

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

Organisation: Wollongong City Council

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Clerk of the Parliaments
NSW Legislative Council
NSW Parliament House
6 Macquarie Street
SYDNEY NSW 2000

Dear Committee Members

ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Wollongong City Council (Council) would like to thank the Committee Members for the opportunity to respond to the terms of reference relating to the Standing Committee on Statement Development inquiry into *Ability of local governments to fund infrastructure and services*. Council acknowledges the work being done to consult with Local Government in examining appropriate levels of income councils require to adequately meet the needs of their communities and the operation of the special rate variation process, assessing the social and economic impact of the rate peg on local communities, and comparing with other jurisdictions and alternative approaches with regards to the outcomes for ratepayers, councils and council staff.

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

The framing of this component of the Inquiry is fundamental to the long term financial sustainability of Local Government and the optimisation of the delivery of community needs, wants and desires. Over the past 47 years, under a rate peg environment, the framework has been structured around the determination of services and service levels that could be afforded within a predetermined rates income. This methodology, coupled initially with limited financial and asset management understanding and capability in local government, has added to the broad financial stress and lack of sustainability for many NSW councils.

A fundamental change that allows councils to work with its community to determine a balance between virtually unlimited needs, wants and desires with their willingness to pay for such services is the starting point for Local Government financial sustainability. This process, without a rate peg, could be effectively supported by the existing Integrated Planning and Reporting process that is well established in NSW local government, and would be enthusiastically supported as an outcome by Wollongong City Council.

This model is consistent with that of other levels of government, although arguably local government has greater levels of direct involvement and influence of the community. All councils in NSW (other than those under administration) are elected by their communities for a fixed term. Like all other levels of government, the ultimate existence and power of a Council rests in the ballot box. In addition to the ballot box, councils and councillors are held to account on a daily basis by a community that is close at hand, has almost unlimited access to councillors, has a council administration that is available to the public and is easy access.

Council is the only level of Government that is required to exhibit and consult with its community on its Community Strategic Plan, four year Delivery Plan, one year Operational Plan and annual Revenue Policy. These documents clearly set out a council's direction, operations, actions and capital projects. All of this is costed and supported by a Revenue Policy that outlines the rates and charges to be levied and details the other fees and charges to be applied for the period. With this level of information, engagement, involvement in a council's finances and operations, it is considered councils can clearly be held to account for the productivity, efficiency and delivery by its community without the need for a Rate Peg. The implementation of Performance Audits on local government by the NSW Audit Office is another check and balance on a council's productivity and efficiency.

While the planning process to assess community expectations is effectively in place, determining and maintaining adequate income levels to support community expectations that can be afforded by that local community is complex and requires constant review and a higher degree of agility than is currently available. Indeed, in some local communities, particularly in small and remote councils, it is clear that sufficient income cannot be generated equitably to support even a base level of service in a sustainable way. In such cases, it is argued that greater support from the broader community through State and Australian Government support and cross subsidisation is essential. In all other council areas, there currently remains a need for revenue support from other levels of government. While the current local land based tax system of local government is extremely efficient, it is argued that all services provided by councils may not necessarily be best funded through rates. This is further convoluted by the intergovernmental taxes, legislation, regulations and controls that consistently change the sustainability mix on both the income and expenditure side of the equation.

The consideration of local government financial sustainability must include consideration of the capacity of community to pay for services, what services are or should be delivered by local government or other levels of government (including reduced duplication and efficiency of delivery), and what are the appropriate sources of revenue (local, State, Australian taxes, imposed contributions, or direct fee for service).

Councils currently rely on the Financial Assistance Grant as an untied base income to support services generally. While there has been little demand side analysis to determine links between the funding needed and services, other than population and relative disability factors, there has been pressure put on councils due to decreases in the real level of untied funding. This is particularly evident when expressed as a proportion of Australian tax revenues. Initially, local governments were funded through a tax sharing arrangement with the Australian Government to align their funding with the growth of the Australian economy. This arrangement was altered in 1989 so that only increases in the population and inflation are considered in the funding arrangement. Consequently, Financial Assistance Grants have fallen from 1% of Australian tax revenue to just 0.52% in 2024. This arrangement does not provide for the expanding responsibility of local government or the growing level of expectation from a local community.

Local government also relies on other government grant funding. Most of the other grant funding is opportunistic and tied to specific purpose projects that are largely directed towards new infrastructure or delivery of State Government programs with short term delivery timeframes.

Councils and community are highly attracted to increased infrastructure and new services which is generally supported by other levels of government to support its own delivery requirements and are often heavily restricted. It is considered that such frameworks may not always achieve optimal outcomes. Review of financial sustainability of local government should include the review of whether this current allocation of State and Federal Funding through tied grants is the most effective and efficient way to support local government outcomes and sustainability. While the current levels of funding demonstrate capacity in the incomes of these two levels of government to support councils, and it is agreed that local communities cannot support all services expected at a local level through rate income, it is argued that a more flexible funding allocation model between Australian and State Governments and local councils would assist in the locally agreed outcomes being delivered in a more effective way. This would provide greater certainty for local communities and allow opportunity for

longer term planning, that is not tied to sporadic and short term programs and external objectives that may not have been agreed by the community as the highest priority.

One of the ongoing challenges for local government in delivering on community expectations under an integrated planning framework is the changing needs and expectations of the community and matching that with an ability to pay. A council's capacity to financially support change is limited to options to increase income, reduce other services, or create efficiencies that allow more to be done with the same income. Changes that have been evident and have increased pressure for local government funding include:

- Changing and increased community demand or levels of service
- Changing demographics
- Changing cultural norms and expectations – sports, gender, multicultural requirements, equitable access, etc
- Diversity
- Population Growth – new development and limited value realisation (cash funded v debt, whole of life cost measurement of sustainability)
- Changing technology
- Carbon emissions mitigation
- Climate change adaptation
- Litigation – public liability, professional, development compliance, and workers compensation
- External controls or limits imposed.

These factors are not well considered by the Rate Peg indexation model and while they could be managed under a more autonomous local government model they would need to be well communicated and understood by community in developing Delivery Programs and Operating Plans moving forward.

While income considerations and meeting the expectations of the community are front of house in sustainability considerations, there are many factors that operate behind the scenes that impact long term sustainability and capacity of councils and its community. Some of these factors may not be fully controllable and require active response, such as general economic conditions, some others could be considered through this review to determine more equitable operating and funding models to provide better outcomes at the local community level. These include:

- Changes to legislation that impact the service requirements, costs, or income of local government,
- Climate change research and planning
- Natural events and disasters, that are difficult to sustainably manage at a local level,
- Changes to technology that require change to assets and services,
- Costs of Litigation.

In addition, creating improved intergovernmental income sharing and management that optimises community service and minimises cost of delivery should be a critical component in assisting with local government sustainability at an affordable price. Cost shifting, clarity of and appropriate delivery of individual government responsibility, duplication of service, indirect taxation, agency collection arrangements, red tape, suboptimal collaboration, and operational inefficiencies between governments, are all impacting on the sustainability in local government and presumably other levels of government. Consideration in this review of improvements to how these elements of intergovernmental arrangements are funded and controlled to avoid unfunded mandates and delivery cost would be beneficial in supporting a more sustainable and manageable future.

Another area of consideration is the management of growth, particularly new subdivision growth that is required nationally to support housing supply and accommodate the growing population. The

clarification of responsibility and funding of new community infrastructure is critical to ensuring financial sustainability for those councils burdened with the responsibility for providing the bulk of new development. The current developer contribution model is limited by its legislative framework which inevitably leads to existing ratepayers subsidising the growth in population. The existing and past caps on contributions, and the control process overseen by IPART to allow contributions rates above the cap, have led to and continue to create additional gaps in funding infrastructure. The exclusion of funding community facilities, that have been clearly assessed as a need and expectation of a community, adds further burden to existing communities. The lack of agility of the section 7.11 contributions framework, or its application, have created significant shortfalls for councils, particularly where estimates for works are impacted by significant variation caused by external economic impacts or delivery variations or complication. All shortfalls created by the current application of the developer contributions model are eventually met by the existing community over and above their contribution to services available to them.

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

Council supports the review of the impacts of The Rate Peg over past periods. It is Council's experience the historical rate peg methodology generated a significant funding gap over long-term financial sustainability. Consideration should be given to the historical funding gap from the previous rate peg model. Under the updated Independent Pricing and Regulatory Tribunal (IPART) any increase in rating income is developed primarily on the basis of movements in price index (CPI & PPI), wages, superannuation guarantee, and changes in the Emergency Services Levy. The annual rate peg methodology does not consider service change requirements from community expectations or State and Federal Governments mandated services, or other factors noted in section (a).

Special rate variation (SRV) applications to IPART are primarily to generate financial sustainability for councils and assist in clearing existing infrastructure backlogs and future infrastructure expenditure obligations. This identifies a financial gap generated by historical rate pegs leading councils to apply for an SRV to right size rating income to support their financial sustainability.

(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

As noted above, Council supports review of cost shifting and then the development of processes to ensure appropriate sources of funding are assigned with additional responsibility. This would assist in matching general income levels with the cost of delivery of service and better allow other community expectations to be maintained.

'Cost shifting' practices continue to significantly impact on local government. In the latest cost shifting report from LGNSW (Cost Shifting Report) analysis by independent consultants Morrison Low calculated the total cost shifted onto councils in the 2021-2022 financial year at \$1.36 billion which was an increase of 78 per cent since the 2015-2016 financial year, when the total cost shift was estimated at \$820 million.

In order to allow local governments to better prepare for increases to their operating budget for the impacts of cost shifting measures from the State and Federal Government, a clear understanding and definition of the roles and responsibilities of different levels of government (local, state, and federal) and their respective functions in serving the community is crucial to avoid duplication of efforts, ensure efficient allocation of resources, and prevent overlap in providing public service.

It is recommended completion of comprehensive assessments on State Government legislative changes impacting local government to identify additional funding requirements of affected councils. An increase in operating costs continue to be experienced through simple examples such as the introduction of increased impounding days on pounds, mandated monitoring of vapor on services stations by councils, changes to access requirements at bus stops, and the introduction of the portal to manage development assessments. Sufficient levels of appropriations from the State Government

were not introduced to assist councils in managing these service costs which impacts on the long term financial sustainability of all councils.

(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

Council agrees and supports the analysis of social and economic impact of the rate peg on the community. While such analysis is usually considered at a local government area level it is considered that greater level of research needs to be done to assess the impacts on various members or groups within a local government area to fully understand capacity to pay. Council has argued previously that the currently legislated rate methodology may not provide effectively for the variable socio-economic conditions of different local government areas or different groups within the council area.

The current use of Unimproved Land Value provides a distribution of rates to all ratepayers based on the land value and not the value of the property including its improvements. If the basis of using land value is intended to reflect a capacity to pay, then it becomes apparent that the land value may not always be a good determinant. This applies equally to commercial rates as it does not consider the income earning capacity of the site increased through improvements. The limitation on commercial properties adds to the share of the rate base funded by households.

The State Government also mandates the provision of rating exemptions for eligible rate holders. The cost of the exemptions is absorbed by the broader rating base which further increases the impact on their rate increases over time. Council is supportive of rating exemptions, particularly to the vulnerable within the community, however, hold the view the exemptions should be funded by other levels of government accountable for the relevant function. This is particularly relevant to those councils that are overrepresented with exempt properties but remain responsible for providing levels of service to all ratepayers.

It is also argued that the analysis of the impacts of rates over the last 20 years should be referenced against the costs of other household expenses such as electricity, gas, rents, food, petrol etc, or be expressed as a percentage of the average household expense. In this way the measurement of impact will be relative to other expenses and presumably be measure against household income. While such measure will potentially be expressed in absolute terms it is considered important that such analysis include a review the level of service or amenity that is attributable to each cost over time.

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

As previously noted, the rate peg has historically not been at sufficient levels to address the many factors impacting on the financial sustainability of local government. Council supports the development of a process that would allow more autonomy in managing council and community affairs, together with improved funding models between governments, clearer accountability and funding of responsibilities at all levels, improved operating models within government, and the removal of any unfunded mandates or pricing controls that do not support recovery of costs where that is considered to be the appropriate pricing modal.

(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

The Special Rate Variation (SRV) application process is resource intensive, costly and can be politically contentious. IPART has noted that the special rate variation process incurs a significant regulatory burden on councils and the NSW Government.

As noted by IPART in its Review of the Local Government Rating System, councils can apply to IPART for a special rate variation to allow them to increase general income above the rate peg for a range of

reasons, including to provide additional services, to replace ageing assets, or improve financial sustainability.

The application for an ERV can be problematic as they create contention in the community where ratepayers may already be struggling with the on-going cost of living issues. As noted above Council supports the development of a process that would allow greater levels of autonomy in managing council and community affairs more holistically through the IP&R process at the local level.

(g) any other related matters.

None noted.

Thank you again for the opportunity to provide feedback to the Committee.

Should you require further information, please contact

Chief Financial Officer

Yours faithfully

Greg Doyle
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Wollongong City Council