

**Submission
No 70**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Bellingen Shire Council

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Standard Committee on State Development
Legislative Council
Sydney NSW 2000

SUBMISSION TO THE INQUIRY INTO THE ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Dear Sir/Madam,

Bellingen Shire Council is pleased to have the opportunity to make a submission to the inquiry into the ability of local governments to fund infrastructure and services.

There are many challenges facing the financial sustainability of Councils across the state. Council supports the inquiry, and strongly suggests that consideration be made to reviewing the overall funding framework to address the ability of Councils to fund infrastructure and services.

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

Over the past 4 decades, Bellingen Shire Council's income has not kept pace with the costs of providing services and maintaining its \$0.7 Billion in infrastructure. Despite Council's best efforts to improve its financial position through efficiency improvements and the implementation of multiple Special Variations (SV)'s in recent years, Council does not have sufficient revenues to deliver services at acceptable levels to its community. This shortfall has been demonstrated in the number of SV applications that Council has been required to apply for in recent years, as all SV's have been for maintaining current service levels, not for new or improved services.

Council's community consultation clearly indicates our ratepayers are currently unable to sustain any proposed future SV's.

Bellingen Shire Council, like most councils across the state, have a significant infrastructure backlog to address. As at the 30 June 2023, Council reported a cost to bring assets to an agreed service level of 6.41%. In dollar terms, this percentage represents \$40.3M in required expenditure. To compare this to Councils 2022/23 rate peg increase, the 2.5% increase (rate peg + SV) only generated an additional \$220,359 to go towards maintaining infrastructure and service provision. There is clearly a disconnect between the volume of assets to maintain and the current rate peg increases.

In the current environment of high inflation, Council has seen a significant increase in the costs of providing services. In particular, Council has examples of projects that have more than doubled over the past few years. The current rate peg means Council has been required to lower services levels, resulting in an increase in the infrastructure backlog. This is not a favourable outcome for our communities.

Simply, Bellingen Shire Council cannot generate the income it needs to adequately meet the needs of the community.

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

The rate peg has failed to address the significant increases in costs required in maintaining Council's extensive network of roads and bridges (as reflected in our large infrastructure backlog) nor keep pace with the increase in costs to provide a consistent level of service to the community.

There are a number of increases in costs that the rate peg does not consider, such as:

- Wage increases data for Local Government employees;
- Increases to the emergency services levy (which vary from council to council);
- Asset deterioration data;
- Impact of climate change and continued impact of natural disasters and severe weather events;
- Coastal management and associated additional costs;
- Population demographics, including pensioner concession required to be granted; and
- Global economy and supply change interruptions.

To provide a working example of the impact of annual costs that Council has little control over and the comparison to the annual rate peg, below is just one example of the impact an average rate peg has on the financial sustainability of Council:

2022/23

Rate peg

Income from rate peg (based on 2.5% average rate peg): \$220,359

Expense examples:

Wage increase - NSW Local Government (State) Award increase (2% increase) \$213,960

Emergency Service Levy Increase 2022/23 \$165,009

\$378,969

From the example above, we can see the average rate peg fails to cover just a few examples of expenses Council has no control over. If the intent of the annual rate peg is to maintain service levels, the above example clearly shows the vast gap in just covering the annual wage increase. This leaves no funds to contribute to the maintenance of services and infrastructure. This annual affect has continued to deteriorate the financial position of Council.

(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

Council receives operational grant funding each year from the NSW Government. For almost all of these funds, the costs of undertaking the specific activities outlined with the funding, is in excess of the funds received.

Cost shifting remains one of the most significant challenges facing the NSW local government sector. The 2021–22 Cost Shifting Survey has revealed that cost shifting totalled \$1.36 billion in 2021–22. Addressing the increasing cost shift to local councils is one of the keys to addressing financial sustainability issues in the sector.

Bellingen Shire Council has experienced many instances of cost shifting, with the most material being the Emergency Services Levy. There has been a substantial increase in recent years in the Fire and Emergency Services Levy (FESL) applied by the NSW Government to Bellingen Shire Council.

Bellingen Council has seen the FESL increase from \$388k for the 2018/19 financial year, to \$698K in 2023/24, see below:

<u>Year</u>	<u>FESL Payment</u>
2017/2018	402,151
2018/2019	387,517
2019/2020	477,606
2020/2021	661,295*
2021/2022	495,439*
2022/2023	660,449
2023/2024	698,380

*Note in two years a temporary subsidy was provided.

At the Ordinary Council meeting held on Wednesday 28 February 2024, Mayor Cr Stephen Allan moved a motion Mayoral Minute addressing the pressing issue of Cost Shifting onto Local Government. He underscored the gravity of the situation, stating: "Cost shifting really restricts our Council's capacity to deliver services of appropriate standards to our community and to maintain vital local infrastructure. It is our community that is suffering as a result. Our communities deserve better, and this must stop."

(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

For Council, the financial environment is particularly challenging, with the low population numbers, disparate population centres and challenging climatic environment, achieving ongoing financial sustainability is difficult. Bellingen Shire Council, like many councils statewide, faces ongoing financial strain, heavily dependent on external funding to support its limited rate base in order to provide vital services to its community. Due to over four decades of rate pegging in NSW, Bellingen's revenue has failed to match the expenses of delivering services and upkeeping its \$0.7 billion in infrastructure. This is evidenced by the necessity for multiple special variation (SV) applications in recent years, all aimed at sustaining existing service standards rather than introducing new or enhanced services. A continued system of large SV's is not a sustainable model for the sector. This has created significant intergenerational equity risks.

The rate peg has not protected ratepayers from unnecessary rate increases. Evidence of the number and scale of SV applications over the past decade would suggest that there is only a short-term protection from excessive rate increases. There are dozens of examples of 30%+ rate increases implemented by councils across the State.

(e) compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff

Council strongly advocates for the abolishment of the rate peg.

The current process of providing a rate peg that sufficiently supports the ability of the Council to fund infrastructure and services is an impossible task. A more practical approach would be to abolish rate pegging in its entirety and allow Councils to control its primary income source. As a comparative, Councils have been managing their water and sewer funds appropriately for decades, without the unnecessary fluctuations that have been seen with SV's.

If the abolishment of rate peg is not supported, Bellingen Council strongly suggests a more extensive and tailored approach to calculating the rate peg. More focus needs to be placed on addressing the

unique cost drivers impacting each Council, with the possibility of grouping of like for like Councils may be a more efficient way of providing a rate peg.

Specifically, the rate peg should consider the following:

- Road length per capita for each Council.
- Number of bridges per capita for each Council.
- The differing factors facing metropolitan vs regional communities.
- The varying costs of servicing different communities (for example coastal communities).
- The impact of Climate change.
- Population density and impact of disparate communities.
- Capacity to generate own source revenue.
- Recognition of area of non-rateable land. Over 57% of the Bellingen Shire is made up of State Forest, National Park and Crown land.
- Cost of council's portion of pensioner concession. For Bellingen, 25% of ratepayers are currently entitled to a pensioner concession. This represents an additional net cost to council of \$220K each year.
- Additional audit costs and associated compliance costs (asset revaluation costs, ARIC committee costs).
- Impacts of cost shifting from other levels of government.
- Legislative changes impacting councils. For example, changes to the 2021 Environmental Planning and Assessment Amendment (Compliance Fees) Regulation removed a significant revenue source during the 2021/22 financial year.

(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

Council holds the view that the current SV process is unnecessary and should be removed and give councils the discretion to determine their own rates.

At a minimum, the process needs to be streamlined. Whilst the overall goal of the SV application process is beneficial in terms providing context and outlining engagement activities, the application process is a time and resource consuming exercise. This is especially true for smaller councils with smaller resources such as Bellingen Shire Council. The application form itself is 112 pages long, not including the 37 attachments.

Council also suggests that councils should be allowed to levy rates up to 2% - 3% over the rate peg limit without the requirement to make an SV application.

(g) any other related matters.

One of the consequences of underfunding is the requirement for Councils to utilise borrowings in order to fund these works. This further exacerbates the financial challenges Council is facing.

Council has also seen a significant decline in its internal and unrestricted cash reserves in recent years.

Council believes that funding received from the NSW Government should reflect specific attributes of each unique Council's operational expenditure. Specifically:

- general costs such as fuel, electricity, wages, superannuation and insurances (hence incorporating an understanding of inflationary impacts to Council);
- specific cost shifting costs such as emergency services levy and library services;

- increases in compliance costs such as audit fees and ARIC related costs;
- costs to maintain infrastructure to a satisfactory level; and
- costs associated with addressing the backlog of infrastructure and progressing its infrastructure renewal program.

Council would like to formally request the opportunity to address the Committee should hearings be held to consider information submitted.

I hope you find this submission helpful. Should you have any questions or wish to discuss these matters further, please contact either Chris Hodge

Yours sincerely

Ashley Greenwood
Acting General Manager
Bellingen Shire Council