Submission
No 105

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Kempsey Shire Council

Date Received: 3 May 2024

KEMPSEY Shire Council

3 May 2024

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

By Online Form

Dear Ms Suvaal,

Re: Inquiry into the ability of local governments to fund infrastructure and services.

Kempsey Shire Council welcomes the opportunity to make a submission to the Standing Committee on State Development regarding the inquiry into the ability of local governments to fund infrastructure and services.

While the Terms of Reference identify a range of critical issues our submission responds to those that are most relevant to Kempsey Shire Council.

a) The level of income Council's require to adequately meet the needs of their communities

The Integrated Planning and Reporting (IP&R) framework, as legislated by NSW Office of Local Government since 2009 sets out a clear and achievable methodology for Councils of all sizes to identify the needs of the community and quantify the level of financial and human resource required to meet those needs.

It is a mandatory IP&R requirement that the Long Term Financial Plan must promote the financial sustainability of the Council through;

- Progressive elimination of operating deficits
- Establishment of a clear revenue path for all categories of rates linked to specific expenditure proposals
- Ensure any proposed increase in services and assets is within the financial means of the Council
- Ensure the adequate funding of infrastructure maintenance and renewal
- Financially responsible use of borrowing
- Fair and equitable distribution of the rate burden across all rating categories

The legislation already exists for Councils to identify the level of income required and to engage with the community to develop an understanding of the relationship between income generation and service levels.

The current limitations of the rate peg methodology, coupled with the impact of cost shifting, are the major impediments to Council being able to generate the required income to meet those needs. These issues are explored further in other terms of reference categories.

A further example of the disparity between Council income and services is the statutory fees and charges Council can implement not being increased at the same rate as a council's base costs for related service delivery and therefore not reflecting the true cost of providing such services.

b) Examine if past rate pegs have matched increases in costs borne by local government

KSC encourage the Standing Committee to compare the rate peg versus inflation rate for the last decade at a minimum. This examination will reveal that the rate peg has been on average far short of the cost of inflation.

Subsequently, and before taking into account the supply chain pressures of the post COVID-19 economy, the cost of materials, contracts, and equipment to deliver even the most basic of local government service expectations has risen by more than the allowable rate peg.

This gap, extrapolated over many years, prevents Councils being able to fund essential infrastructure maintenance works at best practice frequency and standard. For regional councils, with a smaller rate base and many more expensive transport assets like roads, bridges and public facilities under councils' control, the impact of rate pegs not keeping up with costs has become crippling.

Another clear example of the widening gap between the rate peg and cost increases is the Local Government State Award (2023) that came into effect on 1 July 2023 that confirmed a 4.5% pay increase in year 1. In that same year the rate peg was 3.7% immediately causing pressure on councils being able to afford adequate resources to deliver their agreed services.

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.

The Local Government NSW survey and report into cost shifting released in November 2023, indicated a total cost shift of $1.36 billion to Councils in 2021-22, the equivalent of $460 per ratepayer annually. The data indicates an alarming rate of cost shifting over the last decade.

One of the most negative areas of cost shifting for small regional Council's like Kempsey is the waste levy. In 2023-24 the flat $84 a tonne charged to regional Councils for landfill will equate to an estimated cost of $1.7m.

The burden on regional Councils to individually manage waste services is both financially crippling and environmentally ineffective. As regulatory and compliance requirements increase the specialist knowledge, resources and facilities required to deliver a cost-effective service are less viable for small councils.

Creating opportunities to partner with private sector operators and manage waste services at a collaborative regional or Joint Organisation (JO) level would improve efficiencies, enable development of more significant recycling and reuse strategies and reduce the administrative and compliance burden for small councils. The State Government should use funds from the Waste Levy to develop regional long-term solutions to the waste issues being faced in regional and rural areas.

The 2023 state government decision to reverse the practice of the previous four years to fund the council component of the annual increase to the Emergency Services Levy, was a shifted cost that further impacted service delivery.

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

Kempsey Shire Council believes the current rate peg system is inefficient, disempowers communities and doesn't support implementation of the IP&R framework. We request the inquiry consider whether the current NSW rate peg is a necessary control given the long-term financial planning requirements of the IP&R framework, and the accountability of Councillors to residents and ratepayers through local government elections. At the end of the day, it is the ratepayers/voters who should be holding the local council to account, as occurs at both State and Federal levels of government.

An alternative approach would be to allow councils a band of around 5% above the rate peg that they can set the rates within, using the financial planning and community engagement methodology already in the IP&R legislation, and without the need for a Special Rate Variation (SRV). Such a system would also allow councils to slowly increase their income with less stress on the local community than is caused by the significant increases that come from an SRV. The SRV process, which is discussed further in item (f) below, should be a requirement in extreme situations only.

Ultimately, the Councillors are responsible for agreeing a program of work that meets the service expectations of the community within the financial constraints of the council and its ratepayers. The IP&R legislation requires the exhibition of Council financial forecasts and the proposed actions within the context of making decisions to adopt the rates.

Giving councils greater autonomy over working with the community to establish financial sustainability would put an ongoing focus on the need for service reviews and service level agreements, prioritising major projects and ensuring accuracy in asset management planning.

This alternative approach has the opportunity to influence staff satisfaction in the ability to deliver a financially sustainable operation, increase community buy in to the IP&R process and support greater focus on the annual engagement and decision-making cycle.

Councils have been managing their water and sewer funds appropriately for decades and it is recommended that level of autonomy should be extended to the general fund.

f) review the operation of the special rate variation process and its effectiveness in providing the level of income councils require to meet the needs of their communities.

The SRV process in its current form requires a huge additional workload from already stretched councils. Analysis of the frequency with which councils are forced to undertake the SRV process would reveal the repetitive cycle of councils being forced to use the SRV to close the gap between service delivery and rate peg limitations, seeking to achieve financial sustainability. Councils are being driven into debt due to the inadequacies of the rate peg system.

At its most toxic, as was experienced by councils across NSW in 2023-24, the SRV process becomes the fodder of negative social media commentary. This presents an enormous social and health / wellbeing risk to council staff across the whole organisation. In country areas this risk is more acute as council staff live, socialise and shop in the community they work in.

For staff, whose day-to-day role has nothing to do with the financial management of the organisation, to feel targeted and judged while participating in normal life of the community is a devastating consequence of the SRV process.

The current SRV process forces councils to justify and explain complex financial concepts such as depreciation, impact of grant funding and asset management lifecycles all under the umbrella of a deadline and possible impact on household budgets. This environment is not set up for building trust and genuine community understanding of the level of income required to meet community expectations – the intentions of the IP&R legislation.

A modified version of the SRV process may be appropriate to retain for increases that are seeking to fund new multimillion dollar infrastructure. This would provide the detailed project establishment, community engagement, financial review and impact analysis that may not be captured within the IP&R framework.

g) other related matters

A review of the grant funding availability and decision-making process used in NSW would also be appropriate in the context of determining the ability of local government to fund infrastructure.

The burden on resource poor regional councils in having to apply for, report on, often seek variations and acquit grants is enormous and highly inefficient. This burden could be reduced by distributing funding directly to councils based on review of the asset management data required in the IP&R legislation.

Direct distribution of essential infrastructure funding would significantly reduce the financial burden on councils, reduce the need for SRV applications and support resource allocation in state and local government directly into service delivery not administration of grant programs.

The Financial Assistance Grants (FAGs) at the Federal level is an example of how such a system could work. The State Government could pool, for example, 75% of all funding currently put towards grants to local government. These funds could then be distributed to Councils using a formula similar to the FAGs process. This would not only save Councils valuable resources and time, but it would also allow Councils to direct funds into areas of need that have already been identified in the IP&R process. Additionally, it would have the added benefit of saving the State Government considerable resources by reducing the number of staff required at a State level to administer all the grant programs.

Once again, the Council thanks you for the opportunity to make a submission.

Yours faithfully

Stephen Mitchell
Director Corporate and Commercial