

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Mid-Western Regional Council

Date Received: 26 April 2024

24/4/2024

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

Mid-Western Regional Council Submission
Inquiry into the ability of local governments to fund infrastructure and services

I refer to the Inquiry into the ability of local governments to fund infrastructure and services and thank you for the opportunity to make this submission on behalf of Mid-Western Regional Council.

We note the comments from the Committee Chair, The Hon Emily Suvaal MLC in the media release of 1/3/2024 that *'This inquiry will examine the level of income councils require to adequately meet the needs of their communities, and give consideration to the current levels of service delivery and financial sustainability in local government.'*¹

'The committee will also assess the social and economic impacts of the rate peg in New South Wales and compare the rate peg, as it currently exists, with other jurisdictions and alternative approaches with regards to the outcomes for ratepayers, councils and council staff.'

'In addition, the committee will also 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.'

The matters under consideration are quite broad, however we have made comment on each of the terms of reference below.

The Committee would no doubt be aware of a number of previous reports and inquiries dealing with these or similar issues, including :-

The Commissioners Inquiry into Rating and Taxation by Local Government in NSW in 1989

The NSW Local Government Review Panel "Revitalising Local Government" review in 2013

The IPART report December 2016

The IPART review of rate peg to include population growth – October 2021

The IPART review of the rate peg methodology – August 2023

¹ Media Release - State Development - Local Governments - 18 March 2024

What has occurred following these past reviews is that the recommendations for improvements are often not implemented. It may be of assistance to the Committee to revisit these previous reviews as we expect the matters discussed and potential resolutions put forward will likely still apply.

Submission

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

All Councils are required to consult with their communities to determine their needs, wants and aspirations through the Integrated Planning and Reporting framework.

Notably, Sections 8A(1)(c) and 8A(1)(d) of the Local Government Act provides 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*

Section 8B(a) further requires “*Council spending should be responsible and sustainable, aligning general revenue and expenses*”

The IP&R framework is an extremely robust and comprehensive process to identify, plan and report on the services our community wish Council to provide. It is therefore a great tool to identify, quantify and plan the expense side of Councils budgets. However, the revenue side of the budgets are insufficient to meet the communities wishes. This is primarily due to the constraints imposed on Councils ability to raise rates.

The effect is that services are paired back to match revenue in order to comply with the above legislative requirements.

We believe that Councils are accountable to their communities, the IP&R processes inform a Council of the communities needs and wants, and that Councils should then be free to raise sufficient funds accordingly.

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

Due to the requirements of the Local Government Act 1993 for Council to align revenue and expenses, investigations would likely see that past costs have been met within the rate peg limits. This is not reflective of the adequacy of the rate peg increases, moreover reflective of a decrease in services required to match revenue.

Rate pegging has been in place in NSW since 1977, with the peg determined by Government for the majority of this period, and by IPART since 2010. Past caps determined by Government were often influenced by political objectives, rather than cost change. More recent IPART administered caps have been calculated on a state-wide basis, and were often not reflective of actual cost increases experienced by our Council.

While recent changes to the way IPART will calculate future caps are welcome, we do not believe the processes will fully keep up with costs changes.

Many cost increases have, and will continue to occur without inclusion in the rate peg, most notably the continuing shifting of costs to Councils by State and Federal Governments, and costs incurred due to legislative or regulatory change. These matters are discussed further below.

2. 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.

TCorp provided a definition of a Councils financial sustainability (2013), being :-

“A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.”

As discussed above, the IP&R process allows the community to inform Council of their preferred service levels, the however available revenue to provide those services is often not available and existing revenues are being eroded through increased or transferred costs.

It is Councils view that rate pegging should be abolished, and that the IP&R process is used to set the required revenue needed to provide the services agreed. Councils are directly accountable to their communities meaning there is little risk of rate increases exceeding those necessary.

We recognise the political difficulty the Government may experience in abolishing rate pegging. If this is unachievable, at a minimum there should be provision for Councils to exceed the annual peg by up to 5%, where the IP&R process identifies that need. This should occur without need for any special variation process or external approval.

Other factors effecting revenue include the continually declining (in real terms) Commonwealth Financial Assistance Grants, and the inconsistency in availability of other grants from year to year.

Cost shifting to Councils remains a major, and growing, threat to financial sustainability. This is highlighted and underlined by the latest cost shift with the proposal by the NSW Government to impose a tax on every burial and cremation carried out.

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.

The latest cost shifting survey based on 2021-22 data has identified the most significant examples of cost shifting as:

- a. The waste levy - \$288.2 million.
- b. The cost of rate exemptions, that are redistributed and passed onto other ratepayers - \$273.1 million.
- c. State and Federal levels of government implementation or increases in regulatory requirements through legislation that is then administered by local government - \$208 million.
- d. The Emergency Services Levy - \$165.4 million.
- e. 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
- f. The NSW Government's, mandatory pensioner rebates - \$55.2 million.

The report finds 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.* This equates to additional cost to each ratepayer of between \$420.90 and \$590.80 per annum.

This burden is unsustainable.

Other factors impacting Council costs are our growing population and expanding expectations, increasing community demand for non-traditional roles from Council due to withdrawal of State and Federal Government services and impacts from the rapid and uncoordinated roll out of renewable energy projects in our LGA.

[3. 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.](#)

It is difficult to comment on the social impacts of the rate peg over time due to a lack of available data.

It is Councils position that past rate pegs have not kept up with cost increases, resulting in a reduction in services in order for expenses to match available revenue.

It could be argued that this loss of potential additional services and expenditure has had a detrimental impact on the local economy. If Councils were able to fully fund all of the services identified through the IP&R process, there would be additional employment opportunities created and additional expenditure through local businesses in providing those services.

6. 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 in relation to the rate peg methodology.

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

The reports resulting from these reviews, plus the submissions made during the consultation phases of these reviews, should be of interest to the Committee in relation to this TOR.

7. 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.

The special rate variation process is an extremely administratively burdensome process, and is in our view not necessary. As discussed above, Councils view is that all rate pegging should be abolished. 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 panel said in its Final Report of the NSW Independent Local Government Review Panel October 2013 *'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. Any other related matters.

- Capital Improved Values – We maintain our view that the bases for calculation of rates should transition to the use of Capital Improved Values. CIV is better understood by the community and would allow for a fairer distribution of the rate levy. If rate pegging is to continue, the use of CIV would allow the full effect of the population growth factor included in the rate peg calculation to be achieved. The original IPART recommendation in the Review of the Local Government Rating System recommended CIV would provide a pathway for revenue growth as population grows through the uplift in land value from vacant to developed land.
- Exemptions – Exemptions from rates should be dramatically reduced :-
 - All land used for Residential or Commercial purposes should not be exempt. This concept had been raised in numerous inquiries and reports.
 - The legislation allows an exemption to apply at any time without advance notice. Councils then need to abandon the rates levied in the first year of exemption having a direct negative effect on the current budget.
- Pension Rebate Concessions – social welfare is the responsibility of state and federal governments. The amount funded via write off by councils should be fully reimbursed by the NSW government.

- Emergency Services Levy – The NSW Government is currently in the process of considering reforms to the ESL. The state government should remove the council contributions and include the amount in the future state imposed property levy.

Thank you for the opportunity to provide these comments.

Yours Faithfully

Brad Cam
General Manager