

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

Organisation: Narrabri Shire Council

Date Received: 30 April 2024



Ms Emily Suvaal
Chair
Legislative Council Standing Committee on State Development
Parliament of New South Wales
Parliament House, Macquarie Street
Sydney, NSW 2000

Friday, 26 April 2024

**Inquiry into the ability of local government to fund infrastructure and services –
Narrabri Shire Council Submission**

Dear Ms Suvaal,

Thank you for the opportunity to provide feedback in relation to the inquiry into the ability of local government to fund infrastructure and services.

It is understood that the following terms of reference (ToRs) are applicable to the current review process:

The that the Standing Committee on State Development inquire into and report on the ability of local governments to fund infrastructure and services, and in particular:

- (a) the level of income councils require to adequately meet the needs of their communities*
- (b) examine if past rate pegs have matched increases in costs borne by local governments*
- (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*
- (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*
- (e) compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff*
- (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*
- (g) any other related matters.*

Local Context

Narrabri Shire is a [local government area](#) in the [North West Slopes](#) region of NSW. The primary settlement of Narrabri is located adjacent to the [Namoi River](#) and at the confluence of the [Newell](#) and [Kamilaroi Highways](#). The local government area (LGA) is strategically positioned halfway between Sydney and Brisbane and is considered to be resource-rich. Key local industries include mining and agriculture. At the last census (2021) the resident population was 12,721 persons.

Narrabri Shire Council's vision is articulated in the Community Strategic Plan as follows:

"Narrabri Shire will be a strong and vibrant regional growth centre providing a quality living environment for the entire Shire community."

The township of Narrabri is considered to be one of the most flood prone settlements in NSW. The community of Wee Waa, located west of Narrabri, is periodically completely isolated by flood waters for long periods (up to two weeks) and is protected by a ring levee. Narrabri Shire contains a number of vulnerable and at-risk communities that are flood-affected. These communities have a high Aboriginal population, low socio-economic base and are also ageing in nature.

Council has an extensive rural road network of 2,343,787 metres in length with a total area of 13,310,299m². Like many rural and regional Councils in NSW, it provides a broad range of services, including but not limited to, drinking water provision, sewerage treatment plants, waste management, community services and recreational facilities within multiple settlements across a local government area of 13,031 square kilometres.

Narrabri Shire Council provides the following feedback to the Standing Committee in relation to this important inquiry:

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

Council concurs with the findings of Professor Brian Dollery in relation to this item who has recently prepared a detailed submission to the inquiry on behalf of the United Services Union (USU). Prof. Dollery highlights, inter alia, that the NSW local government system consists of a range of local council types with significantly different revenue raising capacity and varying levels of local service provision. Accordingly, substantially varying fiscal challenges are relevant in respect of the provision of adequate service provision to communities. On this basis, it is considered almost impossible to establish levels of income required to meet community needs.

In the case of Narrabri Shire Council, like many other NSW Councils, our organisation has been subject to ongoing cost shifting. The impacts of cost shifting are well documented and recognised and LGNSW reports on these impacts annually. This challenge, coupled with ongoing skills shortages, further complicates financial sustainability issues.

As a result of cost shifting practices from both state and federal government there has been a substantial change in the composition of local government service provision. Councils are being progressively forced into providing previously discretionary goods and

services. This has frequently come at the expense of strategic asset management, particularly with regard to rural road maintenance and preventative works.

The distribution of funding to NSW local government is inherently problematic. This is resultant from a range of factors including applied methodologies for grant allocations and differing socioeconomic characteristics and varying capacity to raise income through rates and own source income (OSR). Rural and regional councils such as Narrabri Shire Council are typically the least well positioned to raise OSR. This problem is further compounded by the sustained practice of rate pegging and the shifting economic and demographic nature of our community over time.

Well-meaning but often ill-considered state government policy decisions continue to create ongoing financial and resourcing impacts for NSW local government. Recent decisions including amendments to the Companion Animals Act and the NSW Planning Portal are both cases in point. These decisions have cost Councils often many hundreds of thousands of dollars that were never forward budgeted for, nor their implementation adequately financially supported by the state government.

Furthermore, Councils are frequently precluded by obtaining full cost recovery in the setting of their fees and charges. Examples include statutory charges for development-allied charges in accordance with the provisions of the *Environmental Planning and Assessment Act 1979* and corresponding *Regulation 2021*.

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

It is acknowledged that municipal costs in NSW local government are presently calculated by the Local Government Cost Index (LGCI). The LGCI measures price movements faced by NSW local government in respect of their purchase of goods and services. Council concurs with the recent assertions of Prof. Dollery in that the use of LGCI as a proxy for local government cost escalation is highly problematic. Councils do not have a consistent set of inputs of goods and services and the composition of such services significantly differs and is disparate. Narrabri Shire Council, for example, is responsible for delivering water and wastewater services, as opposed to its metropolitan counterparts. Similarly, there are significant geographical disparities, with cost of labour and materials much higher in our region given factors including, but not limited to, transport costs and local impacts including the influence of the mining and resources sector. Generally, this situation is reflective of most rural councils such as Narrabri Shire as they bear higher costs than metropolitan counterparts.

As a consequence of the above, it is not possible to generalise across the NSW local government system on the precise nature of the relationship between operational costs and amendments or adjustments to the rate peg.

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

Progressive amendments to the NSW Local Government Act and cognate legislation have created the statutory landscape for a much greater role and realm of responsibility for local councils. This has created a progressive transformation of the composition of municipal service provision from a focus on service to properties to services to people.

Local Councils have assumed much greater responsibility for social issues, as is reflected in the Integrated Planning and Reporting (IP&R) framework embedded within the *Local Government Act 1993*. As detailed in the preceding section, the impact of cost shifting is considered well-documented and acknowledged. It is noted that LGNSW's latest cost shifting report was released in November 2023, highlighting a total cost shift to councils of \$1.36 billion in 2021-22, which is the equivalent of more than \$460 per ratepayer annually.

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

As highlighted by LGNSW For decades, councils have been undermined by the poor rate-pegging methodology, cost shifting, and state and federal funding arrangements that are no longer fit for purpose. Add the cumulative financial impact of successive natural disasters following the COVID pandemic it is unsurprising that local government is facing financial sustainability challenges.

As detailed in the preceding section cost shifting, in which councils are forced to take on additional responsibilities without additional funding, has reached up to \$1 billion a year comprising about 20% of all council revenue that would otherwise be available to provide and maintain essential infrastructure and services.

The role and importance of emergency services in the face of climate change and the need for a strong funding base is acknowledged, however current arrangements are neither equitable nor sustainable. Councils are struggling with steep annual increases in the cost of the Emergency Services Levy, which in some instances grows faster than the increase allowed under the rate peg. Councils are also being set up to fail their annual financial audits because of the nonsensical position that they should recognise the depreciation cost of RFS mobile assets, for which they have no say over the acquisition, use or disposal.

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

The rate peg needs to be urgently abolished, and Councils provided with greater flexibility and autonomy over their rating structure. It is noted that IPART's Final report on the rate peg methodology (August 2023) identified a need to review financial models for Councils. IPART also suggested alternative approaches for consideration, including:

- Allowing councils to use the Capital Improved Value land valuation method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type.
- Better targeting eligibility criteria for rates exemptions.
- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services, so councils do not need to use rates income to cover the costs of providing these services.
- Developing a mechanism to enable councils found to have insufficient base rates income to achieve financial sustainability.

Council supports the use of Capital Improved Value (CIV), provided that councils have the option to retain the use of Unimproved Values, and the review of statutory charges in particular the examples cited earlier in this submission, development application fees. At a minimum, statutory charges should be indexed to reduce the amount of rates revenue that is required to subsidise the costs of providing these services.

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

It is acknowledged that the special rate variation process has progressively improved, and the corresponding effort by IPART to assist in improving the process for councils. Notwithstanding, as IPART identified in its Final report on the rate peg methodology (August 2023), the pursuit of this path is at a cost to councils: While councils can apply for an SV to improve their financial sustainability and/or meet their communities' service expectations, the existing SV process is resource-intensive, costly, and can become a contentious issue.

Under current processes, councils are having to rely on the special rate variation process to maintain services and deliver infrastructure, as a means to compensate for the insufficient revenue caused by rate pegging.

Should you require any additional information or clarification in this regard you are invited to contact Council's Director Planning and Sustainability, Ms Donna Ausling

Yours faithfully,

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General Manager