Submission No 65

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Tweed Shire Council

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TWEED
SHIRE COUNCIL

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NSW Legislative Council
Standing Committee on State Development
www.parliament.nsw.gov.au/committees/inquiries

Dear Sir/Madam

Inquiry – Ability of local governments to fund infrastructure and services

Thank you for the opportunity to provide input to the above inquiry.

Local government is entrusted with the responsibility to provide a wide range of vital infrastructure and services to the community within a complex statutory framework. It is hoped the inquiry will be able to address the many funding challenges councils face in an environment of increasing expectations and service levels.

It should be noted that these funding challenges mainly exist for the general operations of local government. Waste management operations and water/wastewater operations are generally adequately catered for. They are single function activities that operate under specific frameworks that encourage the full funding of efficient costs.

The general activities of local government however face the many issues of income limitations and cost shifting to fund a vast array of competing services, facilities and infrastructure. This submission will therefore focus on these general activities only when addressing the terms of reference.

Inquiry Terms of Reference

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

Council general income is required to meet the following broad cost types:

- Charges from other levels of government,
- Mandatory costs of administration,
- Provision of standard services,
- Provision of discretionary services, and
- Provision of public infrastructure.

The level of income required is the amount that meets the above cost types. The cost of public infrastructure includes the required maintenance, annualised asset renewal and remediation costs, as well as loan repayments that maybe utilised to fund asset upgrades.

In relation to standard and discretionary expenditure, the Integrated Planning and Reporting (IP&R) framework provides a vehicle for councils to determine the required mix and levels of service standard that the community requires and is willing to pay for.

Income to fund these costs is mainly derived from the following categories:

- Rates,
- Fees and charges,
- Interest on investments,
- Grants, and
- Contributions.

As most of these categories have some form of constraints or are not controlled by councils, it is difficult for councils to set income based on required expenditure. Rates are limited by the rate peg or require a special rate variation (SRV) process, and many fees do not achieve full cost recovery due to desired community service obligations or statutory limitations.

Accordingly, expenditures are more determined by available income rather than community needs.

Discretionary services, once in place, are politically difficult to reduce/remove leaving the main cost type to suffer from a funding shortfall being the maintenance, renewal and upgrade of public infrastructure, which can then result in intergenerational equity issues for the infrastructure backlog. This is somewhat perverse as the costs of infrastructure provision is the fundamental element of a functioning community and cannot be avoided in the longer term.

This reduced expenditure on infrastructure has historically been an easy target as it was less visible than the reduction/removal of a service and the true cost (forgone) from lack of timely investment not being reliably measured. Infrastructure provision, as a result, was left with funding the cutbacks made over many years due to rate pegging, cost shifting and other constraints.

While the current Local Government Act and IP&R guidelines put a greater focus on sound financial management and improved asset accounting and asset management practices, providing more reliable measurement of financial requirements and results, there are still many shortfalls in funding, practices and measures.

Further, the full implications (and explanation) of not funding infrastructure needs to be considered when making comparative choices to discretionary services with the allocation of general purpose revenues to various services reviewed to determine if in fact community preferences are being met.

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

The experience for council over many years has been that infrastructure and to a lesser extent services have had to be reduced due to rate pegs. The increase provided by the maximum variation would generally only cover increases in employee costs and other non-discretionary costs, leaving no scope to increase budgets for materials and services.

IPART recently conducted a review of the rate peg calculation methodology and some improvements have been made. The Inquiry should find good input from the submissions made to IPART.

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.***

In regard to cost shifting, Local Government NSW recently engaged the consulting firm MorrisonLow to provide a specific report on this matter.

There is also a current review being conducted by the NSW government on Emergency Services funding, one of the major cost impositions on local government.

While these should provide the Inquiry with specific industry wide information on this matter, council will address some matters here.

In regard to Emergency Services, councils pay various levies and contributions for fire services (urban and rural) and emergency services. These can change significantly with little warning or explanation and until recently no option but to absorb the additional costs.

For Tweed Shire these costs have increased from $630k in 2019 to $1.5m in 2024, an increase of 140% over just five years. It is unfathomable how the state government can increase its own charges to this extent while applying the rate peg to local government. Council believes it should not be a vehicle for the funding of services that are the responsibility of the State Government and that they should be funded from their own income sources.

In regard to pension rebates on rates and charges, the state government only funds 55% of the reduction in income and local government is required to forego the other 45%. Council believes it does not have the appropriate revenue base for such direct welfare payments.

In regard to levels of service delivery and sustainability, these are difficult issues to reliably measure from existing information. While there is little doubt that factors such as rate pegging and cost shifting have had an adverse impact, and there may be any amount of empirical evidence of funding shortfalls, a reliable and consistent approach to measurement is required to clearly show the actual results and possible solutions.

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***.

Council is not in a position to provide an adequate answer in this regard without considerable research. The new rate peg methodology is a step in the right direction but needs some time to mature before any rational analysis can be made.

Council has used the special variation process sparingly to meet identified specific needs. This has been necessary to remain fiscally responsible but is a difficult process both practically and politically.

Council also tries to maximise opportunities from specific purpose grants where relevant, despite the onerous application and acquittal work they usually require.

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 considered that the recent review of the rate peg by IPART has addressed a number of issues and would provide relevant input for this Inquiry.

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.***

In regard to the SRV generally providing the required levels of income, it is considered that the process is too focussed on specific projects, and it appears IPART is not interested in general financial sustainability as a sufficient purpose. A standard reliable measure of sustainability may help develop a specific process for this.

It is also considered that a simpler process could be allowed for less complex situations. A recent example for Council was the levying of a special rate for a single development area. Only the developer and future ratepayers were affected whilst Council had to apply the full consultation process across the Shire.

g) ***Any other related matters***

Specific Purpose Grants

The main source of general income for council after rates is grants.

As mentioned in d) above Council tries to take advantage of specific purpose grants where possible. They mostly however become available with short notice in reactive grant program rounds for which councils are expected to be shovel ready to get applications approval. This can have an adverse impact on council's priorities and ability to resource the projects and result in funds not being optimised.

Council considers they could be much better applied if made available through more flexible and long-term recurring forms of funding programs, such as the Roads to Recovery program and the Stronger Country Communities fund. If grants were more in the form of rolling annual allocations with known amounts over a reasonable number of years allowing more flexibility in scope, councils could choose projects that better meet the communities needs and be better able to prepare management resources, undertake pre-construction planning and design, and execute project delivery.

Statutory Fees

As mentioned in section a), any limitation to applying full cost recovery for fees results in rates being diverted to subsidise these mandatory services. It is considered that all fees limited by statute should be reviewed and indexed regularly to ensure they maintain a reasonable level of cost recovery.

A specific area of concern for Tweed Shire are the fees allowed for processing development applications. It is Council's position that an audit of the actual average cost of assessing and determining a development assessment should be undertaken and that the statutory fees be increased to reflect the true cost of the assessments and index the fees annually. This would take considerable pressure off rates for councils like Tweed experiencing significant number of DA's. Presently development assessment functions at Tweed are subsidised from rates revenue by $3m annually. This is a perverse outcome where existing residents are subsiding the development assessment of new development.

Developer Contributions

Developer Contributions are an important source of income for local government to fund infrastructure for new development. Like fees and charges, these are also regulated or capped in NSW. In fact, developer contributions have been capped since August 2012 at $20,000 per each brownfield dwelling and $30,000 for a greenfield dwelling; without regard to Council's costs in providing related services and infrastructure.

Construction and land costs have increased significantly since August 2012. The average lot in Tweed ten years ago sold for approximately $300,000 with developer contributions at $30,000 representing 10% of the land value. Today lots are in excess of $750,000 and contributions are still at $30,000 (4%). The State is of the belief that by restricting contributions payable to councils, it will open up supply and make land more affordable. The reality is if councils cannot forward plan and build infrastructure because they cannot fund it, they simply won't. In the longer term this will result in the infrastructure necessary for development not being available, which will lead to a significant housing crisis with long lead times to resolve.

Developer infrastructure caps should therefore be lifted and indexed annually to avert a future housing crisis even worse than what we are currently experiencing.

Local Water Utilities Funding

While water and wastewater operations are required and substantially able to be fully self funded, there is still a level of risk and uncertainty in achieving full cost recovery. A separate issue paper is submitted to provide the detail of these matters.

Thank you for your consideration.

Yours sincerely

Naomi Searle
Acting GENERAL MANAGER