

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

Organisation: City of Parramatta Council

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The Honourable Emily Suvaal, MLC
Committee Chair
Standing Committee on State
Development NSW Parliament House
6 Macquarie Street
SYDNEY NSW 2000

Dear Committee Chair

City of Parramatta Council welcomes the opportunity to make a submission to the Standing Committee on State Development's inquiry into the ability of local governments to fund infrastructure and services.

Our preferred approach to achieving long-term financial sustainability and adequately funding infrastructure and services is discontinuing rate-pegging. Rate-pegging limits our ability to generate revenue in line with our needs and responsibilities. Discontinuing it would enable us to adjust rates based on local economic conditions, population growth, and service demands, crucial for addressing financial sustainability challenges.

We advocate for a governance framework allowing for a certain range of annual increases determined within each Council's Delivery Programs, guided by the Resourcing Strategy. This flexibility aligns revenue measures with long-term strategic plans and community priorities, allowing dynamic responses to changing circumstances without necessitating special rate variations, which can be unpalatable or administratively burdensome.

Overall, this governance framework enhances councils' ability to achieve financial sustainability while ensuring the interests of ratepayers and the community are considered.

The attached feedback is provided in response to the inquiry's Terms of Reference. Please note, it reflects the views of Council officers and has not been formally endorsed by the elected Council.

a. The level of income the councils require to adequately meet the needs of their communities.

The Council operates within the Integrated Planning & Reporting (IP&R) framework, conducting regular reviews of service levels to ensure the provision of sustainable, quality services essential to the community's needs. Long-term sustainability hinges on the Council receiving adequate income to cover operational and capital expenditures required for delivering agreed service levels and maintaining community infrastructure.

Current income and funding levels fall short of meeting community expectations for both operational and capital expenditures. Rate income is constrained by IPART's rate pegging, covering only around 50% of ongoing operational expenses. Domestic waste charges have limited applicability and usage restrictions, while fixed statutory fees often do not reflect true service costs. Grants and contributions, beyond the Council's control, are typically restricted in use. Financial Assistance Grants (FAG) from the Commonwealth Tax Revenue remain below 1%, steadily declining and contributing to funding shortfalls.

With limited options for generating regular revenue, the Council must consider either applying for a Special Rate Variation (SRV) or Additional Special Variation (ASV) or reducing service levels and deferring critical infrastructure maintenance and renewal. This approach risks exacerbating infrastructure backlog and threatens the Council's long-term financial sustainability.

b. Examine if past rate pegs have matched increases in costs borne by local governments.

The previous rate pegging system has failed to keep up with the rising actual costs experienced by councils over time. In the last three years up to June 2023, inflation has surged by 15.9%, significantly surpassing the combined rate peg of 6.4% approved by IPART during the same period.

The current rate pegging mechanism does not adequately address the diverse needs and challenges of individual councils, lacking the flexibility to meet community expectations, willingness, or ability to contribute financially. While we appreciate recent modifications to the IPART rate peg model, they do not rectify historical shortcomings, resulting in an insufficient starting rate base and annual increases that generally fall short of actual cost escalations in various essential areas.

Moreover, the current system fails to consider and address several critical factors:

- the cumulative financial impact of an inadequate indexation system
- emerging cost areas such as cyber security, extreme weather events and climate change
- cost shifting by other levels of government
- Increasing operational costs due to population growth
- the funding needs for infrastructure renewal and capital enhancement
- The necessity to implement new programs, especially regarding net zero targets and resilience building, which are gaining prominence in community discussions and government strategies.

- 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.

Ensuring financial sustainability is paramount for councils, guaranteeing the long-term viability of crucial services and infrastructure while upholding fiscal responsibility. This entails prudent management of financial resources, maintaining sufficient reserves, and implementing strategic financial planning.

IPART's Final Report on the review of the rate peg, incorporating population growth (September 2021), recognized that expanding councils may struggle to sustain current service levels. Similarly, in its final report on the rate peg methodology (August 2023), IPART acknowledged councils' concerns about maintaining financial sustainability while meeting growing demand for services. Many councils feel constrained by the rate peg, hindering their ability to cover service costs fully and impacting financial sustainability.

The burden of cost-shifting from higher government levels is increasingly felt. Local Government NSW's annual cost-shifting survey (published in November 2023) revealed a significant total cost-shift to councils, reaching \$1.36 billion in 2021/22, a \$540 million increase since FY2017/18. This includes various costs such as emergency services contributions, waste levy, cemeteries levy, rates exemptions, local libraries, and pensioner rate rebates.

This escalating cost-shift undermines councils' financial sustainability, jeopardizing their capacity to deliver essential services and maintain crucial infrastructure. To achieve a balanced budget, councils often reassess service levels and defer essential maintenance or infrastructure renewal. However, this is challenging due to mandated services and community expectations, particularly for roads, waste management, and regulatory functions.

Furthermore, delays in asset maintenance, renewals, and replacements lead to increased costs and diminished services to the community over time. Deferred maintenance not only incurs higher costs due to inflation, but also escalates expenses as failed assets require more expensive restoration compared to timely renewal. These issues compound over time, exacerbating cost pressures on 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.

While rate-pegging has historically shielded ratepayers from steep increases, it has come at the expense of compromised service quality and variety, reduced asset renewal rates, limited infrastructure expansion, and heightened rate volatility, all due to insufficient revenue levels. This strain has been

exacerbated by cost-shifting from State and Federal governments.

Additionally, rate pegging has hindered the Council's ability to recruit and retain skilled personnel. Increased reporting requirements and legislative changes have intensified workloads without a proportional increase in staffing, leading to high turnover rates, loss of institutional knowledge, service delivery setbacks, and escalated recruitment expenses.

Furthermore, the uniform rate peg fails to accommodate the diverse needs and challenges of individual councils, which vary in size, demographics, infrastructure demands, staffing levels, reserves, and asset conditions. This underscores the inadequacy of past rate pegs in aligning with rising council costs, necessitating consideration of alternative approaches.

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

The council recognizes the importance of establishing a framework that promotes financial sustainability in local government while also preventing excessive rate hikes. However, the current rate pegging system is deemed inadequate for achieving this goal, advocating for greater flexibility in councils' rating structures.

IPART's recent report on rate peg methodology highlights the necessity of revising financial models for councils. It suggests alternative measures, including allowing councils to utilize the Capital Improved Value land valuation method for setting rates, ensuring fairness across residential and business properties. Moreover, refining eligibility criteria for rates exemptions and adjusting statutory charges to reflect actual costs incurred by councils in providing services are recommended. Additionally, a mechanism should be developed to assist councils with insufficient base rates income to achieve financial stability.

Furthermore, it's proposed that statutory fees and charges should be aligned with the actual cost incurred by councils, to reduce the reliance on rates revenue subsidizing service costs.

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.**

Although the Special Rate Variation (SRV) process has seen improvements over time, it remains resource-intensive, time-consuming, and is often viewed contentiously by the community. Regrettably, pursuing an SRV can create the perception among residents that their council is either engaging in unusual actions or managing finances poorly. The SRV process serves as a vital means to fund essential aspects such as population growth, infrastructure, and community services, necessary for a well-governed organization supporting a diverse and expanding community.

To enhance efficiency, effectiveness, and foster better community understanding, a continuous education and consultation initiative aligned with the Delivery Program and Operating Plan could be implemented. Such an approach would involve ongoing engagement with the community, ideally initiated at the outset of each new council term, thereby aligning council's strategic direction with past consultation efforts conducted to develop Integrated Planning and Reporting (IP&R) documents.

g. Any other related matters

It would also be beneficial if the following issues were also considered as part of the Inquiry:

- Review of Grant Funding Programs to cover infrastructure backlog gaps.
- Exploring a non-binding rate peg, IPART would set a minimum rate. This permits councils to consult and showcase agreed performance levels via their Long-Term Financial Plan and Asset Management Plans.
- Simplifying the special rate variation process.
- Alignment of statutory fees & charges to the actual costs incurred by councils.
- Pension Rebate Concessions – Local councils should not bear the entire financial responsibility for funding the rebate scheme, as social welfare is the purview of state and federal governments. The practice of councils writing off amounts should end, with full funding provided by the NSW government. Additionally, it's crucial to introduce indexation to the rebate scheme to keep pace with rising service costs and preserve pensioners' financial capacity.