

**INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO  
FUND INFRASTRUCTURE AND SERVICES**

**Organisation:** Bathurst Regional Council

**Date Received:** 26 April 2024

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The Hon Emily Suvaal MLC  
Chair of the Standing Committee on State Development

Dear Madam

**Submission to the NSW Inquiry into the ability of Local Government to fund Infrastructure and Services**

Thank you for the opportunity for Council to be able to make a submission to this Inquiry. Council welcomes this Inquiry as a review of the “funding” of our sector is well overdue.

**Timing of Inquiry**

Whilst Council acknowledges and supports the need for this review, the timing of the Inquiry and the submission period is unfortunately at a time when councils are finalising their suite of draft Integrated Planning and Reporting (IP&R) publications for consultation with their respective communities. As a consequence, the level of attention that should be directed to this Inquiry will be somewhat distracted as councils are having to focus their attention on their IP&R requirements at this time.

For the Standing Committee’s consideration, it may be prudent for the duration of the submission period to be extended to allow councils to dedicate their full and appropriate attention to this very important matter.

**Rate Peg**

The current system that is the Rate Peg system is broken. This is evidenced by the vast majority of Special Rate Variations (SRV) that have been submitted by councils over the years to maintain existing service levels.

Despite the best attempts of IPART, and the many NSW Governments before them, the calculation of a Rate Peg amount that can be applied to all councils remains an impossible task. Due to the diversity of the councils across our sector, such a system simply doesn’t work.

The diversity of our sector includes, but is not limited to:

- the range of services provided by each Council;
- the level of services provided;
- the level of services that are expected by each community;
- the social and demographic distribution within each council area;
- the population growth/decline;

- the change in population demands/requirements even though net population growth/decline may not change;
- environmental and climatic impacts, and
- proximity to or from metropolitan centres.

Accordingly, the establishment of an appropriate Rate Peg amount for each council, after allowing for the diverse nature of each council, would be too complex to be reliably determined.

The current Rate Peg methodology should be abolished, with council's being empowered to set their own rate increases to deliver the services and service levels expected of their community. Through the IP&R process, and the associated community consultations, councils will remain accountable to their communities for ensuring the financial sustainability of their organisation.

Multipurpose councils have already demonstrated their maturity and responsibility in establishing the rates associated with the Water and Sewer Funds, which are not subjected to the Rate Peg methodology. With these Funds, councils have the autonomy to set any increases in fees and charges to be commensurate with the increases in the costs in delivering these services. In instances where an unplanned, higher than normal increase is proposed, the proposal is brought to the community's attention through an increase in community consultation.

#### Special Rate Variation Process

If the Special Rate Variation (SRV) process is to be retained, this should be reserved for situations where a council is seeking to raise additional rate revenue for a new, or a significant increase in, service unit (which could include a new infrastructure item).

The SRV process should not need to be applied when a council needs to raise additional rate revenue to maintain their existing service levels.

The current SRV process is costly, time consuming and has an adverse impact on the mental health of all those involved. The determination of whether or not to proceed with a SRV application is often highly political due to the perceived influence this has at election times, and therefore self-preservation is considered before the sustainability of the organisation.

Council is one of the few remaining councils across the state that are yet to submit a SRV since the inception of the Rate Peg methodology. Council has been able to "hold out" for so long by each year implementing more efficient ways of delivering our services, and by reducing or cutting the services provided to our community.

Unfortunately, due to the essential services, and the level of services, required by our community, Council embarked on its first ever SRV application journey approximately 18 months ago.

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Through the need for the engagement of an external consultant, due to our inexperience with this process, and the secondment of staff into a dedicated project team, the SRV process became a very costly and resource consuming process. A further unanticipated effect on this process was the attacks that were made on Councillors and Council staff, and their extended families, by the members of the community and extended public. These attacks were often encouraged through social media platforms which Council had no control over or avenue for recourse. The outcome of these attacks has influenced a number of staff to resign from Council, to the point that Council is reporting its highest vacancy rate for some time.

It should be noted that Council resolved to cease its SRV application process early, that is, before the community consultation period concluded. Accordingly, Council is now required to develop a pathway to sustainability, which doesn't include a SRV, but will include the implementation of further efficiencies and further reductions or ceasing of services. Hence Council is not in a position to maintain its existing service levels.

#### Cost of Service Delivery

Putting aside the "cost shifting" discussion for the moment, the Rate Peg amount established each year, repeatedly falls short of the increases in costs incurred by Council in maintaining its services. For example, for the 2023/2024 financial year Council was allocated a Rate Peg amount of 3.8%. The additional revenue generated from this Rate Peg was insufficient to meet the increases incurred by Council arising from the Local Government State Award and the increases in electricity charges.

Accordingly, cost escalations encountered through the materials used in maintaining our existing assets, the fuel and operational costs of our fleet (including plant), the elimination of the Emergency Services Levy subsidy, and the increase in audit fees, to provide some real examples, have all had to be funded from other sources of revenue or simply not provided.

Cost-shifting continues to remain to be an unresolved, yet increasing burden on the local government sector, that adversely impacts the financial sustainability of councils.

The latest research commissioned by Local Government NSW (LGNSW) shows that the increase in cost shifting has accelerated to a value of more than \$1.36 billion per year, up to 78% in just over five years. On average, this represents an additional cost of \$460.67 for every ratepayer across the sector, and results in the reduction, or cessation, of services to our community.

Similar to the sector's requirements under the IP&R obligations, services or functions that are being "shifted" to local government should not occur until after sector consultation has been undertaken, and adequate funding has been secured and guaranteed for future years. Councils should also be afforded the opportunity to decline the "shifted" service or function when the Council has insufficient capacity to deliver the service or function, or where the service or function does not align with the Council's adopted Community Strategic Plan objectives.

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### Funding of Infrastructure

Historically, councils have relied upon their own cash reserves to use as a leverage to access State or Federal government grants to fund new, or the renewal of, infrastructure. However, under the Rate Peg regime, councils have had to increasingly draw upon these reserves to fund the shortfall in their normal day-to-day operating costs, thereby eroding their ability to secure external funding.

Similarly, the “cap” that has been placed on the levying of Section 7.11 Developer Contributions, is creating an environment where the sector is at risk of not being able to deliver the infrastructure that the contributions are being collected for. The Developer Contributions Cap has not been subjected to any indexation or increases since it was first introduced. However, constructions costs have substantially increased over that period, requiring councils to either use their own funds, or source additional external funds, to deliver the required infrastructure. Although, as noted earlier, the sector’s ability to attract external funding, or a council’s own cash reserves, have adversely been eroded under the Rate Peg regime.

### The Way Forward

As noted earlier in this submission, the current Rate Peg system is broken, and should be abolished. Councils should be empowered to have the autonomy to set their own rate increases through their respective IP&R processes and be held accountable to the deliverables contained therein.

In the event that this was to occur, care needs to be taken to ensure that the short-falls of previous years (ie: since the rate peg system was first introduced) are not sought to be recouped in total in the first year. Councils already have a mature understanding of their respective communities, and would have an appreciation of the increases that their communities have the capacity to cover, and when. Accordingly, councils are already well equipped to consider and appropriately implement such a transition.

Council thanks you once again for the initiative to undertake this inquiry and welcomes the opportunity to further discuss this submission should an opportunity arise.

Yours faithfully

Neil Southorn  
**ACTING GENERAL MANAGER**

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