Submission
No 113

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Business NSW

Date Received: 14 May 2024

BUSINESS NSW

14 May 2024

Standing committee on State Development
Legislative Council
6 Macquarie Street
Sydney NSW 2000

Dear Ms Suvaal,

RE: Ability of local governments to fund infrastructure and services

As NSW's peak business organisation, Business NSW has almost 50,000 member businesses across NSW. We work with businesses spanning all industry sectors including small, medium, and large enterprises. Operating throughout a network in metropolitan and regional NSW, Business NSW represents the needs of business at a local, state, and federal level.

We welcome the opportunity to provide a submission into the inquiry on the ability of local governments to fund infrastructure and services. This is crucial for our membership, and our large network stretching across the state, and requires strong, well-funded and well-equipped councils to support the economic prosperity of their respective regions. Our thought leadership over the years including *"Shovels ready! Stimulating the Western Sydney economic recovery"* suggested in 2020 that councils reconsider the issue of rate pegging, either by removing it or recalibrating the rate peg.

Councils over the last decade have faced various headwinds, including amalgamations, inflation, cost-shifting, caps on raising funds and uncertainty over their role in the government ecosystem. Our guiding principles are for councils to be well funded to able to deliver:

- A strong economic development program for their areas to ensure local businesses can thrive.
- Well-funded programs to ensure business districts and high streets are well maintained and attractive places to do business.
- Council services are adequately funded to support a strong local community.

The submission will look at each of the issues identified in the terms and reference and make comments that represent a state-based view of the system.

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

i. Many councils face increasingly difficult budget situations that have forced them to either cut services or provide inferior services to balance the budget. Many of these budgetary situations are not of their own doing but of macro factors including amalgamations and inflation.
ii. Amalgamations of councils handed some councils aging assets, while rewarding others with brand new assets. These shift some significant maintenance backlog onto struggling councils.
iii. These aging capital assets require significant investment to remain functional and relevant, while inflation and rate caps have created a perfect storm. Councils require a greater level of income to the service these assets.
iv. The needs of the community are clear. They require strong quality services that impact them day-to-day. Councils often house infrastructure that is closest to people; they operate local childcares, libraries, community centres, swimming pools and gyms. These are the services that communities need every day.
v. Further, significant population growth has placed greater pressure on aging and limited infrastructure in many parts of the state. Under the rate pegging system, Councils that do not have access to developing new or brownfield sites are at a disadvantage compared to those that do. New development and the rate income it attracts is added to the pegging base so there is opportunity for income growth. Moreover, where strata development occurs, the rating system does not fully compensate Councils for the additional loading on their services owing to the way the rate is calculated and apportioned compared to the same number of single dwellings on individual titles.

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

i. It is clear that past rate pegs have not kept up with inflation and cost increases across the economy, ranging from council staff wages, procurement cost of local infrastructure, to the provision of services contracts. These have significantly outpaced the rate peg, often in double digit year-on-year growth.
ii. Councils that have done well recently are at times the councils that can sell off their operational land and assets in this property boom and use the dividends and proceeds of the sale to fund infrastructure. Not all councils have as much land and not all councils have prime land, and the idea of funding operational needs through realisation of assets is short term thinking.
iii. Similarly, Councils that have the ability to attract land and property development to new areas have the opportunity to expand their rate base. Many landlocked Councils do not have this choice and are forced to fund additional expenses from the static or fixed rating base, subject only to the fixed rate peg income increase. Hence there has been a plethora of

submissions to IPART seeking special rate variations in recent times compared with little activity in this space after rate pegging was initially adopted.

iv. Our previous work in this space in our "*Closer to Home*" report called out the rate peg and the detrimental impact it has on local councils and the communities that they serve. There were also numerous reviews which called out the detrimental impact rate capping has had on councils.

v. Councils also require greater funding to modernise aging facilities that have come to their end of life, with some councils choosing to close community centres or sell off the land instead of upgrading or renovating the spaces.

(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

i. No comment on this question

(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

i. NSW has one of the lowest council revenues per capita. This level of revenue per capita has a significant impact on the economic and social development of these areas. Increased revenue can mean better services, investment in innovation and support for economic development.

ii. There are council areas that are being left behind where others are thriving and excelling. This means that libraries, community centres, and other community infrastructure are not up to the same standard as other areas. This has a significant impact on the social outcomes of the area.

iii. The rate peg also has an impact on economic development, with many councils not having strong economic development programs or not being able to support their local chambers of commerce in a meaningful manner to upskill and empower their local businesses.

iv. Within the rate pegging system, councils have the discretion to adjust the rates in the dollar for the ad valorem component of a rate assessment. The system does not prevent councils from differentially increasing charges for residential rates compared with business rates. Furthermore, the valuation base can produce vast differences in the land values across a community which spills over to the rates assessment, resulting in spectacular variation for the rates assessment for individual properties across the LGA. However, the level of services provided is often very similar. The same can occur for business rates. These variations can occur notwithstanding the level of rate peg put in place and can result in some properties experiencing a flat or limited annual increase, while others experience a significantly higher increase owing to a change in the valuation base for the property.

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

i. Councils should be encouraged to look at a more equitable system of charging to reduce variation in charging across and between councils. It does not make sense that equivalent properties in separate LGAs separated by a road can pay significantly different rates, yet this is a common occurrence.

(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

i. Special rates variations (SRVs) have allowed councils to raise extra revenue when they need it. However, the financial and time cost of the process is significant. It places a significant strain on the Council's team and costs the ratepayer in the process of requesting further funds.
ii. SRVs struck at earlier times tended to be proactive in the sense they were designed to fund projects and programs seen as additional to the traditional responsibility of Council. They consisted of marketing and beautification programs that could not be reasonably or equitably funded from Councils' revenue pool or attract grant funding in their own right. In more recent times, SRVs are playing 'catch up' on general revenue shortfalls compared with expense regimes and are proving to not be sustainable and unreasonably raising the rate cost base for many residents and businesses.

(g) any other related matters.

i. Councils need to raise further funds; however, they should not do that at the expense of local businesses. They already face an increasing burden and have worn a lot of reduced government services as a result. Other reviews by the Government needs to be considered at the same time including community improvement districts and how many more businesses can afford to pay without being tipped over the edge.
ii. Moving forward, there isn't a 'one size fits all' solution for Council funding and rating. The differences in individual Councils' ability to raise income through rates or grant programs must be recognised and accommodated.
iii. New ways for Councils to fund infrastructure and services warrants investigation, along with a comprehensive review of methodology to raise and levy rates. The outcomes must consider reasonableness and equity and seek to ensure transparency and some level of uniformity in the way individual Councils behave and act in this space.

Business NSW appreciates the opportunity to provide feedback to this inquiry and would welcome the opportunity to discuss any of these findings in more detail when appropriate.

Yours Sincerely,

Mustafa Agha

Executive Manager, Policy
Business NSW