

Submission
No 112

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Greens Councillors NSW

Date Received: 14 May 2024



To: Ms Emily Suvaal MLC
Chair, Standing Committee of State Development

14 May 2024

Dear Ms Suvaal

Please find below a submission on behalf of Greens Councillors to the Inquiry

Regards

Green Councillors submission to

Ability of local governments to fund infrastructure and services

TERMS OF REFERENCE

That the Standing Committee on State Development inquire into and report on the ability of local governments to fund infrastructure and services, and in particular:

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

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

(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

(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

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

(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

(g) any other related matters.

Submission

This submission is made on behalf of Greens Councillors in NSW. Greens are represented on Council from Bega and Albury in the south, to Tweed in the north and out to Brewarrina in the west.

While we have chosen to use examples and data from a few Councils, that is for convenience sake. Greens Councillors in rural areas consistently reported frustration at the inequity of funding for rural and regional councils.

The submission is responsive to the elements of the Terms of Reference

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

The level of income required to meet the needs of their local communities is complex and hard to define. Despite that however it is clear that it has been a long time since Councils have been regarded as just looking after Roads Rates and Rubbish.

Even at their most basic level Councils provide sports facilities, libraries, swimming pools, playgrounds, art galleries and creative hubs, community halls, community resilience facilitation and public education, support early childhood education and community identity. While being hard to quantify, the role of a Council in providing community identity (via sponsoring the Citizen of the Year, or a welcome for a locally born Olympic Medallist, and citizenship ceremonies) are functions which are just as important as road maintenance. They create community, identity, well being and good health.

Therefore the question of what is an adequate level of funding needs to be carefully considered.

While the *Local Government Act 1993 (Act)* currently provides as part of the guiding principles that councils will provide *strong and effective representation, leadership, and recognise diverse local community needs and interests* overall the guiding principles and purpose of the Act is focused on legality and economic responsibility.

An opportunity exists for the NSW Government to amend the 31 year old *Local Government Act 1993* and plainly state that the role of local government is to provide for the physical, cultural and creative well being of its local community, in addition to the provision of the existing service functions of *non-regulatory (Chapter 6), regulatory (Chapter 7) or ancillary (Chapter 8)* which are already identified in the Act.

Once these functions (which are already being provided by default by local government) of local government are recognised explicitly in the Act a conversation can be had which quantifies what is a reasonable and achievable level of funding for the provision of these services per community.

Recommendation: *That the Act be amended to include the provision of facilities for the physical, cultural, diverse and creative needs of the local community in the purpose of local government.*

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

Reference other researched submissions.

(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

Service levels are being adversely impacted as a result of rate pegging and the failure to adequately fund local government in NSW. Below are two examples of how two regional councils are providing less services, (and in some instances reducing their services) than metropolitan councils. This is not to argue that metropolitan Councils are well funded but rather to argue that a new and more equitable funding model must be found for local government in NSW.

When providing educational, health or law enforcement services to rural communities we accept that greater distances and a more sparsely spread population makes the provision of specialist services harder to achieve in rural areas. However, we would not accept that (in most cases) children in rural areas should accept less schooling, or that health care should be provided at a lower standard. Further more we expect the same laws to be enforced to the same degree in rural NSW as we do in metropolitan NSW.

However, when it comes to Councils the current anachronistic funding arrangements ensure that rural and regional councils can provide less services, in every category or service, than their metropolitan counterparts. It is not acceptable.

Eurobodalla Shire

On Friday 10 May 2024 Eurobodalla Shire issued a media release summarising the initiatives in their draft budget. These initiatives included reducing library operating hours as well as closing the swimming centre (Bay Pavilions) 2 hours early on three days per week. Grading of unsealed roads will be conducted every 9 months instead of every 6 months and *The frequency of mowing will be reduced from a three-week cycle to a four-week cycle, excluding sports fields during the playing season and high visitation parks such as those on our foreshores, saving \$178,000.*

The Eurobodalla Mayor is quoted in the releases as saying *“This draft operational plan and budget is further demonstration we are headed in the right direction and starting to live within our means. It represents a return to core business, a return to a*

path of financial sustainability, and the consolidation of our new finance-led and delivery focussed service to the Eurobodalla community.

These comments demonstrate a view that Council's are not supposed to provide library and cultural services. However if Councils do not provide them who will?

The Eurobodalla Media release is attached as Appendix A.

Armidale Regional Council (ARC)

The New England Greens made a submission to the Inquiry based on the experience of Armidale Regional Councillor Dr Dorothy Robinson.

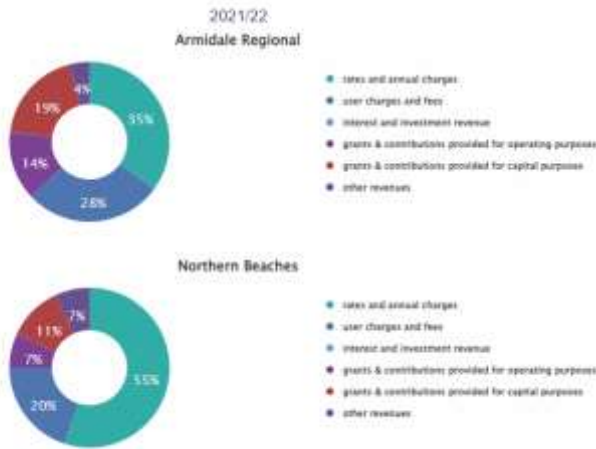
The submission succinctly demonstrates the inequity of Commonwealth Financial Assistance Grants (FAGs) funding particularly with regard to roads and the effect of favouring already densely populated Council areas with relatively wealthy populations over rural populations with more roads to maintain. The New England Greens submission neatly contrasts the FAGs received by Armidale Council per kilometre of road (\$1461) to those received by Northern Beaches Council (\$3008) despite NBC having rates that are 50% higher and median household income which is 84% higher. New England Greens also point out that the quantum of FAGs has decreased from 1% of Commonwealth taxation revenue to just 0.5% today.

Not only are rural and regional Councils discriminated against in FAGs distribution, the core reliance on rates as the dominant source of income is inherently in favour of the wealthiest Council areas. Rate pegging accentuates this inequity but also inhibits excessive inequity by disallowing the wealthiest areas to levy very high rates (and consequently provide a level of community services that could never be achieved in rural and regional areas).

In addition to the disparity in roads funding an example of wealthy Councils being able to spend more on cultural, educational, health and public order services is demonstrated by the comparison of income and expenditure between ARC and NBC. ARC derives 35% of its income from rates, whereas NBC derives 55%.

Income Sources as percentage (%)

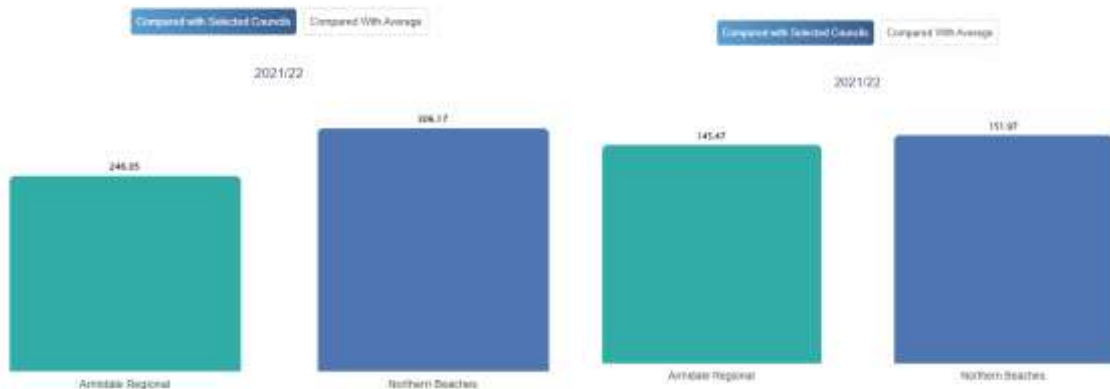
Compared with Selected Councils



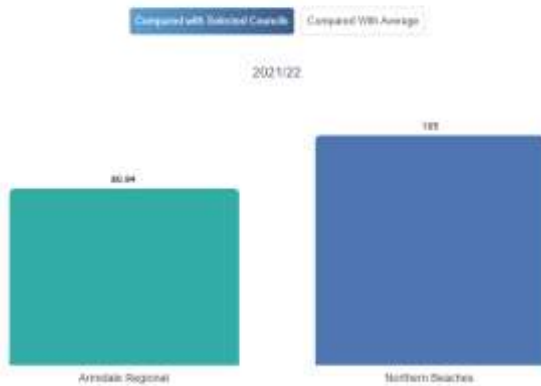
In all categories of cultural, education, safety and public order NBC can spend more per capita than ARC.

Recreation and Culture Expenditure per capita (\$)

Community Services, Education, Housing, Amenities Expenditure per capita (\$)



Public order, safety and health expenditure per capita (\$)



The contrast between ARC and NBBC is further reinforced by the comparison of their respective infrastructure replacement. NBC is actually increasing its provision of infrastructure while ARC falls further behind.

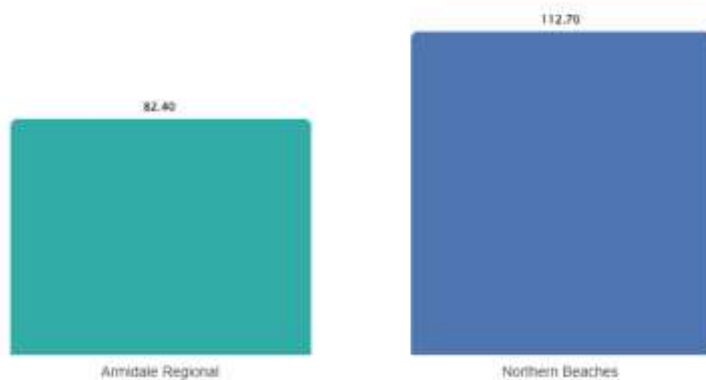


Building and Infrastructure Renewal Ratio (%)

Compared with Selected Councils

Compared With Average

2021/22



The above shows the increasing disparity in financial position between a regional Council and a metropolitan one. ARC is by no means a small or disadvantaged Council from a NSW wide perspective.

Cost shifting effects are greater on rural councils

Cost shifting adds to the adverse impact on the level of services able to be provided by Councils. Cost shifting affects all residents in NSW but we do wish to emphasise that cost shifting affects rural and regional Councils to a greater extent than it does residents in metropolitan council areas. Reference is made to the Morrison Low report commissioned by LGNSW - *Cost Shifting 2023: How State Costs Eat Council Rates* which found that on average each ratepayer in NSW is paying \$460.67 of State government costs via their rates in 2021-22 - however cost shifting is as high as \$590.80 per ratepayers in rural councils.

Figure 4 Cost shift per ratepayer by council classification



Red fleet

In particular, it is noted that the situation in which the 'red fleet' is said to be the responsibility of Councils for depreciation and accounting purposes, but are demonstrably not Council assets, is one which the Government should correct immediately. Greens Councillors have noted that the requirement to account for the red fleets depreciation negatively affects Councils' accounts. Further, they have noted that Councils which have refused to account for the fleet have had adverse credit ratings applied as a consequence of the Auditors notations.

The Inquiry should make a recommendation that the Minister pursue the necessary legislative changes quickly. The continuation of the current situation can be described as nothing but disrespectful to local government.

Recommendation: That the Minister for Local Government immediately move to remove the 'red fleet' from being required to be accounted for in local council financial reports.

Increasing severity of climate induced weather events

In 2008 the *Garnaut Climate Change Review* stated:

Recent projections of fire weather (Lucas et al. 2007) suggest that fire seasons will start earlier, end slightly later, and generally be more intense. This effect increases over time, but should be directly observable by 2020.

Beginning in 2019 and stretching into 2020 the east coast of Australia experienced the dreadful Black Summer fires. Local Councils were the focal point of organising ongoing community resilience and recovery. The cost to local communities and particularly Councils was enormous. Then in 2022 the North Coast Floods

devastated communities in Lismore and surrounds. The financial costs on local councils was again significant. The Government of NSW needs to move beyond reactive funding for locally affected areas and begin to budget for assisting Councils cope with the financial impacts of these events.

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

The above examples in our submission show:

- a. That recreational, cultural, educational and safety services are an integral part of councils' service delivery.
- b. That the rate peg prevents Councils from raising funds to meet the community's expectation for service delivery;
- c. However, the differences in average household incomes across Council areas will mean that without an equitable base level of funding residents of rural and regional NSW will (and currently do) receive a reduced level of recreational, cultural and civic services than do their metropolitan counterparts.

It is our view that the NSW Government should provide an equitable base level of funding for all Council areas which, in the manner of progressive taxation, is distributed according to the unfunded needs of each local government area. In making the transition to a new funding formula the NSW Government should include:

- a. Removing the rate exemption from land owned by religious organisations. With only 54% of Australians now identifying as having a religious belief system a rate exemption based on that qualification is no longer equitable.
- b. A value capture system which allows the uplift in land value from rezoning to be allocated to the Council. Currently the ACT has legislated to require 75% of the uplift value to be transferred to the ACT Government. A similar system legislated in NSW would assist to properly fund councils.

It is submitted that the NSW Government should:

- Allocate the OLG reported operating income of all councils in 21-22 of \$13.7bn on a per capita basis between each of the 128 NSW Councils. This would provide the initial step of providing a baseline income to all councils
- Remove the rate peg and allow those councils who wish to ask their local communities for a higher level of rates to make their case.
- Commission a report to establish what is an acceptable level of recreational, cultural and civic service delivery of the local government and therefore what is a fair ongoing funding level.

Eurobodalla Shire Council Media Release

Friday 10 May 2024

Community asked for feedback on 2024-25 budget and work plan

Eurobodalla residents now have the opportunity to review the Council's draft budget and operational plan for next financial year. Containing 190 actions and \$105M in capital works, the draft was unanimously endorsed for public exhibition at last Tuesday's Council Meeting.

\$4.8 million in savings has been identified for 2024-25, bringing the general fund deficit down to \$8.3 million from a projected \$14M in 2023, but General Manager Warwick Winn says there is more to be done.

"I'm pleased with the \$4.8 M in savings our managers have been able to find in their budgets for Council to consider for the next financial year," he said.

"I recognise from our community pop ups and feedback that Eurobodalla residents have little appetite for radical service reductions. With that in mind, we have been careful to identify savings only where there will be little impact on the services we deliver. To achieve this, we've reprioritised our capital works programs and modified some services.

"For instance, we propose to close Moruya Library and the Bas on Sundays, in line with our other two libraries, but we'll be programming extra activities in the Bas on a Saturday afternoon.

"We'll close Bay Pavilions two hours early on three weekdays, and the slide tower will only open weekends and school and public holidays."

Mr Winn warned the Bay Pavilions remains a major ongoing financial challenge, costing around \$5M per year to operate, drastically more than anticipated and a significant factor in Council's \$8.3M general fund deficit.

"The Moruya Library, Bas and Bay Pavilions proposals are based on visitation data and will save around \$150,000 per year. A further \$125k can be saved on cleaning, utilities, and general operations, for a total saving at the Bay Pavilions and Moruya Library and Bas of \$275,000.

"Our proposed capital works budget for roads and pathways remains very healthy at \$17.4M, but we can save \$398k by pushing out one urban road renewal until next year, and reduce the rate of road reseals from 35km per year to 30km, saving \$274,000.

Pothole maintenance will remain a priority.

"And rather than grading our unsealed roads every six months, we'll do them every nine months. That means about 415km of road will be graded per year instead of

529km, and \$365k will be saved. An extra \$101,000 will be trimmed by resheeting 2.5km less of our 430km gravel road network.

“We can trim \$1.6M from our water and sewer capital budgets of roughly \$20M by reprioritising our pipe renewal and cleaning programs, and we’ll continue construction of the southern dam, committing \$32.5M for 2024-25.

“The frequency of mowing will be reduced from a three-week cycle to a four-week cycle, excluding sports fields during playing season and high visitation parks such as those on our foreshores, saving \$178,000.

Mr Winn said these are prudent adjustments required by Council’s financial situation and all have been very carefully considered, sentiments echoed by Mayor Mathew Hatcher.

“This group of councillors, with full support from staff, has been determined to establish sound financial stewardship for the Council,” Mayor Hatcher said.

“This draft operational plan and budget is further demonstration we are headed in the right direction and starting to live within our means. It represents a return to core business, a return to a path of financial sustainability, and the consolidation of our new finance-led and delivery focussed service to the Eurobodalla community.

Mr Winn said the savings, if adopted by Council, will be monitored carefully and reviewed annually to gauge community impact and make adjustments as needed.”

“We will also continue to provide timely and honest updates to the community as we work through these financial challenges. We are on a journey of improvement, and I’ve been heartened by the community’s support so far.”

Mr Winn and Finance Director Stephanie Speedy will host a round of community briefings about the draft budget and operational plan during May. They follow well-attended community updates on the Finance Strategy during April.

A further report will be submitted to Council in June to consider submissions received about the draft budget and operational plan.

Community briefings will be held at Narooma Library on Tuesday 14 May, Moruya Library on Monday 20 May, and Batemans Bay Library on Thursday 23 May. All start at 5.30pm with a 45-minute presentation and plenty of time for questions.

ENDS

Attached: Summary of the 2024-25 budget and operational plan, along with the Mayor’s and General Manager’s messages.

Appendix 2: unfair road maintenance burden of rural & regional councils

Armidale Regional Council (ARC) received \$1,461 per km of road under the [Local Roads Component \(LRC\), 2022-23 FAG](#), compared to \$3,008 per km for the Northern Beaches Council (NBC), despite much lower median incomes, a higher proportion of the population with chronic health conditions and less favourable life expectancy statistics. Is this fair?

Armidale Regional vs Northern Beaches Council	ARC	NBC
Km of local & regional Roads	1858.0	843.9
Local Roads Component (LRC), 2022-23 FAG	\$2,714,175	\$2,538,590
Local Roads Component of FAG per km of road	\$1,461	\$3,008
Average residential rate, 2020-21	\$1,044.04	\$1,506.05
Median weekly household income	\$1,404	\$2,592
Percent of households with income below \$650/week	20.3	10.8
Percent of people reporting a long-term medical condition	45.8	33.6
Male life expectancy, years#	78.8	84.7
Female life expectancy, years#	83.8	86.9
Median Age	37	41
Percent of people with:	ARC	NBC
No long-term health condition(s)	54.2	66.4
Mental health condition including depression, anxiety, dementia	10.2	7.1
Asthma	9.4	6.8
Arthritis	8.9	6.9
Heart disease (including heart attack or angina)	4.2	3.6
Diabetes (excluding gestational diabetes)	4.1	2.9
Cancer (including remission)	3.3	3.1
Lung condition (including COPD or emphysema)	1.9	1.1
Stroke	0.9	0.8
Kidney disease	0.8	0.6
Any other long-term health condition(s)	8.1	6.7

Sources: 2021 Census data for [ARC](#) & [NBC](#), [Your Council website](#) (average residential rate 2020-21, km of roads in NBC and ARC).

#Life expectancy is for New England North West (which contains ARC) and Northern Beaches, from ABS: 3302055001DO002_2019-2021 Life tables, 2019-2021, mean of years 2016-21.

b) Local Roads Component of the Financial Assistance Grant (FAG) 2022-23 (ARC: \$1,870,678 early payment + \$843,497 to be paid in 2022-23 = \$2.71 million; NBC: \$1,832,234+ \$706,356 = \$2.54 million), \$1,461/km (ARC), \$3008/km in NBC.