Submission
No 67

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Campbelltown City Council

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CAMPBELLTOWN
CITY COUNCIL

26 April 2024

Inquiry into the ability of local governments to fund
Infrastructure and services
Standing Committee on State Development
6 Macquarie Street
SYDNEY NSW 2000

Dear Committee members

Submission - Inquiry into the ability of local governments to fund infrastructure and services

Thank you for the opportunity to make this submission on behalf of Campbelltown City Council.

Campbelltown City Centre is identified in the Greater Sydney Region Plan as a Metropolitan Cluster Centre that, together with the centres of Liverpool, Penrith and the emerging Aerotropolis, will support the growth of the Western Parkland City to a region that will be home to in excess of 1.5 million people by 2036.

Campbelltown City Centre is in a unique position as a Metropolitan Cluster Centre at the 'Southern Gateway to Sydney' serving regional and metropolitan communities that often extend outside our rate base.

Submission

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

This will vary from council to council and be significantly impacted by the council's ability to charge user fees and its rate base generally. Other influences such as the ongoing maintenance of regional facilities and natural disasters or significant upswings in operating costs and inflation will result in income being short of the expenditure need.

It is a requirement under Section 8A(1)(c) and 8A(1)(d) that 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
- apply the integrated planning and reporting framework in carrying out their functions so as to achieve desired outcomes and continuous improvements

Furthermore, Section 8A(3) requires each council to, actively engage with their local communities, through the use of the integrated planning and reporting framework and other measures, and that spending should be responsible and sustainable, aligning general revenue and expenses (section 8(B)).

The IP&R framework is mandatory and provides the pathway for each council to reach the level of income required to adequately meet the needs of their community. However, income is restricted to the amount of the rate peg which reduces the flexibility and agile decision making that can only be overcome by a protracted and costly special variation process.

The IP&R framework begins with the community's, not councils, aspirations for a period of at least 10 years. The Office of Local Government (OLG) says the IP&R framework 'includes a suite of integrated plans that set out a vision and goals and strategic actions to achieve them. It involves a reporting structure to communicate progress to council and the community as well as a structured timeline for review to ensure the goals and actions are still relevant.'[1]

The IP&R framework is a powerful tool for the community to have greater access to decision making and visibility of the outcomes that they identify as their main priorities and aspirations for the future and for councils to plan strategies to achieve these goals. We would like to see stronger ties to the objectives of the IP&R framework so that sufficient resources, time, money, assets and people are available to actually meet on balance ratepayer expectations.

The Resourcing Strategy for each council provides public visibility of the council spend, the document must include three components;

- Long term financial plan (10years)
- Workforce management plan, and
- Asset management plan.

The Resourcing Strategy is the point where the council explains to its community how it intends to perform all of its functions, including implementing the strategies set out in the Community Strategic Plan.[2]

For a council to meet the requirements of the *Local Government Act* and align general revenue and expenses decisions will need to be made on how this can be achieved, the following represents those options.

- Apply for a special variation to increase revenue from land rates,
- Find savings in efficiencies or business improvement,
- Cut services,
- Reduce the spend on infrastructure maintenance.

[1] Office of Local Government – website https://www.olg.nsw.gov.au/councils/integrated-planning-and-reporting/

[2] Office of Local Government Integrated Reporting and Planning guidelines September 2021 page 16

User fees and charges are another avenue to raise revenue, many of which are regulated (planning) and others are often subsidised fees for community facilities or activities.

With BTR developments resulting in a high number of residents concentrated on land with a disproportionately low land value the revenue uplift will result in the remaining community paying higher rates.

In the case for waste collection charges, council may only raise a single domestic waste management charge on each rateable parcel of land and we are concerned with the charging for domestic waste management on sites with 150+ units and potentially >300 people and only one domestic waste management can be raised.

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

The IPART found in its Review of rate peg methodology that council's costs have aligned with their revenue and concluded that this was because 'It is also possible that councils have referred to the rate peg when setting their budgets and planning their expenditure, which would explain why councils' total expenses per capita and the rate peg have grown at a similar rate.'[3] This process aligns with the guiding principles for local government under the *Local Government Act 1993*, that is to align general revenue and expenses.

Further evidence that the rate peg has not kept pace with increased costs borne by local governments based on the number of applications for a special variation. Since the current *Local Government Act* commenced in 1993 there have been 876 applications approved for a special variation out of nearly 1,200 applications made, these numbers indicate that the statutory peg is not fit for purpose and has not matched increases in costs.

Recently there have been two reviews undertaken by the IPART and the impact of these has not yet been fully realised:

- Review of the rate peg to include population growth - October 2021
- Review of the rate peg methodology - August 2023

In reality, in order to balance annual budgets, councils are limited in the investment into infrastructure to meet community needs, opting instead to treat the reactive and programmed maintenance requirements with little left to invest in significant renewals and upgrades to ageing infrastructure. Developer contributions assist with partially funding the future growth infrastructure requirements, but it cannot be used to treat current infrastructure used to service current population. Compounding this funding shortfall is the rising costs of materials and contracts.

3 IPART Review of rate peg methodology, September 2022 page 13

3. 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.

An annual cost shifting survey conducted by Local Government NSW (LGNSW) has identified that 'cost shifting onto local government remains one of the most significant challenges facing NSW councils today. The unrelenting growth of cost shifting to councils is increasingly eroding any possibility of financially sustainable local government and risking the capacity of councils to both deliver tailored, grassroots services to their communities and properly maintain vital local infrastructure.

Alarmingly, the latest research commissioned by LGNSW shows that the increase in cost shifting has been accelerated by various NSW Government policies.'[4]

In the latest cost shifting survey which based on 2021-22 data 'LGNSW Cost Shifting Report - How State Costs Eat Council Rates' has identified the most significant examples of cost shifting as:

1. The waste levy - $288.2 million.
2. The cost of rate exemptions, that are redistributed and passed onto other ratepayers - $273.1 million.
3. State and Federal levels of government implementation or increases in regulatory requirements through legislation that is then administered by local government - $208 million.
4. The Emergency Services Levy - $165.4 million.
5. Local Libraries, the original commitment from State Government was to fund 50 per cent of libraries cost, it now covers approximately 8 per cent of the total costs - $156.7 million
6. The NSW Government's, mandatory pensioner rebates - $55.2 million.

The report goes on to say that 'The 2021-22 Cost Shifting Survey has revealed that cost shifting totalled $1.36 billion in 2021-22' 'far exceeding historical records and representing an increase of $540 million since the Cost Shifting Survey was last carried out in 2017-18.'[5]

The survey has identified the additional cost to each ratepayer in the council classifications as between $420.90 and $590.80 per annum:

4 Local Government NSW Cost Shifting 2023: How State Costs Eat Council Rates Report Summary and Highlights November 2023
5 Local Government NSW Cost Shifting 2023: How State Costs Eat Council Rates Report Summary and Highlights November 2023

Fig 1 LGNSW Cost Shifting 2023: How State Costs Eat Council Rates Report Summary and Highlights – November 2023

Accordingly cost shifting is reducing the ability of councils to provide services to their communities and to be sustainable in their approach.

Campbelltown City Council ratepayers absorb over $24m annually, including rate exemptions and waste levy, in costs that should be borne by other levels of government.

4. 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.

Previous inquiries have noted the heavy demands placed on local councils to fund infrastructure and financial sustainability. The NSW Treasury Corporation (TCorp) report Financial Sustainability of the New South Wales Local Government Sector[6] reported a number of key findings from the 152 of the councils surveyed, these included the following.

- Operating deficits are unsustainable – only one third of councils in 2012 reported an operating surplus. Over the period 2009 to 2012, the cumulative operating deficit of NSW councils totalled $1 billion.
- The total infrastructure backlog of NSW councils had reached $7.2 billion by 2012.
- Financial sustainability is deteriorating with nearly 50 per cent of councils' financial outlook likely to be rated 'weak' or lower by 2016-17.
- A large asset maintenance gap exists within the sector with a $389 million deficit in 2012 alone.
- Councils need to start consulting their communities about ways to either increase revenue, lower existing service levels and or standards, and pursue efficiency savings.

Based on the findings from its review into the financial assessment and sustainability of the local government, one of TCorp's recommendations was for rate increases that meet underlying costs of delivering services. TCorp went on to say 'Where a decision by Council is made to increase rates and charges at a lower than required factor, the impacts of such actions must be clear in the context of each Council's sustainability'.

[6] NSW Treasury Corporation (TCorp) report Financial Sustainability of the New South Wales Local Government Sector April 2013

NSW councils adhere to strict IP&R frameworks that require extensive community consultation that allows for intervention by the community and mandates numerous consultation steps. It is important to note that the IP&R framework was not in place when rate pegging/capping was introduced in 1977 yet the NSW Government has made no concessions to allow the ratepayers of NSW more choices in how the community can be better funded.

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

Recently there have been two reviews undertaken by the IPART and the impact of these has not yet been fully realised:

- Review of the rate peg to include population growth - October 2021
- Review of the rate peg methodology - August 2023

The rate peg has included a population growth factor since 2022-23 made on a council by council basis. The population factor is calculated as the change in residential population less any increase in general revenue from supplementary valuations. Not all councils receive a population growth factor, in 2022-23 there were 81 of the 128 NSW councils that received a population growth factor of 0 per cent, in 2023-24 there were 87 and for 2024-25 there are 79.

The review of the rate peg methodology undertaken by the IPART has resulted in further changes that affect the peg from 2024-25. According to the IPART "The new methodology we have applied will better account for the diversity among NSW councils and help ensure ratepayers contribute only to costs relevant to their local government area." "These rate pegs are based on employee cost increases, forecast inflation and council-specific changes in Emergency Services Levy contributions and population growth."[7] The new peg is forward facing and now accounts for any changes in contributions for the Emergency Services Levy (ESL) from one year to the next.

6. 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.

Historically it is dependent on the rate base the council had when rate pegging was introduced and what that council has implemented since. Following on from the NSW Governments 'Fit for the Future' investigation many councils found it necessary to apply for significant rate increases to remain sustainable. This situation leads to injustices in intergenerational equity as the current and future ratepayers are paying for decisions by preceding councils by not raising the appropriate fair and equitable land rates.

[7] IPART Media Release Rate peg set for 2024-25 - 21 November 2023

Smaller and more frequent rate increases that align with the need to fund essential services and infrastructure should be permitted outside of the onerous and often politically sensitive Special Variation process. The Revitalising Local Government review said 'The Panel can find no evidence from experience in other states, or from the pattern and content of submissions for Special Rate Variations, to suggest that councils would subject their ratepayers to grossly excessive or unreasonable imposts if rate-pegging were relaxed.'[8] The panel went on to recommend that rate pegging transition to a streamlined approach by quoting advice from the IPART for, 'increased flexibility for councils to set rates within a margin of 3 per cent above the rate-pegging limit.'[9] However, 'the Panel considers that a margin of up to 5 per cent would be more realistic where councils need to make significant short-medium term inroads into infrastructure backlogs and correct operating deficits.'[10]

Essentially, differing a required variation to adequately meet the communities needs for future generations to deal with should be discontinued and council infrastructure backlogs greater than 2 per cent should be encouraged. To increase their rate base to bring the ratio back to <2 per cent in a period determined by the IPART. The IPART would need to consider the impact and capacity of the community and any other efficiency savings that might be available to the council.

To put this in perspective the amount of any shortfall in rates levied in a particular year has a compounding effect on future years, this occurs due to the way in which the Permissible Income calculation is determined. By way of an example, if the amount that a council needs to fund its expenditure from rates is short by say $1 million the starting point for their permissible income in year two will be short $1 million plus any amount of the peg for that year. Therefore, if the peg was 5 per cent the council would be $1,050,000 behind in the first year and over a period of ten years this number (assuming 5 per cent pa peg) will exceed $11.5 million and give rise to the absolute need for a special variation.

7. Any other related matters.

    - Exemptions

        - Community Housing Providers - should not be exempt from land rates, the residents are users of council provided works, services, facilities and activities.
        - Aged Care and retirement villages run by Public Benevolent Institutions - should not be exempt from land rates, the residents are users of council provided works, services, facilities and activities.
        - All land used for Residential or Commercial purposes should not be exempt. This concept had been raised in numerous inquiries and reports.

[8] Revitalising Local Government - Final Report of the NSW Independent Local Government Review Panel October 2013 page 42

[9] Revitalising Local Government - Final Report of the NSW Independent Local Government Review Panel October 2013 page 44

[10] Revitalising Local Government - Final Report of the NSW Independent Local Government Review Panel October 2013 page 44

  - Affect on funding and budgeting - large exemptions. The legislation allows an exemption to apply pro-rata as a proportion to the period of eligibility. In some cases land valued many millions of dollars could be purchased and become exempt during the current year, without any advanced notice. If exempt, the council will need to abandon the rates levied having a direct impact on the current budget.

- Pension Rebate Concessions - social welfare is the responsibility of state and federal governments and full funding of the rebate scheme should not be a responsibility of local governments. The amount written off by councils should be discontinued and fully funded by the NSW government. Furthermore, indexation should be applied to the current rebate scheme in order to keep pace with the cost of services and not dimmish the pensioners capacity to pay.
- Emergency Services Levy - The NSW Government is currently in the process of considering reforms to the ESL. A consultation paper 'Reforming the emergency services funding system' was released on 10 April 2024 with submissions closing 22 May 2024. Local councils are required to contribute 11.7 per cent of the costs to run Fire and Rescue NSW, Rural Fire Services and State Emergency Services each year, collectively contributing $220 million. It is recommended that the state government remove the council contributions and instead manage collections through Revenue NSW as recommended by the Portfolio Committee No. 4 - Legal Affairs Fire and Emergency Services Levy November 2018. Campbelltown City Council currently contributes over $2.5 million towards the costs of these three State services.

Thank you for the opportunity to comment on the inquiry, if you have any questions regarding our submission please do not hesitate to be in touch.

Yours faithfully

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