

**Submission
No 71**

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Shellharbour City Council

Date Received: 26 April 2024

26 April 2024

The Director
Standing Committee on State Development
Parliament House
Macquarie Street
SYDNEY NSW 2000

**Shellharbour City Council Submission
Inquiry into the ability of local governments to fund infrastructure and services**

The following submission has been prepared by Council staff (Council) and is not necessarily a policy position of Shellharbour City Council. It has not been referred to the elected Council. Council welcomes the inquiry into the ability of local governments to fund infrastructure and services and cannot understate its importance to address financial sustainability concerns for Councils in NSW.

Council's financial position has been significantly impacted due to cost-shifting of levies from State to Local Government, increased regulatory responsibilities imposed upon councils, restricted revenue sources, funding mechanisms and the rating system. LGNSW, through their latest cost shifting survey in 2023, estimates approximately \$1.36 billion has been passed on to NSW councils in the form of cost shifting in the 2021-22 financial year, equating to an average cost of more than \$460 per ratepayer. Shellharbour Council's estimate for this area in 2021-22 was \$12.7 million.

Council continues to see significantly increasing costs related to new and existing infrastructure. This is related to population growth and the performance capability and regulatory compliance requirements to replace or upgrade existing assets based on modern engineering equivalent assets, and community expectation for contemporary facilities.

This is further impacted by the growth in asset base and fair value, increasing Council's depreciation expense and making it progressively difficult to meet the Infrastructure Renewal Ratio. Council is forecasting an average renewal ratio that is significantly below the current benchmark over the long-term financial plan, reflecting a gap of approximately \$150 million that is currently unable to be funded under the current rate-peg model. Council has seen an increase in expected depreciation expenses of 52% or nearly \$10 million since 2021. This compares to expected income from rates revenue over the same period increasing by just \$10.9 million. In addition, Council's largest expense category being Employee Benefits, which is primarily impacted by Local Government Award increases, has grown over the four year period by over \$9 million. The rate pegging methodology has become increasingly unsuitable and does not adequately meet the needs of the community, given its long-term impact on local government sustainability, and the increasing cost of servicing, maintaining and operating community assets.

Further areas impacting Council's financial sustainability and its ability to fund infrastructure and services include:

- The more frequent impacts of disasters, disaster funding management and infrastructure impacts on local government financial performance outside of standard asset management planning put further pressure on sustainability.
- The mechanisms and suitability of Financial Assistance Grant funding, and the diminishing revenue yielded by the current model versus the originally proposed model in the context of operating sustainability.
- The significant and ongoing impacts of State and Federal government cost shifting on Council's operating and asset performance.
- Limitations in use of Developer Contributions in addressing existing infrastructure maintenance requirements. Review of full cost recovery mechanisms for statutory and legislated services, such as development applications, where statutory set fees do not achieve full cost recovery.
- Impact of increased regulatory responsibilities imposed upon councils and service requirements to meet the needs of evolving practices such as technology and governance risks.

Shellharbour City Council welcomes the opportunity to discuss these matters further. Should you have any questions, please do not hesitate to contact (Chief Financial Officer)

Yours sincerely

Chief Executive Officer