

**Submission
No 66**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Lockhart Shire Council

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24 April 2024

The Hon Emily Suvaal MLC
Chair
Standing Committee on State Development
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Madam Chair

Inquiry into the ability of Local Government to fund infrastructure and services

Lockhart Shire Council welcomes the Inquiry and appreciates the opportunity to make a submission. Council wishes to submit the following comments with particular reference to parts (a), (b), (c), (d) and (g) of the Inquiry's Terms of Reference.

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

Local Government has evolved over a long period of time well beyond the early days where it was primarily concerned with providing property related services e.g. road access, drainage, waste collection etc, which justified a property-based tax as the main source of revenue. Local Government's evolution into non-property-based services such as public libraries, parks and gardens, public swimming pools, sporting grounds and the like, means that people who do not own property and therefore do not pay rates, now benefit from a wide range of services provided by local councils.

The increasing range of services provided by Local Government, and in particular non-property-based services, justifies increased funding being provided to local councils by other levels of government in order to fund this expanding role.

Whilst revenue sharing grants are a matter for the Commonwealth Government, it is worth noting that the provision of financial assistance by other levels of government to Local Government is also in the interests of fairness and equity. In a highly mobile society we do not necessarily live in (and pay rates to) the same local government area in which we work, or play our sport, or do our shopping or spend our vacations.

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Intergovernmental financial arrangements and the provision of financial assistance to Local Government means that non-residents of an area can make a contribution towards the services they access in other local government areas through the payment of direct and indirect taxes. This arrangement acknowledges the citizens dual role as a ratepayer and a taxpayer.

Council submits that the financial assistance provided to Local Government needs to keep pace with the expanding role performed by local councils and more particularly for rural councils for the following reasons:

- Rural councils do not have the same opportunity to generate own source revenue streams as do larger metropolitan and regional cities which collect income from sources not available to rural councils such as parking fees and fines.
- An allotment in a densely populated city may generate scores of rateable assessments through high rise development whereas a single allotment in a rural shire will generate just one.
- The provision of services is more cost effective in a densely populated area. For instance a few metres of road, footpath, kerb and gutter, stormwater drainage, water and sewerage main can service scores of rateable assessments (as per the above example) whereas in a rural shire that same infrastructure is likely to service just one rateable assessment.

Council respectfully submits that the last dot point above is the reason why council amalgamations have not resulted in lower rating levels but on the contrary, many merged councils are amongst those seeking special rate variations. Economies of scale in terms of geographic size are often confused with economies of population concentration and it is the latter which leads to cost savings. This needs to be acknowledged and rural councils need to be financially supported accordingly.

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

Council has welcomed the recent changes to the rate peg methodology following a review by IPART. However, having regard to the specific terms of reference and as to whether past rate pegs have matched increases in costs borne by local governments Lockhart submits that in its case it has not.

Of particular concern to Council is that in the past the additional revenue generated by the rate peg was swallowed up by increases in certain government fees and charges meaning that it provided no allowance for meeting general increases in the cost of labour and materials so that Council may keep pace with the cost of providing existing services.

For instance the fees payable by Council to the Audit Office of NSW have more than doubled in recent years and of course there have been significant increases in Local Government's share of the Emergency Services Levy.

Council understands the political reality of the rate peg and has welcomed the flexibility of the revised methodology. However the situation where Council's rate revenue is pegged by government, only to have the additional revenue generated by the rate peg swallowed up by fees payable to other government agencies not subject to the same legislative restrictions needs to be addressed.

- 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 is not a new or even a recent trend. As far back as 1971 the soon to be Prime Minister, Gough Whitlam, stated in a speech on Intergovernmental Relations that:

*"The future of Australian federalism depends far more upon municipalities than upon the Commonwealth or the States. Federalism is threatened not by the drift of power from State capitals to Canberra but by the States imposing upon municipalities functions which are beyond their means."*¹

It is not proposed to go into detail on the issue of cost shifting in this submission beyond stating that more than 50 years after Gough Whitlam's speech it continues to be a major concern. Council believes that Local Government NSW more than adequately collates information on the degree of cost shifting on to NSW Local Government and is continually advocating on behalf of councils on this issue.

It is worth noting however that councils are often criticised for voluntarily becoming involved in services and activities that are not necessarily core local government functions. This criticism is considered unfair because as the level of government that is closest to the people it is the local council that the community turns to when a service, whether privately operated or provided by another level of government, closes down or leaves town.

The local council is often the "last person standing" and the local community is not concerned with constitutional arrangements and which level of government is responsible for which functions. They simply want their needs addressed.

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¹ Address by Gough Whitlam delivered to a seminar on Intergovernmental Relations at the Australian National University, November 1971.

Responding to the community's needs in this way is considered consistent with the Guiding Principles for Councils set out in section 8A of the Local Government 1993 which states that:

“(c) Councils should plan strategically, using the integrated planning and reporting framework, for the provision of effective and efficient services and regulation to meet the diverse needs of the local community.

“(d) Councils should apply the integrated planning and reporting framework in carrying out their functions so as to achieve desired outcomes and continuous improvements.”

A key component of the integrated planning and reporting (IP&R) framework is the Community Strategic Plan (CSP) which is prepared in consultation with the community and reflects the community's priorities.

Council is currently experiencing this very issue with the closure of a privately operated childcare centre in town leaving many parents without access to this critical service. In a small community like Lockhart this has significant flow on effects with some parents potentially having to reduce their working hours or, worse still, having to cease working all together at a time when local businesses are having difficulty is attracting staff.

It is important to view Council's earlier comments regarding the expanding role of Local Government in this context, and in particular the need for financial assistance to Local Government to keep pace with this expanding role.

- d) Assess the social and economic impacts of the rate peg in New South Wales for ratepayer, councils and council staff over the last 20 years and compare with other jurisdictions.

According to IPART the purpose of the rate peg is twofold:

1. *“It allows all councils to automatically increase their rates income each year to keep pace with the estimated change in the costs of providing their current services and service levels to households, businesses, and the broader community – that is, their base costs. This helps ensure that they can maintain the scope, quantity and quality of these services over time without undermining their financial sustainability.*
2. *It also limits the impact of these automatic increases on ratepayers, by ensuring that councils cannot increase their rates income by more than the estimated change in their base costs, and that they engage with their communities if they propose a steep change in their rates income to fund improvements in the scope, quantity or quality of their services.”²*

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² IPART, Review of Rate Peg Methodology, Final Report, August 2023.

With respect to 1) above the emphasis is on keeping pace with the change in costs of providing existing services and service levels i.e. a council's base costs. In other words the objective of the rate peg is to enable a council to maintain the status quo or a business as usual approach. It does not enable a council to embark on anything new or over and above the range of existing services unless it can be funded by some other means or by way of a special rate variation being approved by IPART.

This means a council may also be restricted in implementing priorities that are contained in its CSP notwithstanding that the CSP is developed in consultation with the community and, whilst the council may be the facilitator and the custodian of the document, the CSP is very much the community's plan.

Council believes that the interplay between the IP&R framework as outlined in Chapter 13 of the Local Government Act, in particular the extensive community consultation that underpins the IP&R process, and the extensive consultation required as part of a special rate variation application to IPART, needs to be reviewed or better coordinated. If the community consultation process underpinning the IP&R process incorporates appropriate consultation in relation to the revenue policy required to implement the CSP, so that the community understands the financial implications of the priorities it wishes to include in the CSP, then this should be permitted, or at least a more streamlined process for applying for a special rate variation should be imposed.

g) Any other relevant matters.

The audit financial statements of NSW local government authorities contain six performance measures. These measures provide a reader of the financial statements with a guide as to a council's financial circumstances as well as opportunities for comparing the performance measures for a particular council against industry benchmarks.

Council is concerned with one of these performance measures i.e. own source revenue which measures the degree of reliance on external funding sources such as operating grants and contributions. The industry benchmark is 60% own source revenue which means a council should have less than 40% of its revenue coming from external funding sources in order to meet the industry benchmark.

Council believes that having the same benchmark for rural councils as for metropolitan and regional city councils is unrealistic when rural councils do not have the same opportunities to generate own source revenue as their city-based counterparts as outlined earlier in this submission. Council also believes that own source revenue should carry less weight than the other performance measures when considering that there are sound reasons for the flow of financial assistance to local councils from the Commonwealth Government in particular in view of Australia's federal system and constitutional arrangements.

Generally referred to as vertical fiscal imbalance the Commonwealth has most of the tax raising powers whilst the States and Local Government have most of the expenditure functions and service obligations making financial assistance from the Commonwealth to the States and Local Government essential.

The provision of financial assistance to Local Government also helps address horizontal fiscal imbalance which arises when different areas have cost disabilities in the provision of services due to their geographic and economic characteristics.

The suggestion that own source revenue should carry less weight than the other performance measures, and that rural shires should not be measured against the same industry benchmark as larger city councils, is no better illustrated than by noting that the NSW Government, the most populous State in Australia with a 'AAA' credit rating, falls just shy of meeting the 60% own source revenue benchmark when Commonwealth general purpose revenue (including GST), Commonwealth national agreements and Commonwealth partnerships are taken into account.³

Another aspect of the audited financial statements that concerns Council is that in an effort to bring Local Government into line with financial reporting by other entities and the broader financial framework the uniqueness of Local Government has been lost.

Having public assets like roads, bridges, footpaths, drains, as well as water and sewerage infrastructure valued for balance sheet purposes when the assets cannot be liquidated or be otherwise disposed of regardless of a council's financial position does not assist a reader of the financial statements to gain a better understanding of the council's financial position.

Understanding the condition of these public assets and the cost of maintaining them and/or bringing them up to an acceptable standard that meet community expectations is what is important. The benefit of focusing on the valuation of these assets and the associated cost resulting from this focus by auditors is questioned.

Once again thank you for the opportunity to make a submission.

Yours sincerely

Cr Greg Verdon
Mayor

³ <https://www.treasury.nsw.gov.au/budget-financial-management/revenue-and-taxation>