Submission
No 125

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Richmond Valley Council

Date Received: 25 June 2024

Richmond Valley Council

25 June 2024

Dear Committee members

Submission: Inquiry into the ability of local government to fund infrastructure and services

Richmond Valley Council welcomes the opportunity to make a submission to the Inquiry into the ability of local government to fund infrastructure and services, and to highlight the challenges local councils in NSW currently face in funding the long-term needs of their communities.

The subject of this Inquiry is a long-standing issue within the local government sector and there have been numerous attempts to address councils' sustainability and funding challenges over the past 10 years. From the Independent Review of Local Government in 2013, to the 2016 IPART Review of Reporting and Compliance Burdens and the current review of the rating system, councils have repeatedly raised the same concerns and the government response has largely failed to achieve meaningful and positive change for local communities.

Ten years have elapsed since these conversations began and the local government sector is running out of time. Collectively, Councils are facing an infrastructure crisis of unprecedented scale and complexity, driven by the increasing frequency and severity of natural disasters and the impacts of post-pandemic social and economic change. In the space of three years, the cost of providing essential infrastructure for NSW communities has doubled, leaving local councils struggling to fund the cost of essential services. This crisis follows years of under-investment in local infrastructure through lack of revenue, limited operational grants and inconsistent capital funding programs. The time has come to change the conversation and develop a new model for addressing the infrastructure challenge. Without a fundamental change in the policy settings, local communities especially in regional NSW will face continued decline in public infrastructure and service provision.

Providing long-term certainty of investment will require a multi-faceted approach including:

- Redesigning the funding model for federal and state government investment in critical infrastructure – especially roads and water and sewerage services. This includes positioning disaster mitigation and recovery as 'business as usual' for asset management across all levels of government;
- Providing better pathways for councils to fund inter-generational infrastructure;
- Reducing the regulatory burden on local councils, including compliance and reporting costs and the impost of unfunded mandates;

- Reforming the local government rating structure to provide more flexibility for councils and their communities.

Redesigning infrastructure funding models

As the Australian Local Government Association has often highlighted, local government manages some 75% of roads within Australia yet collects less than 4% of national taxation. There is simply insufficient revenue from rates alone to address the ever-increasing costs of infrastructure maintenance and renewals and we are now seeing the consequences of long-term under-investment and funding uncertainty. For regional councils such as Richmond Valley who also manage water, sewerage and domestic waste services, the funding gap is even wider. Our council currently spends more than 26% of its annual budget maintaining its 1064km road network, with a further 18% being directed towards water and sewerage services and 16% to waste management – and in all of these areas we are falling short of the funding required to maintain and renew these critical assets.

The flood events of 2022 damaged 75% of Council's roads network and left our community with a repair bill exceeding $150m. Two years on from this event, the approvals process for Disaster Recovery Funding Arrangements (DRFA) to support these restoration works is still in train, as communities continue to wait for repairs to damaged bridges, landslips and roads that are desperately needed to restart regional economies. Our council is facing another two-three years to complete the recovery process and, based on past experience, the community is likely to experience another natural disaster within that time. In the face of more frequent and severe weather events in the future, we need to create a better disaster funding model for local government infrastructure that takes a two-part approach: Increasing annual investment in infrastructure maintenance and renewals to build resilience across the local government asset base; and providing a more rapid-response funding option to rebuild damaged roads and infrastructure that is essential for public health, such as water and sewerage services.

As the NSW Government is currently considering a new broad-based emergency services levy to fund disaster preparedness and response across the State, it should also consider ongoing funding models for disaster mitigation and critical infrastructure recovery. The wave of natural disasters that swept across NSW in 2022 has clearly demonstrated that we cannot continue to rely on reactionary funding models, such as DRFA, to support long-term recovery. Infrastructure resilience and disaster mitigation needs to become business as usual for all levels of government.

Improving funding for inter-generational infrastructure

Councils in regional NSW provide water and sewerage services to some 1.9 million people, with local water utilities ranging in size from as few as 700 connections in remote NSW to 50,000 connections in large coastal communities. Richmond Valley Council serves some 7000 properties, providing water and sewerage services to the township of Casino (population 11,000) and smaller communities in the Mid-Richmond area. Water and sewerage assets are largely inter-generational, with infrastructure such as sewage treatment plants designed for 80 years+ of continuous service. Across regional NSW, local councils are facing the proverbial 'perfect storm' in attempting to operate, maintain and renew these critical assets as the post-pandemic economy brings cost escalation beyond 100%, while populations in regional NSW are increasing, as the exodus from major cities continues. This means that infrastructure constructed in response to government decentralization schemes in the 1950s-70s is now reaching the end of its service life, while being stretched to the limit by unplanned population growth, with no capacity for councils to raise the funds for augmentation or renewal.

For example, Richmond Valley Council had planned to replace its aging sewage treatment plant at Casino (which was originally constructed in 1932) with the expectation that this project would cost some $30m. Council's long-term financial plan provided for a combination of reserves and borrowings to fund this project. However, in the space of three years, the replacement cost has escalated by more than 100% to $65m and the urgency to replace the asset has increased, with the NSW Government establishing the Richmond Valley Regional Jobs Precinct at Casino, continued 'tree-change' exodus from major cities, and increasing demand to activate the town's extensive supply of flood-safe residential land in the wake of the 2022 disaster.

Council is unable to fund the full cost of replacing this plant and has no recourse but to join the long line of local councils seeking government funding. However, there are few funding programs available at either state or federal level and there is a high risk that this infrastructure will fail while council continues to search for the support it needs to build the replacement. This situation is playing out in communities across regional NSW and the potential impacts on public health and the environment are catastrophic. Local councils need more reliable, consistent funding programs for intergeneration infrastructure, and access to new financing models that support borrowing beyond a single generation to fund these critical assets. At present, local councils are largely limited to 20-year loans and face increasing challenges in obtaining finance and servicing the growing cost of infrastructure replacement over this timeframe. We need a new approach to inter-generational funding options.

Reducing the regulatory burden on councils

Much has been said about excessive regulation of local government and so-called 'cost shifting'. Richmond Valley Council takes the view that all its activities should be directed towards achieving a direct community benefit. While this may, at times, involve 'give and take' between all levels of government - with state and federal contributions to capital investment and local contributions to service delivery - we need to take a risk-based and proportionate approach to local government regulation that allows councils to get on with the job of caring for their communities. At present, there is a significant difference between the cost of meeting community needs and the cost of operating a local council. This is largely driven by the level of compliance and reporting activities applied to local government.

Local councils endure a disproportionate level of oversight and regulation compared to higher levels of government. Although councils manage significantly smaller budgets and have limited reach and impact beyond their boundaries, they are required to undertake more long-term planning, more stringent levels of internal and external audit and greater public scrutiny than State of Federal governments. Ultimately communities pay the price of this with reduced services and under-funded infrastructure. Subsequent inquiries into streamlining local government have largely resulted in additional compliance requirements. For example, the Independent Review of Local Government recommendation to transfer oversight of council audits to the Auditor General has increased the annual cost to local government by 100%.

Every year, councils devote time and resources reporting on more than 500 compliance and performance measures for various government agencies, although much of this data is never used to inform state policy or improve community outcomes. Of particular concern is the emerging State Government trend towards 'go-fund-me regulation' where agencies develop complex compliance frameworks and then directly tax the community and councils to recover the cost of perpetually applying them. This only encourages more red tape.

The new Interment Industries Scheme, introduced by Cemeteries and Crematoria NSW is a prime example of this genre. Under this scheme councils are required to pay a new $800 fee to 'licence' cemeteries that have been operating for decades and were already on the agency's data base. A disproportionate compliance framework is then imposed, with regional councils being subject to the same expectations on pricing, customer service, maintenance and religious/cultural requirements as large commercial operators in metropolitan Sydney. Cemeteries and Crematoria NSW then seeks to recover the cost of operating this bureaucratic behemoth by directly taxing the bereaved $156 per burial for the privilege of being regulated and requiring local councils to collect and process the payments at their own cost. The tax was imposed with no prior consultation and only three months' lead time for introduction. As a result, local councils who were finalizing their 2024-25 budgets have had to absorb the costs or increase their fees. To meet the new requirements, Richmond Valley Council will have to increase its cemetery charges by 15%. It is unconscionable that grieving families should have to pay twice in higher fees and direct charges to fund the cost of policy on the run. All new government regulation should be required to 'pass the pub test' of providing more benefit than cost to the community. In this regard, the Interment Scheme falls sadly short of the mark.

Reforming the rating system

Much has also been said about the ongoing impacts of rate-pegging on councils' capacity to fund services and infrastructure. While adopting an approach similar to the South Australian model - where councils set their annual rates charges based on the cost of community service provision - has some merits, the reality is that rates income, whether regulated or not, is limited by the community's capacity to pay. According to Local Councils South Australia, households in SA pay an average of $31 per week for their (un-pegged) council rates. Richmond Valley Council rates currently equate to some $24 per household per week. While the NSW Government would claim this demonstrates the value of rate-pegging, it doesn't consider the hidden costs of maintaining this system – such as the $38m it costs each year to run IPART, which regulates the rating system. It also suggests that people in NSW may be receiving lower levels of service than their South Australian counterparts, who at least get to choose what they are prepared to pay for.

The South Australian approach of replacing the pensioner rates rebate with a wholly government funded cost of living payment also has considerable merit. While NSW local councils have come to accept that successive State Governments will not let go of rate-pegging, we should continue to strive for a more flexible and less costly and complex process to impose it. Councils may be willing to accept that their revenue raising is fixed if the NSW Government is prepared to do the same – such as limiting the Waste Levy to a CPI increase. In the 10-year period following introduction of the levy (2010-20), the NSW Regional Regulated Area charge increased by 741% and continues to escalate, yet councils are consistently limited to less than 5% in annual rates increases. If we are to accept the philosophy of pegging government revenue, then it must be applied across all levels of government to achieve an even playing field. Otherwise, councils will continue to fall behind in their bid to fund increasing infrastructure and service costs.

Conclusion
While Council acknowledges that there is no simple solution to the increasing challenges local councils face in providing infrastructure and services, the time has come for a new conversation on the subject. Councils throughout NSW are operating under a new paradigm in the post-pandemic economy and the increasing impacts of climate change. We need new thinking to resolve these policy challenges, greater and more consistent government investment in local infrastructure and new funding models that support inter-generational investment and build resilience.

Thank you for the opportunity of addressing the Inquiry.

Yours sincerely,

Vaughan Macdonald
General Manager