Submission
No 119

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Local Government NSW (LGNSW)

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DRAFT SUBMISSION

Inquiry into the ability of local governments to fund infrastructure and services

NSW Parliament Standing Committee on State Development

MAY 2024

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FOR COUNCILS

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Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

OVERVIEW OF THE LOCAL GOVERNMENT SECTOR

Local government in NSW employs **55,000 people**

Local government in NSW is responsible for about **90% of the state's roads and bridges**

Local government in NSW looks after more than **$177 billion** of community assets

NSW councils manage an estimated **4 million tonnes of waste** each year

Local government in NSW spends more than **$2.2 billion** each year on caring for the environment

NSW councils own and manage more than **600 museums, galleries, theatres and art centres**

NSW has more than **350 council-run libraries** that attract tens of millions of visits each year

NSW has more than **400 public swimming and ocean pools**

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Introduction

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

This submission is made in draft form, pending approval of the LGNSW Board. Any amendments will be forwarded in due course.

LGNSW welcomes the opportunity to respond to the Standing Committee on State Development Inquiry into the ability of local governments to fund infrastructure and services. The full title of the review condenses down to the issue of financial sustainability of councils. This submission will use the terms interchangeably.

This submission addresses each of the Committee's Terms of Reference and provides supplementary commentary on other factors pertaining to the financial sustainability of NSW councils.

The LGNSW submission is complemented by its two appendices:

- **Appendix A** - A May 2024 report prepared for LGNSW by SGS Economics that provides evidence and analysis on the wide-ranging impacts of the rate peg for councils and communities.

- **Appendix B** – the LGNSW Cost Shifting Report prepared for LGNSW by Morrison Low in 2023, and which outlines the rapidly escalating impacts of cost shifting on local government.

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.

Overview

LGNSW has been a long-term advocate for reform of the current funding model for local government in NSW. LGNSW is driven by the conviction that the financial sustainability of local government in NSW is being persistently eroded. A growing number of councils are financially unsustainable under the current policy settings and the situation is deteriorating.

This conclusion is based on the experience of councils and the findings of the numerous past reviews of local government financial sustainability and the NSW rating system. These include:

- NSW Treasury Corporation's (TCorp's) 2013 report on the Financial Sustainability of the NSW Local Government Sector;
- The Final Report of the Independent Local Government Review Panel;
- The 2016 IPART Review of the Local Government Rating System; and even
- The Final Report of the Independent Inquiry into the Financial Sustainability of NSW Local Government (The Allan report).

These reports along with the numerous submissions and more recent expert reports presented to this Inquiry such as the SGS/LGNSW report submitted in support of this submission, provide overwhelming evidence that many NSW councils are facing a financial sustainability crisis.

The fact the Federal Government is concurrently undertaking an *Inquiry into Local Government Sustainability* adds weight to this conclusion, demonstrating national concern about the state of local government finances.

The reports and submissions commonly identify the major factors threatening the financial sustainability of councils as being:

- Rate pegging (in NSW and Victoria).
- Cost Shifting
- The decline in Financial Assistance Grants (FA Grants) as a proportion of total Commonwealth Taxation Revenue
- The inadequacy of Special Purpose Grants from the Federal and State Governments
- Regulation and constraints on council fees and charges
- Inflation
- Increasing community demands and expectations
- Natural disasters
- The inadequacy of development contributions

Other factors that can contribute to the circumstances of individual councils include geography, demographics and isolation.

Most councils are reporting a deterioration in their financial position and many fear that they are financially unsustainable or approaching unsustainability. The reports come from all categories of councils, however, as would be expected smaller rural and regional councils with high costs and a small own source revenue base are the most vulnerable.

Council financial returns reveal that there is a financial sustainability problem. The operating performance ratio (OPR) is the primary indicator of financial sustainability. Councils are considered 'financially unsustainable' if they have experienced an operating deficit for several years and no clear plan to achieve long-term financial sustainability.

45 per cent of NSW councils are not meeting operating surplus targets of 0 to 10 per cent in 2021-22, with 54 out of 128 councils recording a deficit.

The infrastructure backlog ratio is also a telling indicator of sustainability. In 2021-22, 69 councils (54 per cent) failed to reduce their backlog to the benchmark of 2 per cent or less. Infrastructure backlog ratios ranged from 0 to 31% across all councils, with the state average being 4.2 per cent.

Councils reported a backlog for 2021-22 estimated at $5.6 billion. This represents a substantial increase compared with $3.8 billion in 2020-21 (47 per cent increase).

These figures provide a clear indication of a financial sustainability problem for local government in NSW.

The sustainability, resilience, and productivity of local government and their communities depends in large part on their long-term financial sustainability. The ability to provide the right mix of services and infrastructure that meets the needs of local communities is essential to the long-term growth, contribution, and ultimately liveability of NSW communities.

What is financial sustainability?

TCorp's report on the Financial Sustainability of the NSW Local Government Sector (2013) provides a detailed analysis of the position of every council. It defined sustainability in the following terms:

> *A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.*

While there are several variations of this definition, they are essentially the same. This definition is favoured as it hinges on agreement with the community. This links it to the Integrated Planning and Reporting (IPR) Framework under which NSW councils are required to make their decisions on service provision and council finances. IPR is discussed further in the following section.

It can be inferred from the definition that council financial unsustainability will severely disrupt infrastructure and service delivery and necessitate intervention by the state government.

This definition considered the potential impact that changing circumstances and emerging challenges could have on a council's operating position and service levels over the long term.

LGNSW Policy Platform on financial sustainability (extract)

Local government is a partner in the economic stewardship of NSW and responsible for the provision of a wide range of essential infrastructure and services.

However, the financial sustainability of councils has been undermined by rate pegging and other factors for over 40 years, which has resulted in the under-provision of community infrastructure and services and the deferral of infrastructure maintenance and renewal expenditure resulting in significant infrastructure backlog.

LGNSW advocates for the financial sustainability of local government through:

1.1. The removal of rate pegging and reform of the NSW local government rating system, including the removal of inequitable rate exemptions and greater autonomy and flexibility in rating policy, structure and practices.
1.2. Greater autonomy in determining fees and charges.
1.3. Financial Assistance Grants to be increased to at least 1% of total Commonwealth taxation revenue.
1.4. A review of the allocation methodology for Financial Assistance Grants.
1.5. Increased specific purpose grants from State and Commonwealth Governments to assist councils in meeting the infrastructure and service needs of their communities (e.g. Roads to Recovery, library grants) with allocation to be equitable and transparent.
1.6. An end to cost shifting onto local government by the State and Commonwealth Governments.
1.7. New and fairer financing opportunities for local government, with particular emphasis on infrastructure e.g. value capture, Voluntary Planning Agreements (VPAs), the removal of caps on development contributions.
1.8. The introduction of a broad-based property levy to replace both the Emergency Services Levy on insurance policies and the 11.7% Emergency Services Levy on local government.
1.9. A more flexible procurement framework to enable councils to benefit from innovative procurement practices.
1.10. Inclusion of climate change considerations in approved terms of reference for investigations and reviews.

1.11. Ownership of Rural Fire Service mobile assets to be vested in the RFS to remove the depreciation expense from councils and provide consistency between emergency services and fund councils for all costs associated with the current ownership status.
1.12. The NSW Government to cover the full costs of local government financial audits.
1.13. Establishment of a NSW Local Government Grants Agency to coordinate all the state and federal grants programs through one central agency. This would provide a single point of contact for councils and establish consistent grant application, reporting and acquittal arrangements.
1.14. Development and implementation of a new and agreed local government Performance Measurement Framework, and associated performance indicators.

Why the NSW Government should be concerned

In the simplest terms, the NSW Government should be concerned because at the end of the day, if councils fail, communities will not get the services and infrastructure they need and expect. Ultimately the NSW Government will be required to step in and bear the costs.

A more comprehensive rationale is provided by Adjunct Professor Graham Sansom in his submission to this inquiry (Submission 104):

> *Fundamentally, the Committee's Terms of Reference concern the future of local government as a constitutional partner to the State in advancing the good governance of New South Wales and the wellbeing of its people. Section 51(1) of the NSW constitution Act 1902 asserts that:*
>
> *There shall continue to be a system of local government for the State under which duly elected or duly appointed local government bodies are constituted with **responsibilities for acting for the better government** of those parts of the State that are from time to time subject to that system of local government (emphasis added).*
>
> *In turn, this raises the question of whether local government bodies can adequately discharge their responsibilities under the Local Government Act 1993. A core purpose of that Act, set out in section 7(e) is: to provide for a*

system of local government that is accountable to the community and that is ***sustainable, flexible and effective****; and the Act's object (section 8) is: to enable councils to carry out their functions in a way that facilitates* ***local communities that are strong, healthy and prosperous*** *(emphases added).*

Two key points emerge from this legislation:

- *In administering the system of local government, the State has a duty to ensure its sustainability.*

- *Parliament has determined that local councils have a broad role to play in advancing the wellbeing of communities in ways that extend far beyond the often invoked notions of 'core business' or 'roads, rates and rubbish'.*

Comments on Terms of Reference

This submission will set out succinct responses to the inquiry's terms of reference before expanding on key factors impacting the sustainability of local government later in the submission.

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

A longer-term trend of stagnating or declining rate peg growth contrasts with rising risks to councils' financial sustainability: inflationary pressures, inadequate fiscal equalisation, and cost shifting from other tiers of government.

Despite the constraints of the annual rate peg, councils continue to exhibit their hallmark productivity: doing more with less. Over the last decade, operational and capital expenditure across the metropolitan, regional, and rural councils have grown.

Shifts in operational and capital expenditure from year to year suggest that costs to council are sensitive to changes in the regional and macro-economic context. Yet councils have few levers to assist in their flexibility and responsiveness to changing community need.
Inefficiencies in the structure of other income mechanisms, namely the financial assistance grants, state government grants, and the adequacy of infrastructure cost

recovery via development contributions, posts additional challenges in meeting community needs.

The level of income that councils require to adequately meet community needs depends on the local context and what communities expect of councils. Cost pressures differ by council type, given regional differences in market depth, cost shifting, the ability to leverage economies of scale, and the types of services provided. Community expectations have been shaped over many years by local governments' influence as a dedicated service provider across multiple domains of community life. Communities expect continuity and improvements in services over time.

The NSW Local Government Act deliberately does not specify a definitive list of the services councils should provide, nor does it indicate priorities. Instead, section 8 of the Act establishes the principles to be followed by each council in determining what it will do by way of services and regulation to meet the diverse needs of the local community.

Section 8 (c) requires councils to make their decisions on service provision by using the IPR framework, introduced by amendments to the Local Government Act 1993 in 2009. IPR was conceived and imposed as the principal means of ensuring that councils are responsive to community needs and preferences, and operate efficiently, effectively and sustainably in addressing broadly agreed priorities.

As noted by Adjunct Professor, Graham Sansom:

> *processes for sound financial management are a central element of IPR, which requires the preparation of firstly, long-term strategic, financial, asset management and workforce plans to determine community needs and required levels of income and expenditure. Decisions about revenue needs, including the mix of sources and setting of rates, were intended to flow from those planning processes, all of which involve extensive community engagement.*

In short, IPR was intended to provide the primary pathway to determining and addressing community needs, while at the same time ensuring responsible financial management. The introduction of IPR should have made rate pegging redundant.

(b) Examine if past rate pegs have matched increases in costs borne by local government

In short, the answer is no. Even if the rate peg did mirror the CPI or other cost indices, in the past the Local Government Cost Index (LGCI) did not capture all the cost drivers impacting on local government, for example, cost shifting and population growth. It also failed to capture the different cost structures of different categories of councils. Further, it was beyond IPART's scope to address the dilemma of rural councils with a small rating base, where even a significant peg determination will generate very little additional revenue.

The past rate peg is poorly aligned with operational and capital costs. This introduces uncertainty in councils' financial outlook and how they plan and budget for their future.

Further, the past rate peg has not kept up with changes in key inflation indicators: the Producer Price Index nor the Consumer Price Index, which effectively diminishes real income and purchasing power for councils.

The past rate peg also inhibits councils' ability to catch up to maintenance shortfalls. In 2021-22, regional and metropolitan councils experienced the largest dollar value shortfall in maintenance (in total, $51.6 million). At the same time, with increasing assets being placed on councils' books, the required asset maintenance expenditure had been growing for almost a decade.

Until recent changes to the rate peg methodology to account for population and cost drivers, the past rate peg exposed a spatial divide in the types and costs of services to different councils, e.g. the provision of water and sewer services in non-metropolitan areas.

The following tables demonstrate that the rate peg has failed to keep up with the growth in operational and capital expenditure.

Table 1: Annual growth in councils' operational expenditure per capita

Council type	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	CAGR 2012-13 to 2021-22
Metropolitan	-	1%	3%	95%	-31%	-4%	6%	0%	5%	1%	5%
Metropolitan Fringe	-	1%	0%	27%	10%	0%	21%	-12%	6%	-6%	5%
Regional Town/City	-	0%	4%	16%	-6%	0%	4%	3%	7%	4%	3%
Rural	-	-4%	-4%	96%	6%	10%	-3%	5%	10%	6%	11%
Large Rural	-	-1%	6%	25%	-6%	-4%	-13%	29%	6%	5%	4%
NSW average	-	-1%	2%	52%	-5%	0%	3%	5%	7%	2%	6%
Rate peg (%)	3.6%	3.4%	2.3%	2.4%	1.8%	1.5%	2.3%	2.7%	2.6%	2.0%	-6%

Source: SGS Economics and Planning (2024), Office of Local Government NSW (2012-22). Notes: Year on year variations to expenditure is influenced by council amalgamations (2015-16). Figures exclude councils which have missing data. Actual rate peg percentage is displayed rather than annual growth.

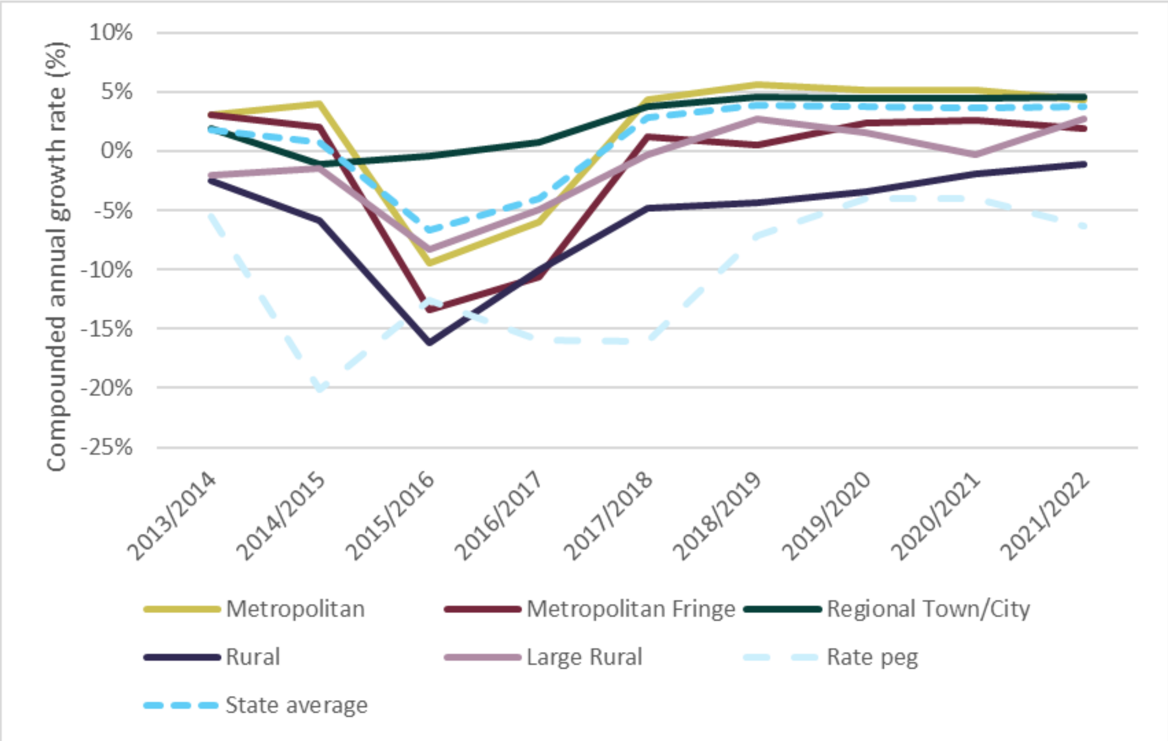
Table 2: Annual growth in councils' capital expenditure per capita

Council type	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	CAGR 2012-13 to 2021-22
Metropolitan	-	-9%	-6%	98%	-6%	-14%	-18%	34%	11%	4%	6%
Metropolitan Fringe	-	0%	4%	78%	-38%	46%	23%	-9%	3%	5%	8%
Regional Town/City	-	8%	-7%	3%	-10%	55%	7%	-4%	-13%	-5%	2%
Rural	-	5%	-14%	166%	-8%	8%	13%	3%	-6%	9%	12%
Large Rural	-	4%	-13%	50%	6%	3%	4%	-4%	6%	17%	7%
NSW average	-	2%	-7%	79%	-11%	20%	6%	4%	0%	6%	7%
Rate peg (%)	3.6%	3.4%	2.3%	2.4%	1.8%	1.5%	2.3%	2.7%	2.6%	2.0%	-6%

Source: SGS Economics and Planning (2024), Office of Local Government NSW (2012-22). Notes: Year on year variations to expenditure is influenced by council amalgamations (2015-16). Figures exclude councils which have missing data. Actual rate peg percentage is displayed rather than annual growth.

The gap between the rate peg and growth in operational expenditure is further demonstrated in the following figure.

Figure 1: Compound annual growth in operational expenditure (per capita) by council type, 2012-13 to 2021-22



Source: SGS Economics and Planning (2024), Office of Local Government NSW (2012-22). CAGR is calculated from a 2012-13 baseline.

(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

Local government is an important part of Australia's system of government and the functioning of our society. It is inevitable that its roles and responsibilities will continue to evolve and expand. This will be driven by changes in community needs and expectations, the broader operating environment including climate change, in addition to transfers and impositions of state and federal governments.

It is widely recognised that councils in NSW and across Australia are now responsible for a much wider range of functions than they were when FA Grants were introduced in 1974. Growth is most notable in the areas of social services, economic development, environmental management and new forms of regulation.

While every council delivers programs and services unique to the needs of their communities, common services include:

- Owning, investing in, and maintaining community assets such as roads, bridges, active transport networks and other assets that underpin transport and economic distribution.
- Provision of water and sewerage services in all areas outside of those serviced by Sydney and Hunter Water.
- Environmental management.
- Business services that support local firms with training and networking programs; providing facilities and services to support tourism, and the formation of local economic development strategies which leverage local competitive strengths.
- Emergency management and community support through risk management and planning as well as provision of first responder capability in the face of fires, floods, and other crises.
- Regulatory services that minimise the impact of market failures and negative externalities. This includes land use planning and development assessment; assurance on the structural sufficiency of approved buildings; health and safety; and public amenity.
- Household services, including; operation of neighbourhood and community specific aged care and disability facilities; investment in arts infrastructure, and orchestration of events, festivals and place designations which celebrate distinctive local culture; provision of community centres, early childhood centres and neighbourhood houses which enable delivery of diverse services of value to families and children, youth and various special needs groups; creation of a network of indoor and outdoor sporting facilities; and registration of pets and animals.

Because of this broad range of diverse responsibilities, local government is seen as the primary government body responsible for community liveability and social enrichment. Councils provide significant economic, social, and environmental services that enhance the liveability, productivity and economic success for their communities. This supports our state and national economies.

As noted above, many of the additional responsibilities are imposed on local government by the state and federal governments through legislation and regulation. In many cases, councils will welcome these new functions in principle, recognising that they are for the benefit of their communities. However, in imposing these responsibilities, state and federal governments fail to take into account the costs to councils in meeting these responsibilities. In the absence of commensurate funding or cost recovery mechanisms, councils will often consider these transfers as 'cost shifts'. Cost shifting is discussed in more detail later in this submission.

In every case, the application of rate pegs and insufficient use of Special Variations places unwarranted restrictions on councils' ability to raise required revenues and thus accentuates the adverse impacts of cost shifting.

(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 (SGS)

The symbiosis between local authorities and their communities means that what is felt by councils, in terms of risks to long-term financial sustainability, has implications for the efficient functioning and wellbeing of the wider community.

Social and economic impacts of rate pegging are far reaching and manifest over different time horizons.

Documented impacts to ratepayers include impacts to services (service cuts, reduced service scope, and compromised quality), delays to infrastructure delivery and deferred maintenance, a compounding backlog of asset renewal, lower community protections from natural disaster, and a distortion of public expectations of local government service and infrastructure provision.

Documented impacts to councils and council staff include the erosion of financial independence, decreased staff morale and wellbeing, and a longer-term contraction in the size and competitiveness of the sector's workforce.

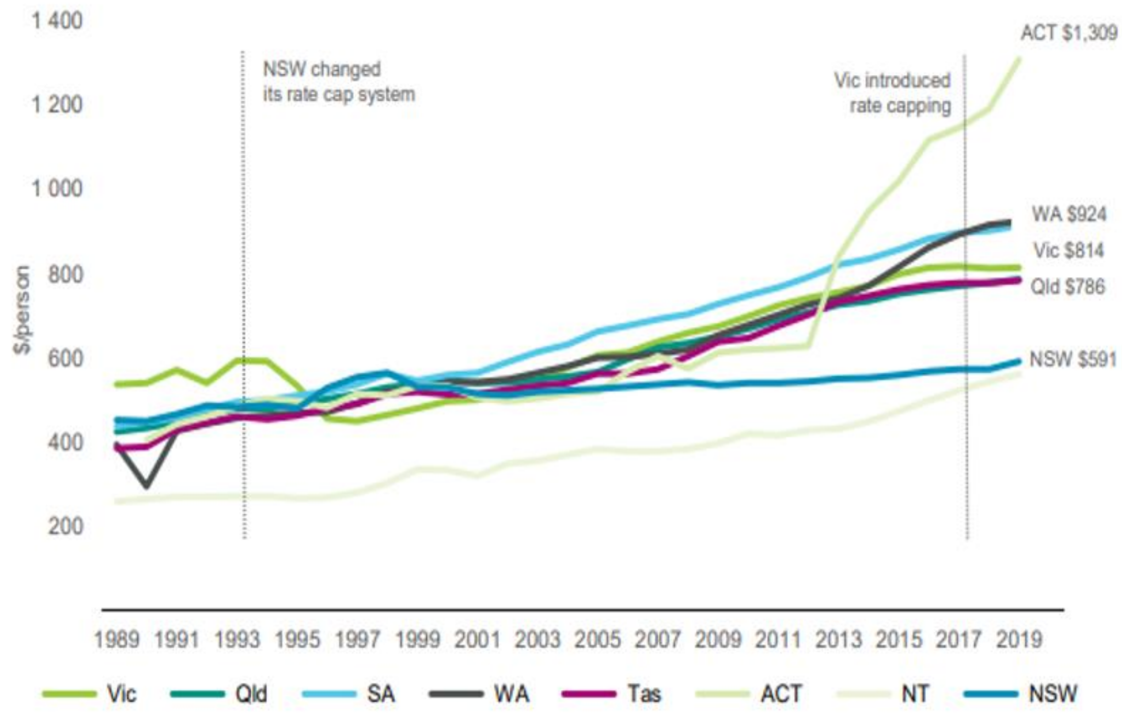
Research has shown that in most other states and territories, councils have more autonomy in setting rates and charges than in NSW. The jurisdictions where councils are able to set their own rates are Queensland, Tasmania, South Australia, Northern Territory, and Western Australia, however there are often regulatory requirements and guidelines around the process of rates setting. In Victoria, rate capping was introduced in 2016 and is linked to the Consumer Price Index and other factors.

A 2015 jurisdictional comparison of the effects of NSW's rate pegging and Victoria's previously uncapped rates highlighted that rate pegging had led to decreased equity between communities, higher levels of debt, and diminished levels of asset renewal in NSW.[1]

[1] Drew, J., & Dollery, B. (2015). Careful what you wish for: Rate-capping in Victorian local government. *Journal of Australian Taxation*, *17*(1), 139-167.

Since its inception in 1977, rate pegging in New South Wales has constrained local government rates revenue rises below other Australian jurisdictions that don't limit rates increases. Between 1989 and 2019, New South Wales rates per capita grew by $139 to an amount of $591, an average increase of 1 per cent per annum, the lowest in Australia. This has left rates per capita about 29 per cent lower than the Australian average of $835 per capita. The following figure clearly demonstrates the impact of rate pegging on NSW rates compared to other jurisdictions.

Figure 2: Jurisdictional comparison of rates revenue per capita

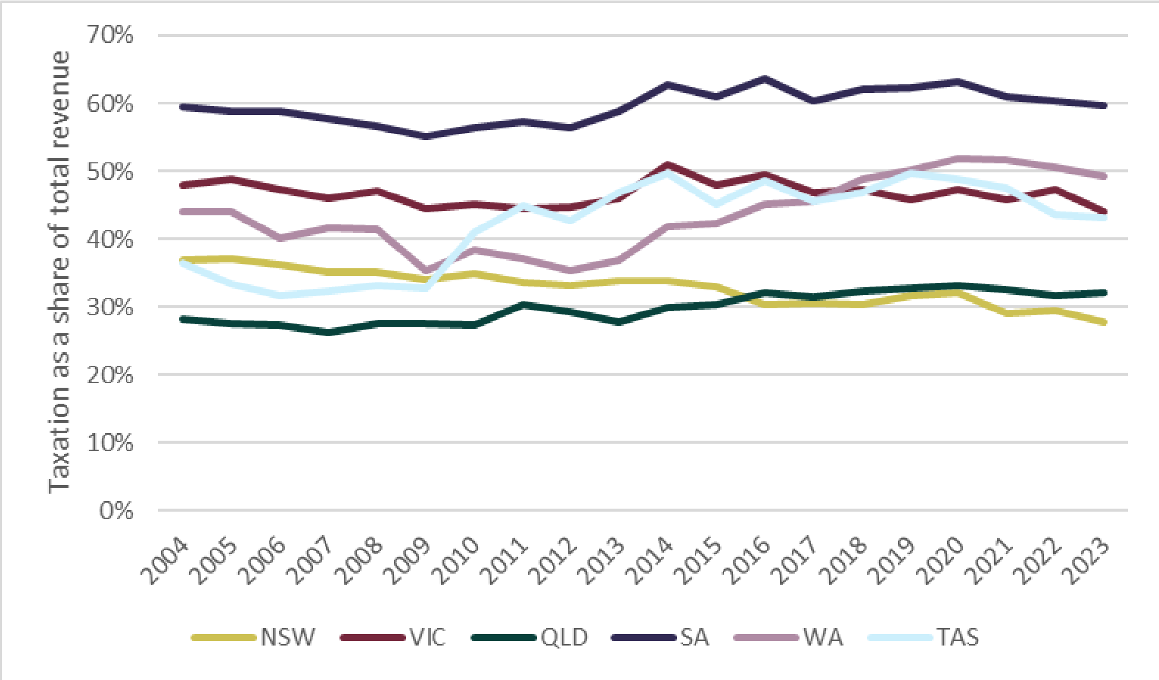


Note: Municipal rates revenue measured on a cash basis up to 1997-98, and on an accrual basis thereafter. Each state's council rates adjusted using the All Groups consumer price index for that state's capital city.

Source: Centre for International Economics (2020) based on Australian Bureau of Statistics' data

The impact of rate pegging in NSW is starkly set out in the below figure, which for NSW alone, in contrast to all other states, portrays a steady downward trend. This chart examines the share of local government property taxation (i.e. rates) as a proportion of all local government revenue, and highlights that NSW is increasingly reliant on uncertain and inefficient other sources of revenue, such as grant funding.

Figure 3: Local government share of taxation revenue against total revenue, 2005-23



Source: SGS Economics and Planning (2024), ABS (2024). Notes: NT is omitted from this analysis given its unique financial context compared to 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

LGNSW is firmly of the view that rate pegging should be abolished. Our long-held position has been reinforced by a large and solid body of independent, government and academic reviews over the past two decades. Several of these reviews are identified earlier in this submission and the evidence is conclusive.

Removing the rate peg in its entirety would provide councils more autonomy in financing community needs and shift the needle in addressing the mismatches in income and costs described above.

LGNSW acknowledges that IPART has made a number of improvements to the Rate Peg Methodology in recent years. These include introduction of:

- a population growth factor
- a customised Emergency Services Levy factor
- a Base Cost Charge with the use of forward-looking indicators
- recognition for different council groups.

While these improvements are generally welcomed, they do not address the revenue lag of nearly 50 years of rate pegging. Average rates in NSW would have been higher for the duration. Councils would now be in a stronger financial position and communities would now be enjoying better, more efficient and more resilient infrastructure and services.

However, if the NSW Government refuses to remove rate pegging, LGNSW has previously proposed a number of alternative although not mutually exclusive interim measures to improve the rate pegging methodology and the operation of the rating system. These include the following.

- **Rate peg as a non-binding reference peg**

  Change the binding rate peg into a non-binding reference peg. This would continue to be a published indicator that would influence public and political expectations and in doing so, guide councils' actual rate determination. Councils would have the discretion of exceeding the reference peg but would be subject to informed ratepayer scrutiny and would need to justify increases above the reference peg. If considered necessary, even if only for political assurance, IPART could monitor increases beyond the reference peg and intervene by exception (e.g. where increases appear to be excessive, were unsupported or failed to consider affordability.)

  LGNSW recognises that alternatives to the rate pegging approach must balance a mutual commitment to strengthen the financial sustainability of NSW local governments while being attentive to the cost of living and other affordability pressures in community.

- **Allow councils to exceed the peg by a determined margin without Special Variation (SV)**

  This would remove the burden of making a SV for small and moderate variations. Councils advise that the regulatory burden of the SV process coupled with political complexities acts as a deterrent to applying for an SV. This can be financially damaging where there are legitimate needs for increased rates to strengthen financial sustainability and address infrastructure backlogs. Failures to act will worsen the current situation and create larger deficiencies in future years.

- **Streamline the Special Variation process.**

  IPART's ability to implement the Additional Special Variation (ASV) for the shockingly low 2022-23 rate peg and process the 86 applications in a short time period demonstrated that there is scope to simplify and expedite the SV process. If adopted in conjunction with the other recommendations, only large SVs would need to be subject to comprehensive community consultation and IPART assessment.

- **Rate Peg Floor/Minimum Peg**

  LGNSW recommends the introduction of a minimum rate peg or floor. This would help avoid large shocks and coupled with the reality check would eliminate the possibility of a negative rate peg.

  Options to refine the rate peg methodology also include using the Capital Improved Value to provide a more equitable view of land value by property type, developing more tailored cost indices, and better reflecting 'hidden' costs, such as those arising from cost shifting to councils. Some Victorian and Tasmanian councils use the Capital Improved Value as part of the property valuation base for calculating rates.[2] IPART's 2016 review of the local government rating system recommended Capital Improved value as the basis for metropolitan rates (regional councils supported this if it were to be introduced as an option), however this was not accepted by the NSW Government.[3]

  LGNSW supports a recommendation of a Canberra Regional Joint Organisation to reset the foundation notional general rate yield to make sure that the rate base is adequate to fund infrastructure and service needs and is at least comparable with other councils in the same cohort.

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[2] Victorian Government (2023), 'Local Government Better Practice Guide: Revenue and Rating Plans', https://www.localgovernment.vic.gov.au/__data/assets/pdf_file/0030/195294/Appendix-Three-Supporting-Documents.pdf; Tasmanian Government (undated), 'Council rates', https://www.dpac.tas.gov.au/divisions/local_government/about_councils/finance_and_planning/council_rates#:~:text=When%20councils%20set%20their%20rates,value%20of%20properties%20across%20Tasmania.
[3] IPART (2021), 'Review of the rate peg to include population growth: Final report', https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Report-Review-of-the-rate-peg-to-include-population-growth-September-2021.PDF

(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 rate peg has not provided councils with sufficient income to deliver services to their communities. The observation that there have been 178 SV applications over 10 years with 165 approved in full or in part provides clear evidence that the rate peg has been inadequate.

Councils frequently express concern that the that the requirements for a special variation application are onerous. Key obstacles within this process include cost, resource intensity and the need for comprehensive community engagement required for, at times, a minimal annual increase. Political factors can also complicate the process. A potential option would be to set the required rates every four years, along with the adoption of council strategic documents and infrastructure plans, seeking community approval to endorse plans and the budget required to implement outcomes. Comments in the previous section in regard to streamlining the SV process are also a relevant consideration.

(e) Other

Concerns about the ability of local governments to fund infrastructure and services need to extend beyond rates and rate pegging to include other sources of local government revenue and to give consideration to major cost drivers. The importance of grants and the major cost driver, cost shifting, are discussed in more detail in the following sections.

Recommendation 1

That rate pegging be abolished and that the Integrated Planning and Reporting (IPR) framework be relied on to allow councils to determine their rates.

Financial Assistance Grants

Next to rates, Commonwealth Financial Assistance Grants (FA Grants) are the second largest source of revenue for local government and are fundamental to the financial sustainability of councils.

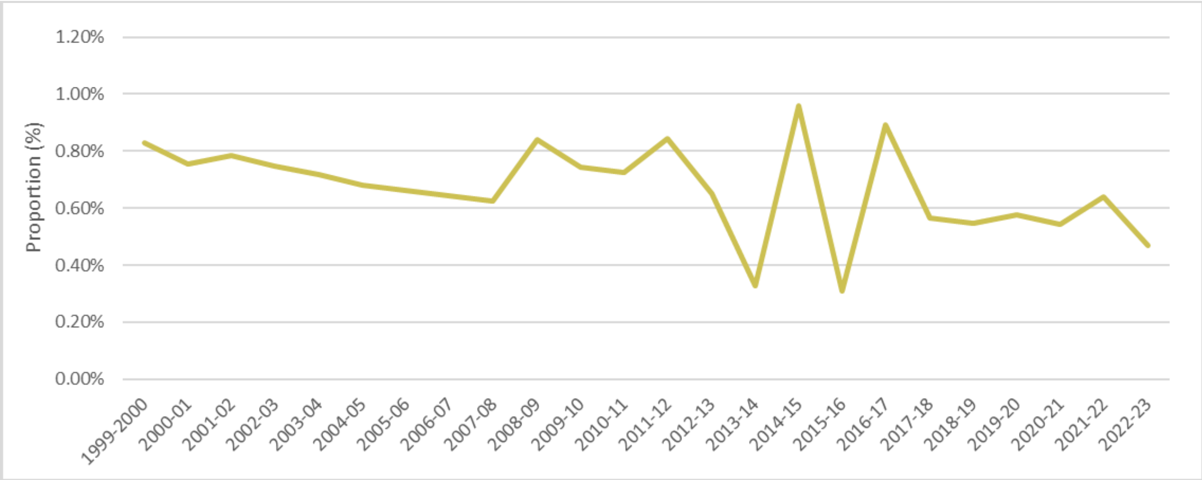
Local government must have secure, long-term, untied funding from the Federal and NSW Governments.

The ability of local government to effectively plan depends on the security and adequacy of its funding. Local government in Australia has limited options for revenue and in many cases is highly reliant on FA Grants. Recent decades have seen a slow reduction in the proportion of total tax revenues going to local government. For example, FA Grants have declined from one per cent of Commonwealth taxation revenue in 1996 to just 0.5 per cent today. This is despite increased costs and expected service delivery from local government.

The consistent downward trend of FA Grants has been coupled with ongoing cost-shifting and rate capping that increase the burden on councils and reduce their ability to raise revenue for community service delivery. Federal and State Governments are consistently requiring councils to deliver additional services with no commensurate increase in funding. LGNSW's latest cost shifting report estimates this to be equivalent to $1.36 billion in 2021-22.

The decline in FA Grants has the greatest impact on rural and regional councils who have a much higher level of grant dependency than urban councils. For example, council financial returns show that large rural and rural councils fall well below the benchmark of 60% own source revenue on average. For example, in 2021-22 Brewarrina recorded a low of 9.8%, Lockhart 27.7%, Central Darling 33.1% and Warren 34%.

Figure 4: FA Grant payment as a share of CTR, 2000-2023



Source: SGS Economics and Planning (2024), ABS (2024).

Review of grants

Several submissions call for a review and redistribution of FA Grants. LGNSW supports a review but acknowledges that undertaking a review without a commitment from the Federal Government to an increase in the quantum of the FA Grants to 1 per cent of total Commonwealth Taxation Revenue would amount to rearranging the crumbs and not increasing the size of the cake. It would fail to address the fundamental need to link FA Grants to growth, with growth in Commonwealth tax revenue being a proxy for economic growth and reflecting the growth in demands on all spheres of government.

A simple redistribution of FA Grants based on current settings would only be a band aid solution. While it would provide some temporary relief to a number of economically disadvantaged councils at the expense of stronger, mainly metropolitan councils, it would not address the continued decline in relation to Commonwealth Taxation Revenue. It will continue to erode the relative value of the FA Grants pool. This simplistic and seemingly cost-free approach is attractive to many in government but does not provide a long-term solution.

In a case of “be careful what you wish for”, a Federal review could also trigger a review of the interstate distribution. Under current arrangements the FA Grants are distributed between states on a per capita basis. This currently means that NSW and Victoria fairly receive the funding required to support their larger populations. An interstate redistribution would likely disadvantage the councils in the most populous states, including NSW.

Furthermore, the redistribution of FA Grants without an increase in the quantum represents a form of cost shifting. It shifts the responsibility of providing support to disadvantaged communities from the Commonwealth Government onto other local governments.

Recommendation 2

That the NSW Government support local government advocacy to the Federal Government to restore the quantum of Financial Assistance Grants (FA Grants) to 1 per cent of total Commonwealth taxation revenue.

Other grants/tied grants

Alongside these changes, local government funding is increasingly provided through tied grants which stipulate clear prescriptions on how a council can spend money. Tied grants often reflect the policy priorities of the Federal or NSW Governments and not the priorities of the community. This runs counter to the very intent of the IPR framework and reduces the ability of the council to make decisions based on community need and in the best interests of their unique community circumstances.

The combination of these factors has resulted in a long-term decline in the certainty and security of funding. This prevents councils from making long-term investments in the infrastructure, services, tools, and decisions needed for their community. It is this long-term decline that sits at the heart of all issues and opportunities for local government across Australia. A lack of long-term secure and adequate funding is holding local government back from increasing the quality and breadth of services they provide to local communities across the country. Reversing the trend of the decreasing proportion of less secure funding is essential to ensure local government can continue to support liveable communities and productive economies across Australia now and into the future.

The decline in certainty and security of funding has been observed alongside greater use of grant funding for local government. While grants have offset some reduction in Federal Government funding, the use of grants has increased the uncertainty and insecurity of local government funding. It is the competitive nature of these grants, combined with their inflexibility that limits local government, decreasing their financial sustainability.

Grant funding cannot be considered as part of a sustainable baseline funding level for local government. Grant funding is often distributed at the whim of election promises and the short-term cycle of state and federal government priorities. Competitive grants are also hard to access for resource-constrained councils who may not have the staffing capacity or expertise to submit applications for additional funding. For this reason, local government advocates for secure, untied funding that removes political influence from decision-making processes, enabling councils to make long-term decisions that align with both their organisational goals and community needs.

LGNSW also supports the comments submitted by the Institute of Public Works Engineers NSW & ACT (IPWEA NSW & ACT) (Submission 29):

> *Eligibility criteria grants should be less onerous to enable more flexible funding timeframes and for spending on asset maintenance and refurbishments with less focus on new builds. Eligibility could be tied to the Integrated Planning and Reporting Framework, asset management or other legislated processes to ensure adequate accountability rather than complying with the ever-changing set of requirements the funding bodies produce.*
>
> *The current significant focus on disaster preparedness is welcomed, but significant funding is required to build resilient infrastructure and correct past land planning mistakes which could become more significant as weather patterns change.*
>
> *Lastly, the Institute is supportive of moves to reduce the burdensome governance requirements attached to current funding streams, such as a reduction in the frequency of reporting to funding bodies. Whilst these are often touted as being necessary from a compliance point of view, they quickly become a resourcing challenge for council officers. Funding provided by federal sources is typically much less onerous from a governance perspective, and yet councils manage to work well under these types of schemes.*

Recommendation 3

That the NSW Government reform the grant funding process for state grants to local government to:

- simplify the grant application and administration processes
- increase flexibility
- ensure better alignment with community priorities.

Cost shifting

LGNSW's latest cost shifting report (Appendix B) was released in November 2023, highlighting a total cost shift to councils of $1.36 billion in 2021-22, which is the equivalent of more than $460 per ratepayer annually.[4]

This is a 78 per cent increase on the $820 million cost shift identified five years prior.

> **What is cost shifting?**
>
> Cost shifting occurs when state and federal governments force councils to assume responsibility for infrastructure, services and regulatory functions without providing sufficient supporting funding.
>
> NSW councils are currently being asked to absorb cost shifting worth more than $1.36 billion each year, with the practice imposing an estimated cumulative burden of more than $10.15 billion over the last decade.
>
> This now amounts to an average $460.67 paid by each NSW ratepayer, each and every year.

LGNSW's analysis makes it clear that NSW councils and communities are being asked to bear an ever-greater responsibility for state government services and infrastructure.

Cost shifting ultimately harms ratepayers, because councils are required to divert rate revenue away from existing services and infrastructure to fund the unrecoverable cost of services, programs and functions imposed by the state government.

Over the last decade, cost shifting has imposed an estimated cumulative burden of more than $10 billion on local government. This enormous impost is increasingly eroding any possibility of financially sustainable local government. It risks the capacity of councils to deliver tailored, grassroots services to their communities and properly deliver and maintain vital local infrastructure.

With councils having to fund this ongoing subsidy for the State Government, it means communities get less or go without. They go without better roads, they go without

[4] LGNSW Cost Shifting Report 2023: How State Costs Eat Council Rates, Morrison Low, also available online at: www.lgnsw.org.au/costshifting

better parks, they go without important community services that only councils provide, and they and their ratepayers are effectively paying hidden taxes to other levels of government.

In February 2023, LGNSW was pleased to receive a pre-election letter on behalf of the current NSW Government that acknowledged that the decade long practice of cost shifting had undermined the financial sustainability of the local government sector and placed significant strain on councils and household budgets.

At the November 2023 Annual Conference, councils unanimously resolved to call on the NSW Government to take urgent action to address cost shifting onto local government.

LGNSW and councils right across our state now seek real action from the NSW Government to address cost shifting.

Significant cost shifting components

The total quantum of cost shifting for 2021-22 was $1.36 billion. The most significant components of this cost shifting include:

- **Emergency Services Contributions** - Councils are required to fund 11.7 per cent of the cost of Fire & Rescue NSW, Rural Fire Service (RFS) NSW and the NSW State Emergency Service (SES) through an Emergency Service Levy (ESL). Councils provide additional financial contributions to emergency services agencies in addition to the ESL.

Recommendation 4

That the Committee support the removal of the Emergency Services Levy (ESL) on local government as a priority as part of the current reform of the emergency services funding system process.

- **Forced rates exemptions** – Councils are required to exempt government and other organisations from paying rates in the local government area.

  It is LGNSW's policy position that all land used for commercial or residential purposes should be subject to rates regardless of tenure. In some cases, rate exemptions should simply be abolished (e.g., Forests NSW). In other instances, it may be a matter of legislating tighter eligibility criteria and/or introducing a system of partial exemptions as applied in other jurisdictions.

Many current exemptions serve to provide financial benefits to numerous organisations, benevolent institutions, private schools, universities and some government business enterprises that are no longer justified in terms of principles of optimal taxation, particularly principles of equity and efficiency.

The distinction between charitable and social activity and commercial activity has blurred progressively over time with community orientated enterprises increasingly engaging in more commercially focused activity. Often it is no longer appropriate for local ratepayers to subsidise activities of exempt institutions where institutions act commercially, benefit from council services, and have capacity to pay.

This issue is being exacerbated by the NSW Government increasingly handing over management and ownership of public housing stock to Community Housing Providers (CHPs). While the NSW Government previously paid rates on these properties, CHPs are seeking and often achieving rate exemptions as Public Benefit Institutions (PBIs).

While councils have long called for greater NSW and Australian Government investment in public and social housing, councils are not in a position to subsidise welfare measures. This amounts to another cost-shift and such subsidies should be funded through the broader revenue bases of State or Federal Governments.

- **Pensioner rebates** – Councils are required to provide pensioner rebates on rates and other charges, for which the State government only subsidises 55 per cent of the cost, with the remaining 45 per cent funded by other ratepayers. This cost shift was estimated to amount to $55.2 million for councils in 2021-2022, even before the additional costs of administering this rebate are considered.

  The level of the mandatory rebate has not significantly risen for many years and has certainly not kept pace with inflation. Many councils, mindful of the impact of rates on some of their more vulnerable community members, have chosen to apply further voluntary rebates for pensioners. This results in an additional $17.2 million cost to councils that should properly be borne by the NSW Government.

Recommendation 5

That the Committee recommend a separate review of the current system of rate concessions and rebates with a view to modernising the system to improve equity.

- **Waste Levy** – According to the NSW Government, the waste levy aims to reduce the amount of waste being landfilled and promote recycling and resource recovery.

  The waste levy was first introduced in Sydney in 1971 and has grown to $163.2/tonne for waste generated in the Metropolitan Levy Area, and $94/tonne for waste generated in the Regional Levy Area. The levy is applied on every tonne of waste sent to landfill from those levy areas (with some exceptions).

  Margaret Crawford PSM, the NSW Auditor General at the time, highlighted in her 2020 report that the NSW Government has collected almost $4 billion from councils and industry via the waste levy in the last five years, but only about a third of this has been reinvested into waste and environmental programs.

  LGNSW acknowledges that the levy has contributed to an increase in the resource recovery rate to 67 per cent, compared with less than 10 per cent in the 1990s, but questions why only a third of levies raised are reinvested into waste and environmental programs.

  The latest National Waste Report highlights the recovery rate in NSW has stagnated at 67 per cent since 2016, despite waste levy revenue increasing from $689 million to $889 million today. Clearly more reinvestment of the waste levy is needed to improve recovery rates.

  It is not sustainable, either financially or environmentally, for the waste levy to continue inching up higher with inflation for no corresponding increase in resource recovery.

  The decrease in the amount of levy revenue reinvested into councils and industry has had significant financial impacts for councils.

  For instance, the Southern Sydney Regional Organisation of Councils (SSROC) 2021 Food Organics, Garden Organics (FOGO/FO) feasibility study indicates that introducing FOGO will cost on average $15.54 million per council in year 1, or an 8 per cent increase in the cost of providing red-lidded and green-lidded bin services. The EPA's Organics Collection Grant program offered on average $0.76 million per council if we assume the total $65 million available is divided equally between all councils that had not yet adopted FOGO (as at 2022). Therefore, introducing FOGO will require councils without a sufficient waste reserve to raise domestic waste management (DWM) charges well above inflation.

While the DWM charge is not capped, there are limits to how much residents are able or willing to pay. For example, it is not feasible for a council to significantly increase the DWM charge from one rate notice to the next. There are also limitations on what can be included in the DWM charge. For example, it does not include council costs of managing 'waste' in public places such as public place bins, street sweeping and from council-run facilities like libraries and swimming pools. These ever-increasing costs must be covered from within council rate revenue. In addition, councils cannot pass on the significant cost of sending civil engineering and roadworks waste to landfill. Due to restrictive NSW regulation, it is difficult for councils to recycle civil waste (such as dirt, soil, concrete and asphalt) meaning ratepayers must pay for the levy when discarded in landfill.

The most effective way for NSW to achieve higher resource recovery is to reinvest *significantly more* of the waste levy than the current amount into the sector through grants for additional recovery facilities, non-contestable funding for councils, upgrades to existing waste infrastructure, funding for innovative waste solutions, and state-wide education campaigns.

The alternative is the status quo- ever more levy funds being collected from councils and industry, with no associated change in NSW's recovery rate.

Recommendation 6

That the NSW Government reinvest significantly more of the waste levy than the current amount into the sector through grants for additional recovery facilities, non-contestable funding for councils, upgrades to existing waste infrastructure, funding for innovative waste solutions, and state-wide education campaigns.

- **Library funding** – When the *Library Act 1939* commenced, the intent was that many of the public libraries established by councils would be eligible for a subsidy of up to 50 per cent from the NSW Government (A funding arrangement referred to as 'a pound for a pound').

  Over decades, the proportion of funding from the NSW Government has gradually reduced. In 2022-23, councils spent $412 million on public libraries, while the NSW Government contributed $40 million.[5] Councils are certainly appreciative of the significant increase in State Government library funding since 2019-20, but councils still receive less than 9 per cent of the cost of funding their libraries from the NSW Government – a far cry from initial arrangements.

The shortfall in council finances resulting from the State Government not contributing 50 per cent of library funding in 2021-22 amounts to $156.7 million.

- **Audit costs for local government**- Councils are increasingly raising concerns about the significant escalation of audit fees imposed on local government.

  The NSW Audit Office became the auditor for all NSW councils in 2018, which has meant the appointment of contractors to councils to undertake the annual financial statement audit.

  Since this time, the baseline costs of audits have continued to increase. Many councils are experiencing unsustainable audit fee increases well in excess of CPI. LGNSW is aware of audit fees for one council increasing by 168 per cent in just one year. Across the local government sector, audit fees for councils have continued to escalate at a pace far beyond the baseline local government rate peg.

  This highlights the disparity between on the one hand the NSW Government giving the NSW Audit Office free rein to impose rapidly escalating costs on local government, while at the same time constricting local government's ability to pay these costs due to the rate peg imposed on councils.

  At the 2022 LGNSW Annual Conference, councils resolved to call on the NSW Government to cover the full costs of audits for local governments in NSW.

- **Developer contributions**
  Infrastructure contributions are made by developers to help deliver the infrastructure needed as communities grow. Faced with increasing expectations of local amenity and infrastructure services, population growth and funding constraints such as the rate peg, councils find it difficult to keep pace with public infrastructure and the service needs of community.

[5] Public Library Statistics 2022-23, State Library of NSW.

Councils rely on development contributions to go towards funding this infrastructure to support population growth and new development. They are a key funding stream to ensure that future communities have adequate roads, drainage, community facilities, and open space.

Infrastructure contributions are a means of financing public infrastructure that is required as a direct or indirect result of new development. They are provided in the form of monetary contributions, the dedication of land and/or the provision of capital works. This is based on a long-standing impactor/beneficiary pays principle of the existing planning system i.e. new development makes a contribution towards the cost of infrastructure that will meet the additional demand it generates and benefits from.

The mechanism generally used by councils to collect these contributions is through Section 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979* (EP&A Act). Section 7.11 provides a specific rate per development which is set by the State Government.

It has been well-established that existing infrastructure contributions fail to provide councils with sufficient revenue to meet the lifecycle costs of infrastructure. Restrictions on the use of the funds and maximum caps on development contributions constrain councils' ability to fund community infrastructure attributed to growth of development and populations.

Further, while developer contributions provide some funding for capital costs in new development, they do not provide for recurrent costs, and councils are required to fund the ongoing maintenance, operating and depreciation expense associated with new infrastructure.

A further challenge is that many councils across the State do not have the financial capacity to forward fund multiple infrastructure projects while awaiting vital contributions payments from developers for those projects.

Caps on infrastructure contributions have existed for well over a decade.

In 2009, contributions payable to councils were capped at $20,000 per residential dwelling/lot and in 2010 the cap was lifted for greenfield areas to

$30,000[6]. The caps have not been indexed since. The Productivity Commission noted in 2020:

> *The caps were put in place to sustain housing supply amidst the 2008-09 Global Financial Crisis and were aimed at stimulating construction activity. The cost of providing infrastructure, and thus the contribution rates charged to development is, however, a signal of economic efficiency. Removal of these signals has therefore delivered less efficient development patterns. Moreover, over time it is likely that these subsidies were ultimately taken up in terms of higher land values.*[7]

In 2013, recognising the gap between the amount councils can charge in accordance with contributions plans and the actual cost of infrastructure, the Government introduced the Local Infrastructure Growth Scheme (LIGS) to fund the gap between contributions caps and approved contribution rates for Local Infrastructure Growth Scheme transition areas. The LIGS were phased out and removed in 2020.

In the ten years since the caps were introduced, there have been significant increases in land values and construction costs – particularly in the greater metropolitan area, so it is reasonable for the thresholds to be reviewed. The fact that IPART regularly approves development contributions significantly higher than (often double) the cap in some areas validates what the true costs of development actually are.

The thresholds need to be removed or at a minimum, increased to a more realistic level. They do not accurately reflect councils' increasing infrastructure delivery costs and land values and have not been indexed for 10 years which means they have declined in real terms during this period.

IPART review and assessment of contribution plans

Councils can increase the contribution rate per development, but to do this they must submit contributions plans to IPART for independent review. IPART assesses contributions plans that propose contributions above $30,000 per lot or dwelling in identified greenfield areas and $20,000 per dwelling in other areas.

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[6] See timeline of system reforms in NSW Productivity Commission, Review of Infrastructure Contributions in New South Wales – Final Report, November 2020
[7] NSW Productivity Commission, Issues Paper, July 2020, p 38

An IPART-reviewed contributions plan entitles the council to levy the full contributions amount.[8]

While contributions plans do have the opportunity to be reviewed, the IPART process has been typically long and complicated, potentially delaying the collection and expenditure of funds and is therefore not occurring systematically or effectively.

The IPART review adds another resource-intensive and lengthy stage into the complex process of preparing and adopting contribution plans. Historically, LGNSW has opposed the imposition of these thresholds due to the burden of the IPART review process on councils. LGNSW does not support the thresholds and maintains that councils should be empowered to do the planning for infrastructure within their local areas and to recoup contributions for the provision of infrastructure for the benefit of the community[9].

Additionally, councils are only able to collect for 'essential works' under IPART approved plans. The Essential Works List imposed on councils specifically excludes the ability to collect for items like libraries or community centres and the like – subjecting communities to deficits of social infrastructure that can only be made up through either the use of voluntary planning agreements or provisions of additional funds from the rate base, again placing an unfair burden on councils and existing communities.

Recommendation 7

a) That the thresholds that trigger IPART review of contributions plans be removed so that plans are not required to go through the IPART process.
b) That the caps on development contributions be removed
c) That the Essential Works List be reviewed.

Further detail on a wide range of cost shifting impacts is set out in the Cost Shifting Report at Appendix B.

[8] Local Infrastructure Contributions Plans | IPART (nsw.gov.au)
[9] Submission_on_Infrastructure_Contributions_Review.pdf (lgnsw.org.au)

Recent cost shifting developments

Over the past 12 months, there have been some positive developments on cost shifting. Last year's reforms to the rate peg methodology will mean that any increases in the Emergency Services Levy (ESL) will be wholly covered by an adjustment to the rate peg. The review of the ESL, which is now underway, presents an opportunity for this longstanding matter to be sensibly resolved, if the review results in the removal of the ESL on councils and insurance policies.

However, there has also been some concerning backsliding on cost shifting, with the NSW Government proposing to impose a number of additional new costs and levies onto councils and their communities. Three examples of these potential new cost shifts are as follows:

- **Dams Safety Levy** – The NSW Government has asked IPART to recommend a methodology for a levy on dam owners, to fund the costs of the dam safety regulator. 58 councils carry responsibility for many of the 380 declared dams that would be targeted by this onerous levy, which would capture water supply, flood mitigation and recreational dams.

  Beyond the direct cost impact of a new levy, the levy would also result in a reduction in councils' funds available for essential infrastructure and services, and most perversely, would reduce the funding available for local water utility asset maintenance and specialist skills.

  LGNSW has strongly urged the NSW Government to discontinue its proposal to introduce a new dam levy. Instead, the NSW Government should fund the costs of its own regulator from consolidated revenue.

- **Interment Levy** – The NSW Government has also proposed imposing a new tax on every cremation, burial and ash interment across NSW. The levy is proposed to be set at $41 per cremation, $156 per burial and $63 per ash interment.

  109 of the 128 local government authorities in NSW operate cemeteries or crematoria. Councils are the largest provider of bodily interment in NSW, responsible for 42.8 per cent of burials in 2021-22.

  Councils cannot absorb this levy into current operational budgets and will therefore have to pass on the levy to their residents and community members. This then makes interment services more expensive for individuals and families who are grieving through what will be for many people the most challenging circumstances of their lives.

The NSW Government has proposed this levy to fund the costs of its cemetery's regulator, which will mean a saving for the NSW Government's bottom line. In effect, this proposal seeks to make councils the tax collector for the NSW Government.

Respectful and affordable interment services are a critical public good provided by local government cemetery operators. LGNSW has expressed its fundamental opposition to this levy and any moves that seek to unnecessarily increase costs for grieving families.

- **Beachwatch funding** – In late 2023, the NSW Government had announced that the costs of water quality monitoring at Sydney swimming sites would need to be borne by councils from 1 July 2024, after almost two decades of the NSW Government funding this service.

  The majority of councils in the Sydney Beachwatch area do not have responsibility for sewerage management/treatment, and do not have any legal responsibility for monitoring water quality at ocean beaches.

  The implication from the NSW Government was that Beachwatch monitoring would discontinue if councils did not fund this service. In reality, this monitoring has now become a community expectation and any transfer of this responsibility from the state government to councils would represent an additional cost shift onto councils.

  LGNSW has expressed appreciation that the NSW Government listened to the local government sector's advocacy on this matter and decided not to proceed with shifting this cost onto councils for the 2024-2025 financial year. However, this is seemingly just a temporary reprieve until 1 July 2025, and LGNSW reiterates its call for the NSW Government to reconsider this cost shift.

Recommendation 8

That the NSW Government urgently work to ensure cost shifting onto local government is addressed through a combination of regulatory reform, budgetary provision and appropriate funding.

Summary of recommendations

RATES

Recommendation 1
That Rate Pegging be abolished and that the Integrated Planning and Reporting (IPR) framework be relied on to determine council rates.

GRANTS

Recommendation 2
That the NSW Government support local government advocacy to the Federal Government to restore the quantum of Financial Assistance Grants (FA Grants) to 1 per cent of total Commonwealth taxation revenue.

Recommendation 3
That the NSW Government reform the grant funding process for state grants to local government to:

- simplify the grant application and administration processes
- increase flexibility
- ensure better alignment with community priorities.

COST SHIFTING

Recommendation 4
That the Committee support the removal of the Emergency Services Levy (ESL) on local government as part of the current reforming the emergency services funding system process.

Recommendation 5
That the Committee recommend a separate review of the current system of rate concessions and rebates with a view to modernising the system to improve equity.

Recommendation 6
That the NSW Government reinvest significantly more of the waste levy than the current amount into the sector through grants for additional recovery facilities, non-contestable funding for councils, upgrades to existing waste infrastructure, funding for innovative waste solutions, and state-wide education campaigns.

Recommendation 7

- That the thresholds that trigger IPART review of contributions plans should be removed so that plans are not required to go through the IPART process.
- That the caps on development contributions be removed.
- That the Essential Works List be reviewed.

Recommendation 8

That the NSW Government urgently work to ensure cost shifting onto local government is addressed through a combination of regulatory reform, budgetary provision and appropriate funding.

Conclusion

The sustainability, resilience, and productivity of local government and their communities depends in large part on their long-term financial sustainability. The ability to provide the right mix of services and infrastructure that meets the needs of local communities is essential to the long-term growth, contribution, and ultimately liveability of NSW communities.

This submission makes it clear that it is in the interests of the NSW Government to work closely with local government to strengthen its financial sustainability. This submission has presented several ways in which the NSW Government could do so including:

- Removal of rate pegging
- Ending cost shifting
- Giving councils more autonomy and flexibility over their finances
- Moving from tied grants to untied grants that match community priorities
- Simplifying grant application and administration processes
- The removal of the current caps on development contributions and the review of the Essential Works List.

Local government would also appreciate the support of the NSW Government in advocating an increase in the FA Grants quantum from around 0.5 per cent to 1 per cent of total Commonwealth Taxation Revenue and increases in other Federal grants.

LGNSW would welcome the opportunity to work with the NSW Government in building a stronger NSW through a stronger local government sector.

LGNSW would be pleased to provide clarification on any matter raised in this submission. For further information, please contact,