

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Shoalhaven City Council

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To The Hon Emily Suvaal MLC
Committee Chair
Standing Committee on State Development
NSW Legislative Council

Attention: The Hon Emily Suvaal MLC

Feedback - Inquiry into the Ability of Local Governments to Fund Infrastructure and Services

Shoalhaven City Council thanks the Standing Committee on State Development for the opportunity to provide feedback regarding the NSW Legislative Council's review of the financial sustainability model for councils in NSW.

In relation to the adopted Terms of Reference, Shoalhaven City Council provides the following response:

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

Cost shifting is increasing costs to councils without time to forecast and plan for infrastructure revenue streams. For example:

- Crown Lands management
- Emergency services infrastructure
- Regional roads
- Tourism costs to manage visitors that have reacted to State Government campaigns promoting destinations not suited to high demand

Overall, the ability for councils to meet government and community expectations under current funding mechanisms is challenging. Indexation has not been incorporated adequately in line with inflation and cost of doing business for decades, and coupled with rate peg methodology, has led to operating and cash deficiencies for many local governments.

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

Current rate methodology and application does not account for the variable nature of different local government areas (LGA's), including those where non-primary residences are utilised for commercial/tourism purposes. There are several mechanisms that could be used to assess the maximum applicable rate for a property, including whether the premises is being utilised for Short-Term Rental Accommodation (such as AirBnB), and taking the improved capital value for rating purposes (as opposed to land valuation).

Alternate mechanisms such as these would ensure that increases were not compromising the most disadvantaged individuals in our communities but were recovering income from those that are more likely to be able to afford it – akin to the method applied to scalable personal taxable income brackets.

The population factor fails to address the additional operational and capital costs of a growth council and is not achieving its intended purpose to enable council to maintain per capita general income over time. Council's per capita income will decrease as our population grows and we will be unable to maintain existing service levels.

Regional areas, particularly those in coastal locations which are subject to the breadth of different weather events and asset impacts, are faced with increased usage of critical infrastructure through peak visitation periods (predominately roads, beaches, parklands, footpaths, amongst other asset categories).

However, the current rating methodology does not include mechanisms to collect the additional maintenance requirements from tourism related developments, but rather defaults to collection of revenue across the entirety of the rate base. Allowance to collect additional revenue from industries that benefit from tourism influx during peak periods would allow a contribution to the impacts and added wear and tear on critical public infrastructure.

It is in the community's best interests that council is able to fund the level of services, infrastructure and assets at a level of reasonable expectation and which ratepayers can realistically afford. The number of councils in NSW reporting operating deficits has increased since 2016, and more than half of NSW Councils do not meet the Office of Local Governments *Infrastructure Backlog Ratio*.

The application for Special Rates Variations (SRV) can be problematic, as they create contention and division in communities unnecessarily, where ratepayers have already been struggling with cost-of-living issues post COVID-19. Special Variations are typically applied for at a point of criticality for councils where years of rate peg application have not been sufficient and left ongoing deficits across core services delivery areas. They have become a process for Council to follow when a sharp and large increase in rates is required, due to the shortfalls created over a long time period and loss of associated compounding that would have been achieved through lesser overall rate increases.

In short, had the rate pegging methodology been sufficient for the past decades, and allowed councils in NSW to apply reasonable but conservative rateable measures over time to address infrastructure backlogs and true operating costs, as well as the ability to implement levy amounts (such as environmental levy for coastal protection), Shoalhaven City Council would not have been presented with the prospect of a 44% special rate variation this financial year.

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 shifting of financial burdens from the NSW Government to councils is consuming rateable income at a local level at an unsustainable rate. In 2023, data compiled by independent experts *Morrison Low* showed that in the 2021/22 year a total of \$1.32 billion in costs were shifted onto Council in NSW by the State Government, totalling on average an additional \$460 per ratepayer annually. An increase of 78% from the 2015/16 financial year.

The top 5 cost shifting categories for which councils do not have a mechanism to recoup costs are:

1. Waste levy = \$288.2 million.
2. Rate exemptions = \$273.1 million.
3. DA and Regulatory functions = \$208 million.
4. Emergency Services Contributions = \$165.4 million.
5. Funding of Libraries = \$156.7 million.

The NSW Waste Levy is a prime example where revenue collected by council on rates notices is gathered by the State Government, and not wholly redistributed back to Local Governments who undertake end-to-end waste management functions (from kerbside collection, to landfill activities and end-of-life remediated landfill maintenance).

Additionally, with some LGA's experiencing repeated natural disasters, greater clarity is required about any ongoing role from councils in the community recovery sector. Funding is provided on an event by event basis and does not give certainty for councils who may have government funded role(s) embedded within their operations. Specialised staff who have built up a network of contacts across all levels of governments and NGOs and working on a case management basis to connect community members with appropriate service providers. The present short term funding for roles is unsustainable to meet ongoing community needs.

With increasing property prices, lack of available social housing and / or affordable housing, Local Government is increasingly being drawn into a sector traditionally resourced through State Government to manage increased incidents of homelessness and rough sleeping on council managed public land. Resources are being drawn from core areas of council activities to meet this need and collaborate with agencies working in this sector, law enforcement, health and others to support and connect those experiencing homelessness with appropriate services. A strategic approach is required and a clear framework on the expectations of LGA and commensurate funding if work is to continue in this sector.

Legislative changes over time, in areas including disability access and inclusion, and community planning and environment, while important for communities, have not received commensurate Government funding to enable councils to complete this work.

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*

There is a significant and immediate need for the Federal Government to confirm payment schedules of the Financial Assistance Grants (FAG) directly to Local Government, and further, increase the amount to a minimum of 1% of total taxation revenue. This is not a new issue for councils, and while originally introduced on a platform of 1.2% of personal income tax revenue (to be increased to 2% over time), the current levels are closer to 0.5%. This increase alone, with certainty over the financial year in which the grant is paid to council, will substantially and positively increase operating sustainability and councils' ability to meet growing infrastructure needs. In Shoalhaven City Council's present situation, an increase of FAG to 1% would address 70% of our total operating deficit.

Statewide, 54 of 128 (42%) councils failed to meet the operating performance benchmark in 2022. Had the Financial Assistance Grant (councils' share of personal taxable income revenue) been double its current rate, 36 of those would have been in surplus, bringing the total not meeting the benchmark to 18 (or only 14% of all councils in NSW).

In addition, there are significant social impacts on ratepayers, councils and council staff due to the loss of essential services. Staff psychosocial risks have increased due to adversarial relationships between staff, councillors and community when delivery expectations cannot be met. Consideration of these impacts need to be considered as part of a political landscape.

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

Councils carry a statutory and legal obligation to perform and deliver crucial services to our communities, including road maintenance, public open space maintenance, local planning, development assessment, and libraries (amongst an array of others). The delivery of these services and infrastructure at an acceptable level is critical to ensuring public faith in government as well as being crucial to the economic, environmental and social fabric of NSW across its unique communities.

Adding to these base services is an ever-increasing cost of emerging issues and risks. For example, in maintaining large volumes of personal information for our residents, ratepayers and customer base, cybersecurity has become both a needed and legislated matter for councils to address, without any additional funding from other levels of Government to do so. Added to this are statutory limits on fees and charges for required functions that no longer reflect the true cost of delivering the service (for example end to end development assessment and court appeal matters), and which councils must now fund shortfalls in delivery through other means.

In effect, additional required operational matters and statutory set fees continue to impact councils' financial position, without the ability to recoup costs via any mechanisms other than our applied rates base.

Councils are able, through adopted and approved 7.11 and 7.12 infrastructure contribution plans, to charge developers for new infrastructure where there is a nexus to the development in question. These plans have typically incorporated larger project delivery focussed on social infrastructure and transport infrastructure respectively. Ongoing, many projects are never realised as the total cost (particularly when coupled with inflation and other economic factors) is not recouped via the infrastructure charges.

Where developments impact existing assets and cause increased degradation of assets, there is limited ability to utilise developer contributions for the purposes of addressing asset maintenance backlogs. The ability for councils to allocate even a percentage of 7.11 or 7.12 internally restricted funds towards maintenance would assist in addressing asset maintenance backlog targets, and upkeep of existing community assets in perpetuity.

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

No comment.

g) any related matters

In addition to staffing points raised in item c), further consideration needs to be made for costs associated with a competitive labour market. Councils are struggling to attract and retain quality staff resulting in a decrease in service levels, and/or, an inability to deliver required capital works. This is particularly concerning in LGAs experiencing population growth where the delivery of new infrastructure is vital.

In Conclusion

Council appreciates that the Terms of Reference (ToR) has been constructed to include issues relevant to transparency and accountability and the impacts of service delivery obligations.

Council cannot understate the importance of this review. Councils are the level of government closest to our communities and perform a critical role in service and infrastructure delivery. The ongoing financial sustainability and long-term funding models for Councils is paramount to ensuring that communities continue to achieve and enjoy local priorities and core service delivery.

Shoalhaven City Council would welcome any opportunity to further discuss these matters and the review of financial sustainability for Local Government in NSW. Please do not hesitate to contact

(Chief Financial Officer)

at any time or should the Standing Committee on State Development require any further information on this submission.

Yours sincerely

Robyn Stevens
Chief Executive Officer