameworks

c2.1 Councils are not financially sustainable due to rate pegging. In fact there is a serious mismatch between IPR and ratepegging. See points a and b above. The current regime of rate pegging, imposed by the NSW State Government, is unworkable and drives animosity with - and disengagement between - local communities and local councils. The system fails to provide appropriate grounds to build solid trust between councils and their residential communities.

c3. Cost shifting must stop or be fully compensated / identified

c3.1 Increases in compliance standards or services dictated by the NSW Government must be supported by a commensurate ability for councils to fund those services via subsidies, direct payments or, as a last resort, by direct increases to ratepayers BUT on condition it be noted separately in any rates notice as a state government imposed charge or activity. This includes emergency services payments, waste levies, audit fees, election fees etc.

d.) Social and economic impacts of the rate peg

d1. The rate peg does more harm than good

d1.1 The rate peg strips councils of their ability to abide by the IPR framework, drives 'lazy' citizenry as residents rely on rate capping instead of active engagement, and fosters extreme levels of adversity between councils and communities when SRV's are proposed. Rate pegging should be abandoned by the NSW Government.

e.) Compare the rate peg as it exists to alternative approaches

e1. The IPR framework should be adopted in full

- e.1.1 The rate peg strips councils of their ability to abide by the IPR framework, drives 'lazy' citizenry as residents rely on rate capping instead of active engagement, and fosters extreme levels of adversity between councils and communities when SRVs are proposed. Rate pegging should be abandoned by the NSW Government.

f.) Review the operation of the special rate variation process and its effectiveness

f1. The SRV process is adversarial and arguably dangerous to the health of all involved

- f1.1 The rate peg strips councils of their ability to abide by the IPR framework, drives 'lazy' citizenry as residents rely on rate capping instead of active engagement, and fosters extreme levels of adversity between councils and communities when SRVs are proposed. Rate pegging should be abandoned by the NSW Government.

g.) Any related matters

g1. IPR needs to be given a chance to work as intended

- g1.1 IPR, done correctly, fosters transparency, open government, active engagement by citizens and prudent financial management. More emphasis should be placed on building understanding, capability and capacity to undertake IPR (councillors, staff, community) rather than focus on rate pegging. Authentic IPR engagement will always see respectful, genuine and transparent engagement with community.

g2. Responsible debt is a good thing

- g2.1 Responsible debt should not be shunned where the benefits are truly intergenerational and long term plans show that the debt can be serviced. Ability to assume more debt should be considered in the context of not only actual debt (loans) but also infrastructure backlog as this is an implied 'coming-debt', even if not recognized as traditional debt.

g3. Better / fuller information and engagement with communities

- g3.1 Councils (management and elected members) should be better equipped when presenting budgets to communities, with new capital works being properly costed (with adequate contingencies) and full whole of life costing being a key aspect of any decision making. There could also be more rigour applied to the setting of fees and charges with decision makers and advisors being better equipped to differentiate / set access vs consumptive volume charges.

g4. Fairer / more equitable distribution of FAGs funding

- g4.1 We request that the NSW Government advocates for the financial assistance grant (FAG) to be returned to at least 1% of Commonwealth taxation revenue.
- g4.2 The distribution of the Commonwealth's federal assistance grants (FAG) is a glaring gap in the ToR for this inquiry. Councils with small and/or dispersed populations have limited ability to generate own source revenue beyond rates, but have significant road networks and administrative overheads. They should be compensated to a far higher level than the current FAGS distribution formulae allows in NSW. This is not about 'charity' to smaller populations but rather about recognizing the areas' valuable contributions to aspects such as food security (feeding the nation) and export earnings and acknowledging the absence of a ratepayer base to carry to financial load. Metropolitan areas, and perhaps some major regional centres, can generate income from parking / parking fines and the lease of commercial spaces, along with much larger ratepayer bases. FAGS should, of course, also consider capacity to pay, regardless of location.

g5. Support for service reviews

- g5.1 Management is increasingly being challenged to be 'more efficient'. Experience suggests local councils are already lean and already spread too thin. Perhaps the OLG could fund or have an expert team set up to review Council operations to give Councillors and community feedback as to where there may be real efficiencies yet to be explored. Current academic research into local governments (Prof Joseph Drew) suggests that efficiencies are only weakly associated with financial sustainability and that applying further, in small councils especially, serves only to reduce own source revenue.

g6. Support for targeted shared services

- g6.1 Councils can be encouraged to share services or outsource, where appropriate. But this should be an outcome of local business cases, not any state government mandates. Academic research in Australia indicates that forced amalgamations and shared services do not result in efficiencies, but there may be elements of council activity that can still benefit.

g7. Support for Joint Organisations

- g7.1 It would be good if the NSW government could better support Joint Organisations (JOs) who are mandated under the LG Act - but not resourced - to work on regional strategic priorities. Further, the NSW government should mandate ALL State Government Departments to actively co-develop regional strategies with JOs rather than prepare regional strategies independently of JOs.

g8. Honour grant application processes when governments change

- g8.1 When governments change, the new government should honour payment or grant schemes from previous governments. It costs councils time and money to prepare applications and this should be respected before changes to schemes are implemented by incoming governments. For example, councils entered into 5 year Weed Actions Plans with state government with annual funding anticipated, only to have this changed at the 11th hour in year 4 into a competitive grant by a new government. This risks impacting operational commitments for a service that is seasonal and weather dependent and was being done in good faith based on a previous funding arrangement and jointly agreed Action Plan.

Thank you for the opportunity to submit to the Inquiry into the ability of local governments to fund infrastructure and services. With IPR enshrined in the LG Act, the NSW Government is urged to rely on this framework to its full intent and foster the building of trust between councils and their communities, rather than circumventing the legislation with actions such as rate-pegging.

The IPR legislation in NSW supports the financial sustainability of councils by providing a framework for strategic planning, financial management, and accountability with their local community. It promotes long-term financial planning, asset management planning, transparency, accountability, community engagement, performance monitoring and reporting, compliance and oversight, financial objectives and strategies, financial reporting and accountability, risk management, and financial resilience.

Further, the legislation helps councils assess their financial position, identify future funding needs, plan for the sustainable delivery of services and infrastructure, and make informed decisions to allocate resources effectively based on regular community engagement.

We urge that the focus returns to open and transparent government, and full transparency, and the development of capable councillors and staff, as well as an empowered citizenry.

Leeton Shire Council would be pleased to participate in any hearings or to respond to questions of clarification. Please contact General Manager, Jackie Kruger,

Yours faithfully

Tony Reneker
Mayor

 **Jackie Kruger**
General Manager