7.2 LMM 28/05/2024 - CITY OF NEWCASTLE SUBMISSION - NSW GOVERNMENT INQUIRY - ABILITY OF LOCAL GOVERMENTS TO FUND INFRASTRUCTURE AND SERVICES

MOTION:

That City of Newcastle:

1 Notes the longstanding and complex financial sustainability challenges faced by the local government sector.

2 Acknowledges that the NSW Government is currently undertaking an inquiry into the ability of local governments to fund infrastructure and services.

3 Notes that City of Newcastle has made a detailed submission (**Attachment A**) to the NSW Government Inquiry, which will consider:

- i) the level of income councils require to adequately meet the needs of their communities;
- ii) examining if past rate pegs have matched increases in costs borne by local governments;
- iii) 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;
- iv) assessing 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 comparing with other jurisdictions;
- v) comparing the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff;
- vi) reviewing 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; and
- vii) other related matters.

4 Notes that the United Services Union submission to the inquiry highlighted that over recent decades critical local government services have been put at risk due to unsustainable funding models imposed on NSW Councils, such as the economically damaging policy of rate capping and annual increase in the section 88 waste levy.

5 Continues to raise concerns that while it makes the largest contribution to the waste levy of any council in NSW, estimated to be $43 million in 2024/25, only an average 2% is returned to the Newcastle Local Government Area in the form of grants to fund resource recovery, waste management and waste and recycling education projects.

6 Notes that an analysis in 2023 found that the percentage of the waste levy returned to Hunter councils for resource recovery initiatives had fallen from 10% in 2012 to just 3% in 2022.

7 Reiterates its position that 100% of income from the waste levy should be returned to Councils in NSW and continues to advocate strongly for greater financial independence within the Local Government Sector.

RELATED PREVIOUS DECISIONS:

25/09/2018 - NSW Waste Levy Fund
24/11/2020 - City of Newcastle Submission - IPART Local Council Domestic Waste Management Charges Discussion Paper
12/12/2022 - Financial Sustainability of Local Government

ATTACHMENTS:

Attachment A - City of Newcastle Submission

Submission
No 17

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: City of Newcastle

Date Received: 22 April 2024

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22 April 2024

ATT Hon Emily Suvaal MLC
Chairperson
Standing Committee on State Development
6 Macquarie Street
NSW Parliament House
Sydney NSW 2000

Dear Ms Suvaal

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

City of Newcastle (CN) welcomes The Standing Committee on State Development inquiry into the ability of local governments to fund infrastructure and services. CN provides the following submission in reference to the Terms of Reference (TOR).

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

Revenue sources for Councils are generally limited, particularly outside rates and charges. The lack of reliable, diverse and sufficient revenue sources consistently undermines financial sustainability for the local government sector and its ability to adequately meet the needs of their communities, noting various changing and competing priorities and consistent cost-shifting from the NSW Government.

With rate-pegging in place, non-rate revenue and grant funding is critical to local government however at present can be onerous, complex and cause additional pressures. For example, grant funding that creates additional unfunded maintenance and depreciation expenses, grant programs that will only fund un-planned/budgeted projects or with a co-contribution and funding timeframes that do not align with local government planning cycles, classification issues between Metropolitan and Regional grant funding criteria which limit Councils such as CN's ability to apply.

CN is continuing to invest and plan for significant projects that will not only aid the local economy but also help us cater for the significant forecasted growth in population over the next decade and beyond. The amount Council's currently receive in rates is usually not enough to cover the increased costs associated with population growth, and in recent times, has fallen short of covering inflation pressures. The rate capping regime and associated restrictions such as the Ministerial Investment Order (which dates back to 2011) inhibits Council's ability to increase its income and place investments that grow with inflation and maintain real value.

The pre-payment of the Financial Assistance Grant is disruptive to Council's budgeting processes. Early notice and a consistent payment schedule from the Grants Commission needs to be addressed.

CN recommends this inquiry takes a holistic approach also investigating expense items for Council's that if removed, would increase financial sustainability. For example, reform of the model for funding emergency services and the removal of Emergency Services Levy (ESL) on Councils.

Having a financial model that supports consistent long-term financial planning and sustainability is critical to CN's efforts in meeting its objectives.

b) Examine if past rate pegs have matched increases in costs borne by Local Governments.

Numerous independent reviews have arrived at the same conclusion i.e. the rate peg creates increasing financial hardship for Council's and their communities as it does not permit Council's to meet the risings costs of serving their communities.

Whether it be the NSW Productivity Commission’s Green Paper, the Henry Review of Taxation, the NSW Treasury Corporation’s assessment of the financial sustainability of NSW Council's or the NSW Independent Local Government Review Panel’s Final Report – all agree that rate peg detrimentally affects Council's ability to deliver and maintain local services and infrastructure.

Councils are primarily responsible for providing a wide range of critical local area services including planning, libraries, and waste management and for infrastructure provision (e.g. roads and footpaths, parks, sporting grounds and swimming pools) required by the local community. Over the years infrastructure and service delivery obligations and expectations of councils have continually increased.

With Councils being a significant holder of infrastructure assets. Periods of high inflation and supply issues can have a highly detrimental effect on long term sustainability that cannot be expected to be offset by capped rates income. In addition, impacting our council's Income Statement through the non-cash item of depreciation.

CN would like to bring attention to regional capitals such as Newcastle. Where the current model expects local LGA's to fund, maintain and renew regional sized assets that are being used by a regional population. This current funding model for such assets is unsustainable.

Past rate pegs have fallen short in matching the increased costs borne by local governments and the needs of their communities. CN understands the role of the rate peg to ensure ratepayers pay no more than necessary however it should still enable Councils’ rates income to keep pace with changes in their costs.

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.

Financial sustainability of Councils has been undercut by rate-pegging, cost shifting onto local government, and state and federal funding arrangements that are no longer fit for purpose.

Cost shifting continues to be one of the most significant challenges facing the NSW local government sector. CN advocates for a review that takes a holistic approach in understanding the impost cost shifting has on local governments. A key focus should be the consideration of council's increased long-term obligations and allocated funding of shared services.

The local government sector is required to comply with numerous legislation and regulations to meet the current and future needs of communities. This in itself takes time and effort to ensure compliance without constant changes.

For example, accounting code changes and the harmonisation of accounting standards has created additional work for Councils. As the OLG is the primary user of the Financial Statements, it needs to consider a more efficient way of receiving information without the resourcing impost.

Similarly, the introduction of the Audit Office into Local Government has come at a significant cost of money and staff time. CN notes that the increasing complexity of Accounting Standards, which are aimed at 'for profit entities', reduces the value of financial statements as a measurement tool for council performance. For example, recognition of income. This raises the question of the usefulness of the current performance indicators to OLG and the community.

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.

Over the past two decades, the rate peg in New South Wales (NSW) has provided ratepayers with the notion of stability of rates increases while posing challenges for Councils in managing budgets and delivering essential services. While ratepayers benefit from what is characterised as unwarranted excessive rate increases, Councils face constraints on financial flexibility and autonomy. Ultimately, Councils are unable to fund essential services and infrastructure projects, leading to social and economic concerns about service quality and amenity levels.

The impacts on Councils include potential pressures on employment stability, working conditions and wage growth. The committee's inquiry of comparisons with other jurisdictions must consider legislative frameworks, economic conditions, policy responses, and local contexts to fully understand the social and economic dynamics of rate pegging.

e) Compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, Council's, and Council staff.

Rates and Annual Charges is the most significant revenue source to all Councils. The rate peg and its associated methodology has a material impact on the services that can be provided to our residents and any discrepancy between the peg and cost changes has long and on-going effects.

It creates unwarranted political difficulties for Council's that really can and should raise rates above the peg to meet genuine expenditure needs and ensure their long-term sustainability. This has led to excessive cuts in expenditure on infrastructure maintenance and renewal, leading to a mounting infrastructure backlog.

Rate-pegging was specifically intended and designed to prevent excessive increases in rates, and to encourage councils to become more efficient. We believe this has occurred but could also have been achieved without rate-pegging by allowing councils to set rates in consultation with residents. The existing Integrated Planning and Reporting (IP&R) framework fosters increased transparency, responsibility and accountability between Council's and ratepayers. Both ratepayer affordability and financial sustainability are the key considerations whenever Council's deliberate over annual rate income increases.

f) Review the operation of the special rate variation process and its effectiveness in providing the level of income Council's require to adequately meet the needs of their communities.

The current Special Rate Variation (SRV) process is onerous and complex. Applying for a SRV comes at a significant financial, time and resource cost to the Council. Which can be detrimental to a Council applying for the key purpose of financial sustainability.

The IP&R Framework is best place to embed the SRV application process. The current IP&R Framework is established and working well as a process to deliver value-for-money for ratepayers and residents. The Resourcing Strategy prepared by Councils, including setting of the rates income, provides timely and appropriate information whilst giving opportunities to set long-term budgets and service delivery expectations.

The timing of the SRV process and timing of available guidelines and application forms should be seriously re-considered. The application forms and guidelines should be released well in advance to enable applying council's sufficient time to ensure all requirements of the application have been met during the lengthy engagement period.

With the approval power to apply for a SRV being held by the elected body brings political pressure into the decision-making process. This may result in a Council being unable to address levels of income required to adequately meet the needs of their communities.

The NSW Government has noted that it “supports removing unwarranted complexity, costs and constraints from the rate-peg system” however there has been no action to enable the SRV process to be made simpler.

g) Any other related matters.

The current budget and financial processes used by Councils require a significant level of resources to deliver. CN is mindful that any additional reporting requirements would result in reduced time spent on strategic and delivery outcomes, as resources are already limited. However, CN would welcome auditing of the Special Schedule 7 for consistency purposes.

Councils provides significant, meaningful, and transparent reporting on financial and operational performance to an array of stakeholders, including councillors, OLG and the community. CN publishes quarterly and annual reporting regarding financial and operational performance. Further to this, CN holds monthly reporting and workshops to ensure councillors are informed to make decisions. Councillors are asked to make complex financial decisions and prioritise community service levels; this requires more training and support from the Office of Local Government to acquit their responsibilities.

Aspects of the Local Government Act 1993 should also be reviewed to reduce unnecessary red tape and better enable Councils to deliver for their communities. One such example is in relation to leasing. Section 46(6) of the Act requires Councils to seek the consent of the Minister for a lease whereby only a single submission objecting to the leasing proposal is made. This adds considerable time, expense and red tape to the process of enabling community and/or commercial uses of Council assets for the benefit of the community. Councils should be empowered to resolve these issues and decisions at the Council level, without requiring Ministerial consent.

Should you require any further information on this matter please contact David Clarke, Executive Director Corporate Services and Chief Financial Officer .

Yours faithfully

Jeremy Bath
CHIEF EXECUTIVE OFFICER