

**Submission
No 64**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Penrith City Council

Date Received: 26 April 2024

Penrith City Council submission

The following general comments under the headings Rate Capping, Cost Shifting and Financial Sustainability address some of Council's views in respect of Terms of Reference (a), (b), (c), (e), (f) and (g):

Penrith City Council's financial sustainability and our ability to fund essential infrastructure and services to our community continues to be predominantly impacted by 47 years of rate-capping and cost-shifting from State and Federal Governments.

These barriers to Council's capability to continue to meet the needs of our community have been exacerbated by the:

- Inflationary pressures on our core operational costs,
- Process of successive infrastructure asset revaluations,
- Decline in the Financial Assistance Grant funding,
- Natural Disaster Recovery costs and resilience building efforts borne by Council,
- Constraints of State and Federal Government Grant programs,
- Developer and other agency asset dedications, and
- Inadequately funded growth burdens from the Aerotropolis and population increases.

The terms of reference of the Standing Committee on State Development inquiry unsurprisingly have a focus on the "rate peg", with several terms of reference directly focusing on the rate peg and other terms of reference focusing on the Special Rate Variation (SRV) process. The Inquiry also focuses on financial sustainability across the local government sector, the levels of income council's need, and the effects of cost shifting. There are numerous inquiry findings and recommendations over the past 20 years on the challenges to local government financial sustainability and so this submission includes some extracts from past commentary but does not labour the detailed past findings on rate capping, cost shifting and the need to simplify the currently onerous SRV process.

RATE CAPPING

Since the commencement of rate capping in 1977, Penrith Council feels its ability to levy rates to fund future priorities and deliver essential community infrastructure and services in line with community needs has been constrained.

Rate capping places a significant artificial burden on Council when it comes to our ability to raise revenues in line with our communities' increasing demand for services and amenities.

Setting aside the complexity and constraints of the Special Rate Variation (SRV) process, the continuance of rate-capping, has meant that the proportion of Penrith Council rate revenues will either drop further, leading to a deepening demand on State and Commonwealth grants and other revenues (though most grants fund new assets rather than Council's existing ageing assets), or Council will have to continue to rationalise infrastructure spending and service provision. Rate capping unintentionally leads to unsustainable cuts in expenditure on infrastructure, leading to compounding asset renewal and maintenance backlogs and ultimately a shift of the cost to the next generation who will have difficult choices to make if required service levels are to be maintained. Rate-capping ultimately then has the potential to impact city liveability and community wellness, leaving our community vulnerable to additional financial pressures at a time when they can least afford it.

The cost of providing and maintaining roads, drainage, buildings, open space, and other core services is not and cannot be met by the average income received per person from rating income as both the rating income and contributions from Developers are constrained to levels that cannot keep pace with the growing needs of renewal, maintenance and service costs of Council's existing and new asset portfolio.

Council supports an alternative approach to current rate capping model and considers the Victorian approach of a democracy-based rating variation framework under which councils rates increases are approved based on broad rising tiers and on a councils demonstration that it has developed long-term plans which have been consulted upon and reflect community values and preferences, to be a model that is worth exploring by the Committee.

The Victorian model appeared to be a transparent and flexible rate setting framework that included the following key attributes:

- A four-year Delivery Program, which sets out the council's vision for its term.
- A strategic Resourcing Strategy, which sets out the long-term financial, asset and workforce plan of council, and is aligned to the goals and actions within the council plans

- Annual Operational Plan, which give effect to the short-term financial plan of council.
- Each of the three major planning documents include statutory requirements to consult with the community.

The broad rising tiers of rate increases could be based on some of the following principles being demonstrated by the Council:

- The council has effectively engaged with its community.
- There is a legitimate case for additional funds by the council.
- The proposed increase in rates and charges is reasonable to meet the need.
- The proposed increase in rates and charges fits into Council's longer-term plans for funding and services.
- The council has made continuous efforts to keep costs down.

(Reference: Submission to the Local Government – Rates Capping & Variation Framework Consultation Paper May 2015).

As outlined earlier and detailed in previous inquiries, there is a need to simplify the Office of Local Governments SRV application and engagement processes so that Council can get on and deliver infrastructure and provide services at the levels desired by our community.

COST SHIFTING

Cost shifting from State and Federal Governments and agencies remains a persistent issue for Penrith City Council and continues to increase over time. The transfer of responsibility for infrastructure and service provision or being called upon to provide infrastructure and services when the State and Federal Government or agencies withdraw provision, places an unfair and significant financial burden on Council. Examples include dedication of road, drainage, and recreation assets.

Some of the most significant cost shift examples and costs widely acknowledged in past inquiries include emergency services and the costs for libraries being covered by Council to make up the difference between the committed funding for councils' libraries and the subsidies received. However, the cost of rate income exemptions is even a more significant cost shift. LGNSW reports that exemptions represent a total of \$273.1 million of potential rates that are exempted and redistributed to other NSW ratepayers to pay. An additional \$288.2 million in NSW waste levies are also passed onto the ratepayers through the waste collection fees in their rates bill.

A further \$156.7 million in Cost shifting also takes the form of Council needing to meet the demands caused by population growth driven by Federal Government policy settings, without grant funding proportionate to the imposition of those sources of demand. Although further rate income may be generated by increased population where it includes increased development, the ability for rates to fund the necessary services is constrained.

The unsustainable level of cost shifting that continues also highlights the need for better communication to ensure that government is more effective, efficient, and transparent. An example of the consequences of this concern includes inefficient and inconsistent government grant funding requirements where major infrastructure projects have multiple governmental funding sources. If government funding bodies communicated in a more collaborative and integrated manner then Council could operate more efficiently with more streamlined and consistent grant funding approaches e.g. Penrith City Park project and improved efforts on public and affordable housing, waste management, climate change mitigation and social services.

In recent times Council has experienced successive natural disasters (e.g. floods and fires) and some costs of recovery and costs of our resilience building efforts seem progressively to be borne by Council in what amounts to cost shifting. For example, Sandbagging, Pothole repair, Debris clearance and Road Closure costs of around \$600k were rejected on the basis that the costs were not adequately evidenced to State guidelines, despite the costs being clearly disaster related. Equally of concern are the State guidelines specific exclusion of damage to riverbanks, where Council has experienced significant disaster costs that Council is finding difficult to fund. Council acknowledges that the government makes funds available following a declaration of a natural disaster however Council's experience has been that access to these funds is not necessarily reflected in the State government announcements of their availability.

The complex and time-consuming process for accessing the funds in our experience is constrained by subjective analysis by government officials in circumstances where there is clear evidence of damage to assets caused by disasters.

FINANCIAL SUSTAINABILITY

Penrith Council as with most councils, face a broader issue of long-term financial sustainability given the challenges faced by Council in providing

a growing range of infrastructure and services including some that extend beyond our traditional role.

Penrith Council has a portfolio of Infrastructure, Property, Plant and Equipment (IPPE) of \$4.8 billion with asset depreciation of around \$57 million p.a. Council manages infrastructure requirements and risks and expends around \$17 million p.a. on infrastructure renewal work (predominantly on Roads and Drainage assets), falling short of the 100% benchmark Buildings and Infrastructure Renewal ratio with a ratio of 44% in 2022-23.

A key reason for this shortfall is not only community expectations, inflation in our core operational costs, and the process of successive infrastructure asset revaluations, but also the ongoing impacts of rate capping and cost-shifting. The Council is essentially forced into diverting funding from long-term ageing infrastructure to new infrastructure projects, vital National economic development requirements, to manage asset dedications from Developers and other agencies, and short-term human services, while at the same time being increasingly squeezed by additional fiscal pressures and funding constraints. As a result, Council's asset renewal and maintenance backlogs continue to grow as does the cost to bring our assets to an agreed level of service rising to \$93 million as at 2022-23.

Consequently, Penrith Council is experiencing difficulties maintaining our road networks to required service levels nor to the original design standards, let alone upgrading them to modern widths, safety standards or load capacities that cater for larger freight vehicles, higher traffic volumes, and congestion. These impositions require wider and stronger roads and significantly larger intersections, requirements that under current funding approaches, are not able to be satisfied. The provision or upgrading of community and recreation facilities is also not keeping pace with our population growth and expanding community requirements.

Community and recreation facilities have aged and not kept pace with our demographic and population changes and rising community expectations. Replacements to modern standards and provision of additional or alternate facilities are unfunded, often relying on grant funding to be upgraded, replaced, or built. Our asset backlogs and renewal requirements come under pressure as State and Federal Government resources are predominantly allocated to building new infrastructure and developing new services rather than supporting our existing ageing assets that are in dire need of funding. Should the constraints on funding continue

then councils including Penrith could be faced with the prospect of having to retire infrastructure that we cannot afford to maintain or renew.

It is projected that the amount of infrastructure requiring renewal will continue to increase over the next 20 years as infrastructure built during the post-war “Baby boom” and the rapid growth period of the 1960s and 1970s age and their condition, capacity and function deteriorates even further.

Over time, the roles and responsibilities of local governments have increased as a result of increasing community demand, cost shifting, and the need to address market failure. This is particularly the case where it is not financially viable for the private sector to provide essential goods and services such as childcare. Penrith Council is the main provider of Children Services in our Local Government area.

It is also vital that the Government better funds the necessary infrastructure and services that will support greater density and growing populations, to enable Council to play our role in enabling housing supply. These and other roles and responsibilities of Council have grown significantly over time however our revenue base has not, as it has been constrained by the aforementioned factors.

As an indication of the level of income Penrith Council requires to adequately meet the needs of our community, reference could be made to Council’s latest draft Long Term Financial Plan which indicates deficit Operating Results before Capital Grants and Contribution (including depreciation) ranging from \$37 million to \$45 million from 2024-25 to 2033-34. Further indications are highlighted above under the Financial Sustainability section in reference to Council’s cost to bring our assets to an agreed level of service rising to \$93 million as at 2022-23.

FINANCIAL ASSISTANCE GRANT (FAG)

Penrith Council advocates for continued and increasing funding support from the State and Federal governments (not only FAG) to recognise the rapid changes in responsibilities faced by Council and our growing future priorities e.g. new Aerotropolis and population growth.

Penrith Council received \$12.84 million for our FAGs allocation in 2023-24. Nationally FAGs have declined by more than 43% in real terms, and amount to approximately 0.55% of Commonwealth taxation revenue. This is despite an annual growth rate in Australia’s Gross Domestic Product (GDP) of an average 3.5% from 1960 to 2017, and population growth of 6 million since 1996.

The current underfunded Financial Assistance Grant (FAG) funding arrangement has been in place for more than 40 years. The FAG program confirms that the Commonwealth clearly understands that funding support is appropriate to achieve specific outcomes being sought by the Commonwealth in partnership with the local government sector. However, both the longstanding and the most recent iteration of the program remains, in real terms, well below appropriate and required levels. This perspective has been thoroughly evidenced and documented in past inquiries.

Council's view on the inadequacy of FAG government funding and the consequential impact on infrastructure and service provision also extends to other funding programs to assist with say, road safety, disaster recovery, waste services, animal services and many other services to our community.

The States and Local Government also used to receive a FAG which was indexed on the same basis, but the introduction of the Goods and Services Tax (GST) has seen the States receiving a significant GST grant, linked to the GST tax revenue which is a more sustainable source of income and one that Council does not directly benefit from. Local government's arrangements have essentially remained unchanged. While GST revenue continues to increase at a higher rate than FAGs, the grants as a proportion of Commonwealth taxation revenue have been steadily declining.

CONCLUSION

The current capacity of Council to raise revenue is vital to our financial sustainability and to the well-being of our community. Unfortunately, our LGA has insufficient revenue-raising capacity to maintain or upgrade our significant infrastructure holdings or provide the level of services that our community deserve.

Penrith Council is therefore supportive of the Standing Committee on State Development inquiry and is appreciative of the Committee's acknowledgement of the increasing and growing infrastructure and service delivery obligations of local government. Council is optimistic that together with the local government sector and the Committee, tangible findings and workable recommendations can be developed and new approaches implemented to the benefit of our community.