Submission No 123

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Clarence Valley Council

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Clarence Valley Council submission to:

Standing Committee on State Development

Legislative Council

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

TCorp has defined financial 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.'

Clarence Valley Local Government Area is 10,441km^2, which is the equivalent of the other 6 council's in the Northern Rivers combined. To service and connect three towns and 60 villages, Council maintains:

2,476 km of roads	5 holiday parks
276 bridges	1 airport
100km coastline with 36 beaches	1 saleyard
1,120ha parks & reserves	1 showground
39 playgrounds	2 administration centres
27 sports fields	3 works depots
10 skateparks	13 cemeteries
5 public pool complexes	30,000 mL dam
50 public amenities	183km trunk watermains
4 libraries	6 sewage treatment plants
1 mobile library	103 sewage pump stations
1 regional art gallery	2 landfills
12 community halls & centres	7 waste transfer stations

For an LGA of this size, the population is proportionately low - 54,600 people reside in the Clarence Valley. Considering the asset base, the rate base and therefore rating income is comparatively low - 26,000 ratepayers from which rating income of $53M is derived.

Currently, own source revenue is around 30-40%. Clarence Valley Council is highly reliant on grant funding to rehabilitate and upgrade the enormous asset based.

Rate Peg

While rate peg reviews result in minor improvements, there remain fundamental inadequacies in the ability of rate peg to match real cost impacts.

ABS population growth data, which lags by three years, is not an appropriate measure of population growth in the current year. And is therefore not an appropriate measure for considering rate peg to fund increased services and infrastructure to meet the demands of population growth at the time it occurs.

Indicative of this is the fact that IPARTs proposed rate peg for Clarence Valley Council in the 2023/2024 was the third highest in the State, based on population change that occurred in 2020/2021 during the COVID pandemic.

However, the demands of an increased population on councils is felt immediately. In the case of Clarence Valley Council, 2020/2021 saw a significantly increased demand for development and building services, growth in the number of requests for information and GIPA requests, counter services and rating enquiries, increased reports for regulatory services and facility and open space maintenance. Remuneration to service these demands did not begin to be met until 2023/2024 under the current methodology.

While the exact cost of population increase is difficult to quantify, suffice to say it impacts activity across the organisation and is often dependent on level of service experience of residents and their expectation of service levels in their new local government area. Generally speaking, it is observed that residents expect at least equal levels of service to the area they came from, which can be problematic for regional and rural councils, when the resident's previous location was metropolitan and many services are State funded, either directly or through non-government services.

In house and own source resourcing is the way in which councils can increase productivity however IPARTs consideration of productivity gains is unrealistic for non-metropolitan councils with comparatively smaller rate bases. Examples of key issues include:

- significant skills shortages across the sector result in costly competition to attract skilled labour to non-metropolitan councils;
- the greatest operational efficiencies require significant investment in IT systems, cloud migration and upskilling of staff and communities;
- skills shortages rely on outsourcing activity and functions for commercial rates.

Fundamental problems remain in the Local Government Cost Index (LGCI), which is calculated on an historical cost basis, while CPI has been on a continual rise since July 2021. Not only is the LGCI running behind the CPI, the weighting of the cost components of the LGCI do not match in particular regional and rural councils with large asset bases and limited access to in house specialist and professional services. In recent years, the proportion of Council's budget the spend on roads and bridges (predominantly contractual arrangements) is between 35-40%, while the LGCI assumes 26.9% and the allocation to business services (consultants and professional services) is around 10%, while the LGCI assumes 6.2%. These allocations are subject to significant market variability that is well beyond the control of local government, as they are in high demand.

The Rate Peg methodology is silent in consideration of the Local Government, which following the 2023 Local Government Award negotiation, exceeded many councils rate peg.

2023/2024		2024/2025	2025/2026
4.5%	gross lump sum payment of $1,000 or 0.5% of the employee's annual salary system rate of pay as at 30 June 2024	3.5%	3%

Statutory Fee - Revenue

Planning and assessment related fees are set by the *Environmental Planning and Assessment Regulation 2021* Schedule 4 Fees. Generally, at Clarence Valley Council, we receive a high volume of lower value Development Applications, which results in a ratepayer subsidised service as cost recovery is not achievable due to lower regulated fees.

The fee for Building Information Certificates (BICs) was an Environment Planning & Assessment regulated fee from 2008 until 2022 at $250. While simple BIC applications in urban areas may have been delivered at cost in 2008, that the fee did not increase over 14 years resulted in even simple BIC application being subsidised by the ratepayer in 2022. It was inconceivable that BIC applications relating to illegal structures in more remote areas of the LGA, made more complex by Bushfire and Flooding restrictions could be resolved within a cost constraint of $250.

Planning Certificate (PC) fees are set by EP&A regulation and do not allow for cost recovery for this service.

The history of regulated fees is as follows:

- 1979-2011 - $40
- 2012-2022 - $53
- New EP&A Regs 2022/23 – $62
- 2023/24 - $66.50
- 2024/25 - $69.00

In 1979, PCs were a two page mostly yes/no response. They are now 7-8 pages in length and include complex information. Clarence Valley Council processes approximately 2,000 PCs each year, meaning the cost recovery issue is a reasonable issue given volume. Subsidising the issuing of PCs is a significant impost on the ratepayer.

Cost Shifting

The real burden of 'cost shifting' by the State government on local government, remains one of the most significant challenges facing councils.

As the closest level of government to the community, councils are best placed to understand and plan for the needs of their communities. To do so is governed by the integrated planning and reporting requirements set out in the *Local Government Act 1993* and *Local Government (General) Regulation 2021.* Clarence Valley Council's Community Strategic Plan 'The Clarence', identifies the aspirations for the community, and each term the elected body determined through its Delivery Program priorities activities to meet the expectations of community.

The act of imposing the responsibility for providing services or infrastructure, without corresponding funding, or without the means to raise revenue to apply a cost recovery principle, is undermining the role of councils to deliver services and activities deemed important to local communities by local communities.

The impact of 'cost shift' requires rating income to be diverted from essential services, infrastructure, programs and projects the community expects from their council, to ensure compliance with State government requirements.

Published in 2023,[1] the results of 'cost shifting' research commissioned by Local Government NSW estimated responsibilities totalling $1.36 billion was transferred to councils to fund in 2021–22, which represents an increase of $540 million over the previous 5-year period. Assuming the same rate of escalation in more recent years means we can expect this figure to increase at an astounding $141 million a year and resulting in $1.65 billion in the current financial year and over $2 billion 'cost shifted' to ratepayers by 2026/2027.

'Cost shifting' takes many forms but most prevalent for Clarence Valley Council are the cost of the following to community:

- Waste levy
- Rate exemptions – for non rateable property under the Local Government Act.
- Emergency services levy
- Pensioner rebates
- Regulatory functions imposed on councils with statutory fees that do not reflect cost – onsite-sewage management, companion animals, environmental protection, development applications.
- Floodplain asset management

[1] Cost Shifting 2023: How State Costs Eat Council Rates by independent consultants Morrison Low provides analysis and insights from the 2021–22 Cost Shifting Survey conducted in May 2023.

- Libraries
- Regional road maintenance and upgrades

At Clarence Valley Council, it is estimated that the impact of 'cost shift' to community is currently in the vicinity of $14.4 million, escalating at a rate of $1.24 million each year. This equates to over $500 dollars for each of our 27,470 ratepayers in the current year, and is represented by a waste levy over $4 million, lost income of approximately $1.8 million relating to non rateable property, an emergency services levy, mandatory pensioner rate rebate in excess of $1 million, unfunded floodplain asset management in the vicinity of $5 million and public library operations that are weighted toward Council funding at a ratio of $10:1.

In February 2024, Council requested financial compensation of $17.8 million from the State to address critical priority defects on 100km of Armidale Road, based on missed funding opportunities following the failure of the current government to complete the Regional Road Reclassification program established by the prior government and implement the recommended reclassification of Armidale Road to State Road classification. Armidale Road is the route between Grafton and Armidale and the New England, carrying hundreds of vehicles daily beyond the urban areas of the local government area, around 20% of which are heavy vehicle movements. In December 2021, the State announced Armidale Road as a priority road transfer once current road maintenance/upgrade programs were completed in late 2022. During this period, and until December 2024 when formal advice of the cessation of the Regional Road Reclassification program, Council has been unable to apply for further grant funds. It is inconceivable that maintenance of 100kms of Armidale Road is a cost burden on local ratepayers, most of whom do not use the transport link.

Social and Economic Impacts of the Rate Peg

While the rate peg provides protection for rate payers from excessive rate increases and stability in the rate peg is beneficial to rate payers in managing households and businesses on limited incomes, it serves to continue the practice of delivery of services that fall short of the expectations of ratepayers.

Comparison of any non-metropolitan council customer satisfaction survey will typically show low satisfaction levels with road infrastructure, aged community facilities and those services such as planning and building services where professional staff shortages exist.

Special Rate Variations

The process of application for Special Rate Variation lends itself to controversy and divergent relationships between ratepayers and councils that are often hard to repair. The preparation of an SRV, including the community consultation required is a costly exercise that can be challenging for a council that requires an SRV to meet the aspirations identified by community.

Other issues

Submissions to the Public Inquiry into assets, premises and funding of the NSW Rural Fire Service, are not considered in this specific submission. However, should be considered in the overall impact on regional and rural communities to fund infrastructure and services, given the requirement for local government to account for 'red fleet' assets over which they have no control. The Audit Office's requirement to have councils recognise RFS 'red fleet' assets and account for their depreciation in council financial reports is a significant financial impost on ratepayers that is disproportionately experienced by regional and rural councils.

Regards

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