

Submission
No 89

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

Organisation: NSW Farmers Association

Date Received: 26 April 2024



NSW Farmers' submission to the Inquiry into the ability of local governments to fund infrastructure and services.

April 2024

- @nswfarmers  nswfarmers

For further information about this submission, please contact:

Kathy Rankin
Head of Policy and Advocacy

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About NSW Farmers

NSW Farmers is Australia's largest state farming organisation, representing the interests of its farmer members in the state and across all agricultural commodities. We speak up on issues that matter to farmers, whether it's the environment, biosecurity, water, animal welfare, economics, trade, workforce, or rural and regional affairs.

Agriculture is an economic 'engine' industry in New South Wales. Despite having faced extreme weather conditions, pandemic and natural disasters in the past three years, farmers contributed more than \$23 billion in 2021-22, or around 25 per cent of total national production, and positively contributed to the state's total exports. Agriculture is the heartbeat of regional communities, directly employing almost two per cent of the state's workers and supporting roles in processing, manufacturing, retail, and hospitality across regional and metropolitan areas. The sector aims to grow this contribution even further by working toward the target of \$30 billion in economic output by 2030.

Our state's diverse geography and climatic conditions mean a wide variety of crops and livestock can be cultivated here. We represent the interests of farmers from a broad range of commodities – from avocados and tomatoes, apples, bananas and berries, through grains, pulses and lentils to oysters, cattle, dairy, goats, sheep, pigs and chickens.

We have teams working across regional New South Wales and in Sydney to ensure key policies and messages travel from paddock to Parliament. Our regional branch network ensures local voices guide and shape our positions on issues affecting real people in real communities. Our Branch members bring policy ideas, our member Advisory Committees provide specialist, practical advice to decision makers on issues affecting the sector, and our 60-member Executive Council makes the final decision on the policies we advocate on.

As well as advocating for farmers on issues that shape agriculture and regional areas, we provide direct business support and advice to our members. Meanwhile, we maintain partnerships and alliances with like-minded organisations, universities, government agencies and commercial businesses across Australia. We are also a proud founding member of the National Farmers' Federation.

Introduction

NSW Farmers welcomes the opportunity to respond to the Standing Committee on the State Development's inquiry into and report on the ability of local governments to fund infrastructure and services. NSW Farmers supports the need to review local government funding. There is a perception the current system as it stands is not delivering value for money to rate payers and landholders in rural and regional councils. The decline in real terms value of revenue for local government has been compounded by the increasing responsibilities for services to be provided by council, which is leading to an unsustainable situation. Our members have expressed concerns on not just the ability of local governments to finance their services and infrastructure but also of their financial acumen and their expenditure priorities.

Recommendations

- NSW Farmers calls for a pause on special variation rate (SVR) applications. Should a Council make an application this must trigger an independent, multi-year financial review against a specified set of criteria to validate both necessity and community impact.
- NSW Farmers calls for the removal of local council rate exemptions on Crown Lands especially if used for commercial purpose to provide equity for rate payers – especially those in regional, rural, and remote LGAs.
- NSW Farmers seeks NSW Government support for an uplift of the Commonwealth tax revenue to the Financial Assistance Grants funding pool to an annual allocation of 1%.
- NSW Farmers recommends that the NSW Government prioritise indexed block grants over special purpose grants to Local Government.
- NSW Farmers recommends that the NSW Government strengthen requirements for financial and administrative training to aid the administrative functions of local government councils and appropriate employees.
- NSW Farmers recommends there be publicly available information on the scope of responsibility by local councils regarding defined essential services responsibilities and their performance against these.

Special Variation Rates

Increasing financial pressures on local government, especially in regional areas, is leading to an increased reliance on rates and rateable land as a source of revenue. This burden increasingly falls on farmland in regional areas which are a strong business driver of regional communities. Rates fall on the land, which is an essential requirement for agricultural production. Each rate rise acts as a business cost and a tax on production which disincentivises output. The tax on the value of the land has no relation to the farmer's or the land holder's income and therefore ability to pay. Rates usually increase over time, through rate pegging and increases the liability, from what is in effect a land tax and has no bearing on ability to pay. The increases disproportionately affect agriculture's profitability more than other businesses.

There needs to be a pause on special variation rate (SVR) applications because they are creating an increased cost burden on farmers at a time of declining income. SVR applications by councils are a way of getting around the rate caps set by Government – members question whether this should be permitted because it undermines the very reason for rate capping. Rate capping is done for a purpose and encourages councils to undertake their role responsibly, avoiding risk, waste and misspending and improve the efficiency of their operations and finding other source revenue. It should not always be the farming community that must make the productivity gains while all three levels of government and government agencies seem to forever increase their spending and shifting cost responsibilities.

If a council applies for a SVR this should automatically trigger an independent review of the SRV against a set of criteria to validate the necessity of the SVR application. This proposal will allow for an independent forensic review of the council's income and expenditure. This will disincentivise councils to apply for SVRs unless it is absolutely necessary. Any extra revenue from the approved SVR increase which lands on farmland, needs to be used for the purpose of fixing and improving rural roads, bridges and culverts. There needs to be accountability that the extra revenue raised from framers is used to provide services only a local government can provide.

There are many legitimate questions which need to be raised on the financial acumen of some councillors and council staff and the priorities of councils. The need for councils to use rates and special variation rates is also a symptom of the increase of services required to be delivered by local government and the relative decline in revenue for local councils. The whole system of local government financing needs to be overhauled and work needs to be done with both state and federal governments to find a more sustainable system.

Recommendation: NSW Farmers calls for a pause on special variation rate (SVR) applications. Should a Council make an application this must trigger an independent, multi-year financial review against a specified set of criteria to validate both necessity and community impact.

Cost Shifting

A huge issue for local councils that is adding to their expenditure requirements is what is known as ‘cost shifting’. Cost shifting is when councils are forced to assume responsibility for infrastructure, services, and regulatory functions by the State and Federal Government. Local Government NSW has estimated the total cost shifts to councils in 2021-22 was \$1.36 billion. Cost shifting is done through different methods such as granting ownership of roads to local government. In the 1990s the state government reclassified many roads as local or regional requiring councils to own and maintain them, the estimated annual cost of this is around \$66.2 million for 2020-21¹.

An example of cost shifting, especially in regional areas, are exemptions to rateable land for Crown properties such as National Parks and the Forestry Corporation of NSW. When a property is purchased by the NSW Government, it loses rateability. The council under rate pegging does not lose its pie size in-terms of the amount they allocated for farmland rating. Therefore, all ratepayers in the farmland category will have to pay more for the reduced rate base plus the pegging amount, unless the council decides to share the loss across all categories. This sees farmers paying increased rates above the pegging rate allowable. If Councils can’t pass on the losses to other rate payers, they would become unviable.

National Parks have plans to expand beyond on what they have already done, especially in far west NSW. The far west is more reliant on agricultural land which creates heavier burdens on them when a National Park is created. Forestry NSW is purchasing more land in regional NSW and their activity brings in additional revenue for the State Government while reducing a revenue source for councils. As a result of logging the movement of heavy vehicles create additional road damage during harvesting, which the Council has to pay for. These examples of cost shifting will become worse. In light of rising rates on farmland and special variation rates, the exemptions on Crown Land and in particular Crown Land used for commercial purposes, needs reassessing, as they represent another cost which will be largely borne by farmers.

Other examples of cost shifting are programs such as Weed Action Program (WAP). The councils have the legal responsibility for administering the NSW Biosecurity Act, which includes property inspections and the government distributes weed funding to councils using a formula system. The councils have to apply for WAP funding however, the amount has remained static and not kept up with the inflation experienced since the end of COVID-19. Wages especially have gone up, including for local government staff whose award rate rises were approved by the NSW Government without requirements for productivity improvements. The flat lining of payments to council represents a real cut for councils who have picked up the inflationary increases. If councils can’t afford proper management, they would have to have their responsibility reduced under the Biosecurity Act, which would negatively affect agriculture. Providing better biosecurity management training for council staff is also needed. The need to keep applying is another example of bureaucratic red tape that tie down resources.

¹ Local Government NSW 2023. *Cost shifting 2023: How State Costs Eat Council Rates*
https://lgsw.org.au/common/Uploaded%20files/Cost_Shifting/ML_Report-LGNSW-Annual_Cost_Shifting.pdf

NSW Councils are required to fund 11.7 per cent of the NSW SES, NSW Fire and Rescue and the NSW RFS budgets through a direct contribution levied each year by State Revenue Office. This has to be funded through general revenue and the councils have no control over these funds or the budgets of the organisations. Some of the funds from the Rural Fire Fighting Fund (RFFF) is distributed to the RFS Zone District to administer repairs and other works, and hazard reduction funds are channelled back to the Council for Roadside and village reduction work.

The amount is usually not enough, and the Council has to take up the responsibility of funding the difference to the Zone District and their own responsibilities. An example is Blayney shire council in 2019-2020, the RFFF contribution from council was \$256,423 and in 2023-24 the contribution from council was \$420,158². This represents a 64% increase in four years well above the inflation for that period, which must be funded from general revenue. The State Government also granted Councils ownership over the RFS red fleet which means the depreciation value of the assets is an additional expense on the council's profit and loss statement. Lack of knowledge of the depreciation value and whether the council will have a new truck makes the budgeting process difficult.

There are many more examples of cost shifting including, the increase in audit fees from the Audit Office of NSW, with some Councils seeing increase charges by 30% for the current financial year and the expectation that councils are required to fund the repair and maintenance of capital works such as roads delivered by the Federal and State grant funding.

Recommendation: NSW Farmers calls for the removal of local council rate exemptions on Crown Lands especially if used for commercial purpose to provide equity for rate payers – especially those in regional, rural, and remote LGAs.

² Blayney Shire Council *Quarterly Budget Review Statement* (2023 Q4)

Infrastructure Funding

NSW Councils are ultimately responsible for the maintenance of the local road network, including road safety, road funding, road, culvert and bridge maintenance and heavy vehicle access. Local Government is responsible for around 90% of the NSW road network, with the remaining being major arterial roads and highways managed by Transport for NSW.

Road funding comes from the consolidated revenue of the Federal, State and Local Government. There are many taxes and road fees paid by motorists at a Federal and State level to the different levels of Government, these funds are not earmarked directly for road maintenance. They are pooled as part of consolidated revenue, from which Government allocates expenditure based on what they consider necessary. The road users' fees raised by each level of government include:

- Fuel excise (Australian Government)
- Registration fees (State and Territory government)
- License fees (State and Territory government)
- Stamp duty (State and Territory government)
- Other taxes such as luxury car tax, fringe benefits tax, import duties (State and Territory and Australian Government)

Local Government is ultimately responsible for road funding, with its own source for funding, rates, not road related. Historically, the total money collected from road user charges exceeded money spent on roads however, there has been a structural decline in revenue raised. This is mainly from fuel tax which counts for 45% of road charge fees raised. Fuel efficient cars, the move to electric vehicles and the pause of CPI indexation in 2001, which resumed in 2014, has led to loss of revenue.

State and Local Governments are primarily responsible for arterial and local roads respectively. For the expenditure side, the State and Territory Governments are heavily reliant on Federal Government for funding. State and Territory expenditure on roads are double their road related revenues. The Commonwealth has no direct constitutional funding responsibility for roads however, its power lay in its taxation ability, which is then redistributed to State and Local government largely through direct grants for building new projects and untied grants to local Government for maintenance. The final road expenditure in 2021-22 is \$36 billion. After accounting for grants, the Federal, State and Local Government components are \$7.7 billion, \$22.6 billion and \$5.8 billion.³

Commonwealth Component

The Federal Government provides support for local government using the Financial Assistance Grants. The Financial Assistance Grants consist of two components being for General Purpose and Local Roads. The road

³ The Bureau of Infrastructure and Transport Research Economics (BITRE) *Australian Infrastructure and Transport Statistics - Yearbook 2023* <https://www.bitre.gov.au/sites/default/files/documents/bitre-yearbook-2023.pdf>

allocation is based on equations which consider road length, bridge length, potential sources of revenue, population and other factors.

Historically, the Financial Assistance Grants were set up in the 1980s to be 1% of Commonwealth Tax Revenue (CTR) and this level was maintained when the current model of the Financial Assistant Grants was enshrined into legislation under the *Commonwealth Local Government (Financial Assistance) Act 1995*. Since then, Financial Assistance Grants funding has declined relatively while population and local government expenses has increased. The Financial Assistance Grants had its indexation paused in 2014 and restarted in 2017 and has reduced in real terms to 0.55% of CTR in the financial year 2023-24. There needs to be a restoration of Financial Assistance Grants funding at 1% of CTR. This will provide a steady and stable way to fund local government and the services they provide moving forward.

NSW State Component

Natural Disasters have devastated local roads with many in a serious state of disrepair. Local roads are critical to the transport of agricultural, forestry and mining product and carry significant heavy vehicle movements throughout the year that place additional wear and tear on these roads.

The funding provided to Local Government to manage their local roads is inadequate for general maintenance, let alone delivering improvements to provide more stable and durable roads. It is important that local roads across regional, rural and remote NSW are able to be maintained to a standard that will last. Regional labour shortages, wages rises, and contractor rates have also gone up above inflation rates. Wage rises and restrictions on Council pay have left many vacancies. This has increased the funding required for projects and created delays, which creates issues for applying for funding and delivering projects in a timely manner.

The current grant process to local government is inefficient and the application process works as an additional layer of red tape consuming vast amounts of resources and staff time. Without a review of the allocation process coupled with a significant uplift in local road funding, the quality and safety of local roads will deteriorate further. There needs to be a rationalisation of state grant programs and prioritisation of indexed block grants over special purpose grants to reduce the bureaucratic process of applying for grants and provide a steady and predicible stream of funding. The state funding level should be benchmarked at the 2022-23 level as a bare minimum and potentially up to 50% higher and indexed going forward.

Recommendation: NSW Farmers seeks NSW Government support for an uplift of the Commonwealth tax revenue to the Financial Assistance Grants funding pool to an annual allocation of 1%.

Recommendation: NSW Farmers recommends that the NSW Government prioritise indexed block grants over special purpose grants to Local Government.

Accountability

Members have raised the need for accountability and financial training for councillors and staff who will preside over budgets. The Committee needs to investigate a method for improving financial and administrative training for councillors. In Queensland all local government councillors must complete approved councillor training about the responsibilities of the councillors. Under the Queensland system the approved councillor training must be completed in the period ending 6 months after the conclusion of the local government election. Serious penalties apply for non-compliance, including suspension and dismissal. NSW should implement a mandatory course similar which should include accounting and financial management training specific to local government. Training for council staff is important along with improved staff transparency requirements to the councillors and penalties for mismanagement. The competency of councillors and staff is important to a proper functioning council which provides value for ratepayers.

Members have raised concerns over the core and noncore priorities of a local government. Every council is different of course, but there needs to be a definition of essential services provided by councils and whether funding these core priorities is the aim of any proposed increased in SVRs. Improved transparency through additional information will help the public keep their councils accountable. The Committee should consider whether the current published data by the Office of Local Government on 'Your Council' website is adequate in informing the public of the utility of their local council.

Recommendation: NSW Farmers recommends that the NSW Government strengthen requirements for financial and administrative training to aid the administrative functions of local government councils and appropriate employees.

Recommendation: NSW Farmers recommends there be publicly available information on the scope of responsibility by local councils regarding defined essential services responsibilities and their performance against these.