Submission
No 103

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Snowy Valleys Council

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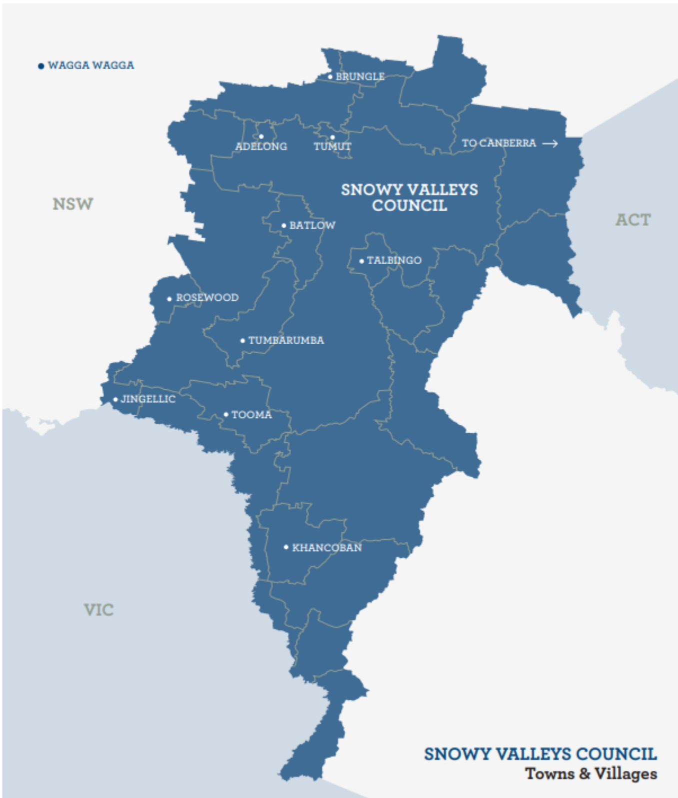
INTRODUCTION

Snowy Valleys Council welcomes the opportunity to make a submission to the Inquiry into the ability of Local Governments to fund infrastructure and services.

Snowy Valleys Council was formed in 2016 from an amalgamation of Tumut and Tumbarumba Councils.

The Local Government Area (LGA) has a population of 14,936 with the main industry sectors being agriculture, forestry and timber processing. Snowy Valleys also has five National Parks within the LGA.

With the Council amalgamations of 2004 and 2016, Snowy Valleys Council is reasonably typical of many rural councils that have multiple, disparate communities, a low-rate base and large infrastructure portfolios.



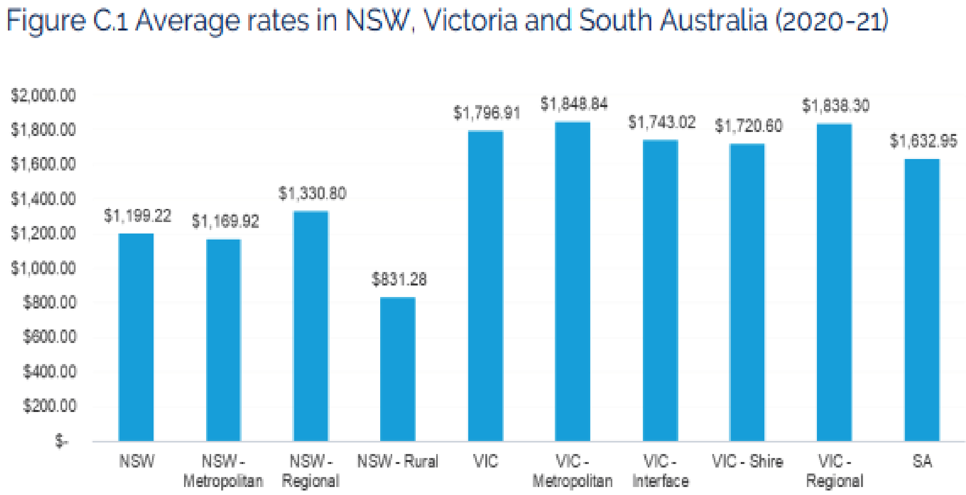
Snowy Valleys Council, like many other rural councils, has and continues to endure significant financial sustainability issues. This Inquiry provides a once in a lifetime opportunity to identify positive change for the sector.

(i) The level of income councils required to adequately meet the needs of their communities

According to information posted on the Australian Local Government Association Website, local government revenue comes from three main sources – taxation (rates, which makes up about 38% of total revenue), user charges/sales of goods and services (28% of total revenue) and grants from federal and state/territory governments (14% of total revenue).

General rates paid by ratepayers in rural NSW are much lower than their counterparts in other states as depicted in Figure 1 below.

Figure 1



Source: IPART – Final Report Review of the Rate Peg Methodology, Page 165

Despite rural councils having a small rate due to smaller population densities, they are responsible for significant road lengths, as well as dealing with the impacts of cost shifting and providing a wider range of services expected by their communities in the 21st century.

This results in rural councils having a greater reliance on grants; both non-competitive and competitive grants. Financial Assistance Grants made by the Australian Government are the largest recurrent non-competitive grants provided to local government.

Financial Assistance Grants (FAGs) are local government's rightful share of National Taxation Revenue and this has fallen by 43% to around 0.55% of Australian Government Taxation Revenue.

The three-year freeze on FAG payments in 2014/2015 has had a significant and disproportionate impact on rural local government over their city counterparts because rural councils are much more reliant on FAG's as untied income to fund operational expenditure.

As an example, a review of eight councils in the Riverina region of NSW was undertaken which revealed that FAGs represented between 11.8% ($6.6M) and 25.4% ($9.8M) of council operating revenue as opposed to Waverley Council where FAGs represented just 1.4% (2.26M) of income. Conversely, Waverley Council raised $10.7M from parking fines, $10.6M from parking meter income and $4.5M from parking fees. These income streams are just not available to rural councils, highlighting the significantly greater reliance on regular and increasing FAG payments.

Over a period of 10 years since the freeze was introduced, a council with a FAG of $5,000,000 in 2014/2015 would be $2,097,918 worse off because of the FAG freeze. This detrimental impact will continue to rise each and every year.

Table 1 is included below for information.

Table 1

Financial Assistance Grant Comparision - FAG Freeze v No Freeze											
	2014/2015	**2015/2016**	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**	**2023/2024**	
5,000,000.00	5,000,000	5,005,000	5,010,005	5,185,355	5,377,213	5,592,302	5,648,225	5,755,541	5,939,718	6,204,630	54,717,989.70
5,000,000.00	5,075,000	5,125,750	5,223,139	5,405,949	5,605,969	5,830,208	5,888,510	6,000,392	6,192,404	6,468,586	56,815,907.37
Total impact over 10 years											- **2,097,917.67**
FAG indexation	0.00%	0.10%	0.10%	3.50%	3.70%	4.00%	1.00%	1.90%	3.20%	4.46%	
FAG indexation with Syd. CPI	1.50%	1.00%	1.90%	3.50%	3.70%	4.00%	1.00%	1.90%	3.20%	4.46%	

Note: FAG indexation with Syd CPI relates to an estimate of what the increase in FAGs would have been without the freeze in 2014/2015 & 2015/2016.

It is acknowledged that the Australian Government makes other direct payments to Council such as Roads to Recovery funding, however it is significant that FAGs are untied grants, whereas other Australian Government Grants are tied to certain types of expenditure. This impacts on the capacity of local government to fund their operations. This will be discussed in greater depth at TOR (iii).

The real financial challenge for many rural councils has been masked over the past 5 years with significant additional funding flowing into many rural councils as a result of natural disasters; fires, floods and storm events and the COVID pandemic, which in many cases resulted in the asset portfolios of council being in an improved condition.

This period has also been challenging for councils with administration and internal project management costs often being an ineligible expenditure which has forced up council's operating costs in favor of fixed asset repair and improvement. This has been telling for Snowy Valleys Council as Council's internal restrictions and unrestricted cash has been severely depleted whilst our assets are in relatively good condition.

The additional funding has been a two-edge sword in that if used to repair existing assets will most likely reduce council expenditure in the short to medium term, however if used to build new assets will add significantly to the 'cost of life' implications for councils, particularly those with operating budgets already in a stressed position.

The NSW Office of Local Government 'Your Council' website identified that 54 councils out of 126 that reported results (two councils failed to report), recorded a deficit in the 2021/2022 financial year. This result is for Consolidated Accounts, and it is highly likely the General Fund deficits would have been significantly higher with business undertakings such as Water and Sewerage operations masking the real state of local government finances, particularly in rural NSW.

Source: NSW Office of Local Government – Your Council website:
https://www.yourcouncil.nsw.gov.au/nsw-overview/finances/

RECOMMENDATION:

That the NSW State Government lobby the Australian Government for an increase percentage on National Taxation Revenue made available to local government through Financial Assistance Grants.

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

Whilst rate peg amounts have generally followed movements in the Consumer Price Index as identified in the IPART review of Rate Peg Methodology, until recently, there was a 2-year lag in data used in old rate peg methodologies which has been problematic during periods of costs volatility.

For local government this was exacerbated by movements in goods and services used by local government being higher than the CPI or the more recent Local Government Cost Index. Movements in electricity prices, fuel and the Emergency Services Levy are indicators of how the rate pegging failed local government since its introduction several decades ago.

Referring back to Figure 1 on page 3, generally in NSW rates are much lower than our Victorian and South Australian counterparts which would be expected to be correlated directly to the existence of rate pegging for several decades.

More recently IPART has developed a new Base Cost Change (BCC) model. The BCC has three components being employee costs, asset costs and all other operating costs (excluding the Emergency Services Levy (ESL). ESL is considered as a separate factor.

It would appear that the new BCC model is a step in the right direction, however the inherent issues of rate pegging not keeping pace with changes in council costs structures due to price volatility, cost shifting, and climate change still exist. The impact of cost shifting will be discussed in more detail at (iii) below.

In addition to the BCC, other factors have been introduced which includes a population factor following an earlier IPART report in 2021 entitled "Review of the rate peg to include population growth".

Whilst the introduction of the revised rate peg by IPART is a positive outcome within a rate peg regime, unfortunately rate pegging only exists through political motivation rather than any other sound basis. NSW and Victoria (reintroduced in 2016) are the only Australian States that have rate pegging and this should be removed.

The continuation of rate pegging in NSW is even more bizarre given the introduction of the Integrated Planning and Reporting (IP&R) Framework in 2009.

The NSW Office of Local Government – IP&R Handbook includes the following:

> *IP&R allows councils to bring plans and strategies together in a way that supports a clear vision for the future and provides an agreed roadmap for delivering community priorities and aspirations. While councils lead the IP&R process, it is a journey that they undertake in close consultation with communities and elected representatives. Once strategic objectives have been set, it is each council's responsibility to deliver and report against these objectives, undertake resource planning, and ensure the community's big picture ambitions become operational realities.*

The only problem with the above statement is that Council's ability to deliver on the community's big picture ambitions cannot become operational realities because of the constrains of rate pegging. This will be discussed in some detail at (vi) below.
The removal of rate pegging will shift the power from the State Government to the ratepayer and the ballot box will provide the ultimate measure of community satisfaction.

RECOMMENDATION:

That the outdated rate pegging system be abolished or redesigned to provide more flexibility to Council to implement strategies and plans identified through the Integrated Planning and Reporting Framework.

(iii) 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.

Local government financial management is not a revenue v expenditure exercise, or councils could operate similar to the private sector and curtail financially unviable services i.e. swimming pools, libraries. This is clearly not an option for a local government as providers of services and facilities. Councils are established to deliver services to the community with costs intended to be shared across the ratepayer base. If services, facilities, infrastructure or programs are reduced or rescoped to match limited revenue streams then it is communities that suffer the consequences, just as they do if rates are increased. This is further exacerbated by cost shifting from both the Australian and State Government.

The recent Morrison Low report commissioned by Local Government NSW identified that the major forms of cost shifting in NSW includes:

- Emergency Service Levy (ESL) contributions
- The Waste Levy
- Forced rates exemptions
- Imposition of additional regulatory functions (often not fully funded)
- Cutting or failing to adequately continue to fund programs for services that need to continue (e.g. libraries)
- Pensioner rebates (45% paid by local government)
- Councils absorbing the costs of service and market gaps that should have been provided by State or Federal Government (Health and medical services)

None of the above (with the exception of ESL to some extent) are included in rate peg calculations and despite the State Government on many occasions stating that legislative changes would not be made without consulting with local government this continues to occur. The introduction of the Cemetery Trust Levy is the latest example.

The Morrison Low report identified that the cost shifting cost to NSW councils was $1.36B in 2021/2022, which represents $460.67 for each ratepayer from an already underfunded rating revenue stream.

Based on the council classification ‘large rural’ (as is Snowy Valleys Council) this is likely to be even higher at $490 for each ratepayer.

This significant cost shifting is exacerbated by the changing service mix in the 21st century. Councils are no longer only responsible for roads, rates and rubbish, but now community expectations (partially through IP&R) demand services in the areas of Children, Youth, Aged Care, and Biodiversity, just to name a few. Further, many rural councils, including Snowy Valleys Council to some extent, provide or contribute to other services due to market failure in rural areas; the attraction and retention of medical practitioners is a good example.

Not so typically identified as cost shifting, but negatively impacting on council’s operational costs all the same, is the design of state and federal capital grants. Councils are relied upon heavily by other tiers of government to deliver on *their* objectives and policies via funded grant programs and councils are beholden to state and federal government to be in the ‘grants race’ for the sake of the communities they serve and to attempt to address their financial requirements by any means possible.

The design of state and federal grants programs drive up councils’ operational costs as follows:

- new, expanded or improved infrastructure with no assistance for resulting increased whole-of-life costs (maintenance, depreciation, operating costs)

- cost of accessing capital grants (unfunded operational cost of applying, managing, reporting and acquitting grants
- cost of managing grants (unfunded cost of project management, administration and corporate and management overheads associated with delivering grant-funded capital projects)

Many councils understand that they have been fortunate in accessing state and federal grants to help deliver a range of projects, however as governments seek to manage their own budgets, they are now seeing a reduction in available grant funding. Together with the processes of accessing and managing grants and delivering grant-funded projects, which takes resources away from community services and programs and from maintaining and renewing existing infrastructure, the resulting new or upgraded assets, often much valued by the community, add to the maintenance and depreciation costs councils must fund in a severely revenue-constrained environment.

(iv) Assess the social and economic impacts of the rate peg in New South Wales for ratepayers, councils, and council staff over the past 20 years and compare with other jurisdictions.

As discussed earlier, rate pegging refers to the practice of limiting the amount by which local councils in New South Wales (NSW) can increase their rates (property taxes) each year. This politically motivated policy has several social and economic impacts.

Whilst rate pegging imposes constraints on the revenue-raising capacity of local councils with the aim of promoting fiscal discipline and affordability for ratepayers, it has decreased councils' ability to invest in infrastructure, services, and community projects. This has the potential to force councils to defer maintenance, for inadequate service provision, and delays in essential projects, or to seek very unpopular Special Rating Variations.

With limited revenue growth, many rural councils struggle to maintain or expand essential services such as waste management, waste diversional programs, recreational and community facilities and services. This can impact the quality of life for residents and businesses within communities who are consistently seeking a higher standard and more diverse range of service on shrinking operational revenue streams.

Rate pegging impacts social equity by limiting the ability of councils to address local needs and priorities, particularly early education and aged services which are in increasing demand in most rural councils. Due to market failure in these critical industries throughout many rural areas, local councils are being asked by their communities to fill the void.

In our particular case, Council has been unable to recruit an Early Childhood Teacher to a small Pre-School within the Shire. The result being that this Pre-school has been unable to operate so far this calendar year. It is very disappointing that some residents of our shire cannot access essential children’s services that are readily available in metropolitan and regional areas.

Whilst rate pegging may encourage councils to seek alternative revenue sources, such as user fees, charges, or grants, this is impractical for many small rural councils, reliant on rating and grant income.

I refer to my earlier example of Waverly Council where their revenue for parking income is almost double Snowy Valleys Council’s rate revenue. This opportunity for income generation separate to rates and grants does not exist for most rural councils.

(v) Compare the rate peg as it currently exists to alternate approaches with regards to the outcomes for ratepayers, councils and council staff

Whilst the recent review of rate peg methodology has broadly been welcomed by local government, it falls far short of what is required to ensure the financial sustainability of the sector.

It has previously been floated to develop a default rate peg amount and then allow councils the discretion to raise rates annually by a modest above the default rate peg, say 2% per annum. This will allow councils to work towards sustainability over a longer period of time without the lumpy and unpopular increases the current Special Rating Variation process delivers.

It is expected that these modest increases would be matched with savings or changes to service delivery through the Service Review process now enshrined within the IP&R Framework.

It would be less time-consuming for councils and easier for ratepayers to manage their household budgets than the current system. Further, the four-year electoral cycle provides the ultimate opportunity for ratepayers to have their say on their level of satisfaction of Council.

RECOMMENDATION:

That the current Special Rating Variation process be reviewed with the aim of introducing and simpler and fairer system for both local councils, ratepayers and their communities.

(vi) 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 current Special Rating Variation process is unwieldy and does not serve council or its rate payers well.

It is a very time-consuming process for councils that takes several months to prepare and consult with communities, and ratepayers are of the view that significant multi-year rate increases are in the main rubber-stamped by IPART.

Council would reiterate the comments made at point (v) that there is an opportunity to investigate the introduction of streamlined process that could provide small, but valuable increases above the rate peg as an alternative to the current Special Rating Variation regime.

(vii) Any other related matters

There is an opportunity to review rate exemptions, particularly the requirement for local councils to fund 45% of pensioner rebates which is a welfare measure initiated by the State Government. It is not the role of local government to provide welfare programs and this is just one example that should trigger a review of rate exemptions currently provided by the Local Government Act.

Another rate exemption that impacts on a number of Councils is the non-ratable status of Forestry Corporation land even though it is a commercial operation. The Forestry Corporation activities impact on and use Council facilities and services just like any other enterprise and should be either ratable or required to make a similar ex gratia payment.

Another area that has traditionally impacted on rural Councils is the ‘one size fits all’ approach to compliance when the same issues may not have the same level of risk. An example was the introduction of On Site Sewerage Management requirements following the Wallis Lakes Oyster contamination which was traced back to human faecel and nutrient pollution from unsewered townships. This led to the introduction of the new requirements whether new waterways or in western NSW. There is an opportunity introduce legislation to address issues in particular areas without it being implemented state wide if unnecessary.

The same argument can be applied to the compliance regime of Joint Organisations' that have similar requirements to general purpose Councils when their operations are very small in comparison; ultimately with these costs flowing back to member Councils.

The Inquiry into the ability of Local Government to fund infrastructure and services is a once in a lifetime opportunity to implement strategies to ensure the sustainability of local government into the future.

Over the past 20 years the number of General Purpose Councils in NSW has decreased from 173 to 126 (26%) however the sector is still under significant financial stress with 45 councils seeking Special Rating Variations in the last 5 years and a further 9 for the 2024/2025 financial year.

This opportunity to undertake a comprehensive review of the financial model for local government in NSW must not be missed.

RECOMMENDATION:

That the findings of this Inquiry be referred to IPART for further investigation and substantive action.

Cr Ian Chaffey

MAYOR