

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

Organisation: Forbes Shire Council

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The Hon. Emily Suvaal MLC
Chairperson
NSW Legislative Council Standing Committee
on State Development

Subject: *Submission to the NSW Legislative Council Standing Committee on State Development Regarding the Inquiry into the Ability of Local Governments to Fund Infrastructure and Services*

Dear Miss Suvaal MLC

Forbes Shire Council welcomes the opportunity to make a submission to the Standing Committee's inquiry.

Forbes Shire Council is a member of the Central NSW Joint Organisation of Councils (CNSWJO).

Please see below Forbes Shire Council's responses to the Terms of Reference of the inquiry:

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

Forbes Shire Council as with other rural councils maintains an extensive land area of 4,720m km², with 1,850km of roads and a population of approximately 10,000. Council is by far the most visible level of government for the residents of the shire and is responsible for both a considerable infrastructure network, but also for plugging the gaps in services for our community resulting from the centralization of services/population around the Sydney basin.

In the 2023/24 financial year Forbes Shire Council received \$6.9m of FAGs grants (prepaid in the previous financial year) and rates revenue totaling \$8.4m. These are Council's main two sources of unrestricted funds, with the majority of other revenue sources tied to particular services/outputs.

Forbes has reported net operating losses before capital grants in nearly all of the last 9 years with only the two years post the 2016 floods and last financial year where Council earned over \$6.5m in property sales being an exception. This is the norm not the exception in rural councils and is unsustainable. Something needs to change for rural NSW to remain viable.

Rural towns are not Sydney, we do not have the population density to fund the level of service that would be expected in Sydney, nor do we have the population density to ensure that our services can be delivered on a cost recovery basis. We also lack other income streams that are available in the metro areas such as car parking or the leasing out of Council owned property. The reverse of this is true - Forbes Shire Council loses roughly \$500k per annum just to subsidise the running of its swimming pool, and also subsidises medical accommodation and medical services to the tune of \$200k per annum. These are just two examples of service gaps Forbes Shire Council is trying to fill. On top of this Council faces cost shifting of well over \$1m per annum, with just the library and RFS contributions costing \$300k and \$550k per annum.

To add insult to injury extensive flooding and multiple natural disaster declarations, climate change and ever present cost increases resulting from the difficulty in sourcing staff and contractors in rural areas have meant that Forbes has had to dig deeper into its cash reserves just to continue its core operations.

To answer the question of what level of income councils require to adequately meet the needs of their communities is a difficult one. No two councils are the same but two general rules apply:

1. Council's with a larger infrastructure network and smaller population will require more funding and will struggle more to source own source revenue. This includes nearly all rural councils;
2. Council's should be responsible for their own destiny and not subject to the whims of a one size fits all rate peg that ignores local democracy and discourages community development and growth.

Rural councils cannot continue with their current level of service without a change in the way Council is funded. There are however fixes to the financial problems facing small rural councils:

1. Prioritise grant and other funding to smaller rural councils who do not have the ability of their city counterparts to earn own source revenue;
2. Review the level of cost shifting and explore other methods of funding these essential services; and
3. Most importantly, review the rate pegging system which is the number one constraint to financial sustainability of local government by either abolishing rate pegging all together, using the rate peg as non-binding reference peg, or allowing councils who have implemented IP&R to increase rates by a figure a certain percentage above the rate peg without having to pursue an SRV. This would empower local democracy and put the future of local communities in their hands, all at zero cost to the state government.

In closing and for those of you from Sydney, we live in one of the most sparsely populated countries in the world, yet Sydney house prices are one of the highest in the world. Fix rate pegging and help rural councils remain viable and not only meet the needs of our community but also help us to provide livable communities that can attract people from Sydney. This will go a long way to solving the housing crisis in the Sydney basin and also bring much needed population growth and skills to rural NSW;

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

The increase in costs borne by local government is a product of both the increase in the underlying **cost of services** provided, and the change in **service scope**.

Cost of services

The cost of services provided by Council has increased significantly in recent years, with the rate peg and CPI numbers increasingly diverging (see table below). The use of CPI as a measure of cost increase is also not representative as the majority of expenditure for rural councils is on road construction and maintenance, with the PPI for roads and bridges tracking higher than CPI (and therefore significantly higher than the rate peg).

Table: rate peg vs CPI

Year	Rate Peg %	Rate peg base = 100	CPI	CPI base = 100
2021	2.60%	102.60	3.80%	103.80
2022	2.00%	104.65	6.10%	110.13
2023	0.70%	105.38	6.00%	116.74
2024	3.80%	109.39	4.10%	121.53

As can be seen from the table above, the cost of council services (assuming a constant level of service) has risen 21% over the last 4 years as opposed to 9.39% for the rate peg. This reduction in real income has been compounded by the 3 year pause in the FAGs grants which also cost Council a 13% permanent reduction in the real value of these grants. Cost increases incurred by rural councils are even higher than the above indices would indicate, as rural councils have in recent years faced additional costs to their metro counterparts due to the inability to source staff/contractors and increased transport costs for materials. This has been adequately addressed in other submissions to this inquiry.

Separate Note on the rate peg: *It should be noted that the 2023 rate peg was a clear example of why the system as it is does not work. The rate peg was set at 0.7% at a time when inflation was at 7.8% (more than 11 times the rate peg) and all councils that wished to adjust their rates were forced to jump through multiple administrative hoops (a mini SRV in effect) just to move the peg amount to 2.5% in the case of FSC.*

From the vantage point of struggling rural councils, this was a farcical face-saving exercise aimed to protect a system that is obviously broken, and once again placed an unfair administrative burden on small rural councils.

Separate Note on the FAGS Grants: *Although not a State Government issue, restoration of the Local Government Financial Assistance Grants to at least 1% of Commonwealth taxation revenue would go a long way to address the cost increases councils, especially rural and regional councils, are facing.*

Service scope

Service scope is dealt with in C below.

(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

The levels of service provided by council (our service scope), especially rural councils have also increased substantially over recent years as a result of cost shifting, council-initiated scope creep in operations, and the increasing lack of economies of scale impacting the profitability of services such as pools provided by rural councils.

Direct Cost Shifting

Cost shifting has been addressed by multiple submissions to this enquiry. Forbes Shire Council is subject to the following examples of explicit cost shifting. Estimates for this financial year are provided in the table below:

Cost shifting	Amount
Contribution to Fire and Rescue	\$30,000
Contribution to RFS	\$550,000
Contribution to SES	\$18,000
Pensioner Rates rebate	\$128,000
Public Library Operations	\$300,000
Road safety	\$30,000
Noxious weeds (expenditure less grant)	\$50,000
Animal control	\$10,000
Increase in audit fees – Audit Office	\$50,000
Total (major items only)	\$1,166,000

Rural councils are unable to continue to fund these cost shifts into the future without seriously impacting their financial position.

A recommendation to address this issue would be for the State Government to take cost shifting seriously and explore other methods of funding these essential services. The removal of over \$1m per annum of cost shifting for small rural councils like Forbes Shire Council would go a long way to ensuring long term financial sustainability.

Council initiated scope creep in operations (indirect cost shifting)

Another reason for increased service scope creep in rural councils is the indirect cost shifting when council has to fill the gap left by service hollowing out in rural areas. In smaller rural towns Council is often “the only game in town” and when for example, a town is unable to attract doctors Council is forced to spend its own source funds on doctors’ accommodation, nurse subsidies, or other unofficial support to ensure that the community is not left stranded without medical services.

This is one of many examples of rural councils having no choice but to step outside their remit to ensure that critical community services are maintained.

Councillors have no choice in these cases but to allocate funds to these services. For example, at Forbes Shire Council we are currently incurring an annual loss of \$200k on the provision of accommodation for doctors, nurses and other essential workers as well as provision of a facility for a bulk billing health care provider. We know this is sending us backwards financially, but we have no options as without medical services we have no future as a town.

Economies of scale impacting the profitability of services

As mentioned in multiple submissions to this inquiry rural councils manage a significant infrastructure network over a large area with a small population base. This means that services like pools, sporting facilities etc. do not have the patronage that would be required to make these facilities profitable. A prime example of this for Forbes Shire Council is our swimming pool which costs Council approximately \$500k per annum to run, a situation that is repeated over multiple council facilities.

We also lack other income streams that are available in the metro areas such as car parking or the leasing out of Council owned property. This lack of other income streams and increasing costs put rural councils at a distinct disadvantage.

A recommendation to address this issue would be to further direct various grant payments towards rural councils that do not have the population base or economies of scale to earn own source revenue.

(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

The social and economic impacts of the rate peg for councils in rural NSW is a slow worsening of the condition of the council controlled infrastructure network – more potholes, more road deaths, worsening facilities, a reduction in the levels of service, reduced livability of rural communities and a reduction in available cash for councils to use as a buffer to meet future challenges such as climate change.

As mentioned in other submissions, councils are required to provide more back office functions to meet the state government's regulatory burden - note: many of these are useful such as IP&R - but all of them require extra back office resources which bleeds funding from front line services. Due to the funding squeeze roads and parks suffer and the only way forward for most rural councils is an SRV which only buys time before cost increases, increased red tape, cost shifting and the lack of economies of scale mean once again rural councils are back where they started.

The number of SRVs (178 over ten years as at 2022) shows that the current system is broken. Multiple solutions have already been suggested in the LGNSW Submission to the IPART Review of the Rate Peg Methodology, including but not limited to:

- Abolishing rate pegging
- Using the rate peg as a non-binding reference peg
- Allowing councils to exceed the peg by a determined margin without an SRV

The adoption of any of these suggestions would go a long way to address the financial challenges faced by rural councils and Local Government is unable to comprehend why the State Government is unwilling to implement such a simple (cost free to the state) solution to save our rural communities.

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

Forbes Shire Council has never applied for a special rates variation and as a result has seen its cash reserves decrease slowly over time due to a slow reduction in revenue from both rate pegging, the pause in the FAGs grants, and increased pressure on service levels by cost shifting.

With rate pegging Council will have no option in the next few years but to either:

- a) Push for a significant SRV with all that this entails;
- b) Continue to reduce services to the community at the risk of towns like Forbes no longer having the services available to maintain its population.

It is simple, we either pass a significant financial hit onto our community at once causing angst, hardship, and a loss of trust in Council or we allow our roads, parks, and the services we provide to slowly whither away until nobody wants to live west of the divide.

In relation to council staff, if we don't have the funds we will need to reduce staff levels. Reducing staff levels in rural areas is not like reducing staff levels in Sydney where somebody will find a job down the road. In towns like Forbes a reduction of ten staff may see 5 families leave the area, putting pressure on the local sport team, local businesses, the local school and local volunteer groups, thus weakening the social fabric of the town.

The government would be much better served to have effective functioning rural communities that can help take housing and infrastructure pressure of the Sydney basin, than an empty interior west of the divide, devoid of inhabitants due to the inability of councils to provide services over large areas with minimal population and a rate peg system that slowly bleeds local government of operating revenue.

(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.

Many submissions to this inquiry have addressed the shortfalls of the SRV process, including but not limited to:

- The complexity and unpredictability of the SRV process;
- The political risks behind making an application with multiple councils in our area proposing a SRV only for the ensuring community backlash derailing them;

- Councilors and the General Manager in rural communities are not faceless bureaucrats hidden from the public and there is a high disincentive for councilors electing to go down the hard path of an SRV when this means you are approached on the street with questions about why Council is raising rates during a cost of living crisis. SRVs are therefore only used as a last resort in rural councils when there are no other options and vital services have already been cut to the bone;
- Reduced community confidence in Council and local government in general from resorting to SRVs.

We live in a representative democracy where the IP&R process dictates our operations and decides our level of service, yet local government is unable to set rates at a level that ensures our long-term financial sustainability. The community pushes for higher levels of service through IP&R and councilors are pressured to continue funding loss making services like pools or doctors' accommodation but are unable to fund these without a divisive SRV process where the community is likely to vote against the increase. Local Government is therefore in a catch 22 situation where the community votes for higher levels of service but votes down any increase in rates to fund these services.

The State Government needs to allow representative democracy at the local level to work – let our representatives set our level of revenue and level of service and let the voters decide at each local government election on what type of local community they want. This will allow local democracy to work and our rural communities to survive and thrive into the future.

(g) Any other related matters

Timeliness of payment for grants/flood damage repairs

In addition to the issue of long-term financial sustainability, many councils are currently suffering short term cashflow challenges from the delay in payment of flood damage repair works and other grants. Although the majority of the flood damage delays have now been rectified by the implementation of the Tripartite Agreement, flood affected councils in rural NSW have had to jump through multiple hoops to ensure that this is the case. Council is also often subject to milestone reporting for grants and many smaller rural councils struggle to fund the timing delay between expenditure on grant related projects and reimbursement post the long audit/reporting period and payment approval. A simple recommendation to address this issue would be to ensure that grant payments are front loaded in order to smooth over cashflow shortfalls faced by councils.

Grant re-allocation to asset renewals or betterment over new assets to ensure the long term financial sustainability of councils

Over the last 6 years both the federal and state government have allocated significant amounts of funding grants to local government. Although assisting in the beautification of many rural towns, these grants will impact on the future maintenance requirements of all rural councils, with each new facility built under these grants requiring increased maintenance and renewal spend by councils that are often not taken into account by the funding body at time of application. This would not be a problem if rate pegging did not restrict our finances.

Grant funding decisions should therefore prioritise the funding of core infrastructure renewals and/or betterment as opposed to grants that target new assets that will increase councils long term asset life cycle cost.

A great example of this at the federal level is the near doubling in R2R funding allocations which will help to significantly address the slow decline in the condition of the local road network.

If the Standing Committee have any questions, or want any of the point above expanded upon, please do not hesitate to contact me.

Yours faithfully

Stefan Murru
DIRECTOR CORPORATE SERVICES