

10.4. Submission to Federal Inquiry into Local Government Sustainability

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ATTACHMENTS	1. Proposed submission to Standing Committee on Regional Development [10.4.1 - 4 pages]
CSP LINK	5. Our Civic Leadership 5.1 Lead North Sydney's strategic direction 5.2 Strong civic leadership and customer focussed services 5.4 Council services are efficient and easy to access

PURPOSE:

The purpose of this report is to advise Council of the extended deadline for submissions on the draft terms of reference of The Federal House of Representatives Standing Committee on Regional Development, Infrastructure, and Transport's inquiry into local government sustainability, and to present a proposed submission.

EXECUTIVE SUMMARY:

- A review of local government financial sustainability has been announced by the Federal Government House of Representatives Standing Committee on Regional Development, Infrastructure, and Transport.
- The draft terms of reference were reported to Council on 22 April 2024.
- The original deadline for submissions was 3 May 2024, this has now been extended to 31 May 2024.
- The extended deadline allows the proposed submission to be presented to Council as a report.

RECOMMENDATION:

1. THAT Council endorse the submission on the draft Terms of Reference from The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport's review into local government sustainability.

Background

Council received a letter from Mr Luke Gosling OAM MP, Chair of The Federal House of Representatives Standing Committee on Regional Development, Infrastructure, and Transport, advising of a Federal inquiry into local government sustainability.

Mr Gosling noted that the inquiry:

“will examine financial sustainability and funding frameworks of local governments, alongside changing infrastructure requirements and service delivery obligations. The Committee is seeking to understand the challenges faced by local governments in servicing infrastructure requirements across regional, rural, and remote locations”.

“Workforce shortages across Australia relating to infrastructure and other service areas more broadly, particularly in regional, rural, and remote areas, will also be a focus of the inquiry. The Committee will also inquire into issues relating to skills development and job security, along with labour hire and retention trends and practices to identify barriers and opportunities to support job security and local government service delivery obligations.”

The letter asked for submissions to be lodged by interested parties on the draft Terms of Reference by Friday 3 May 2024.

The Committee announced on 24 April 2024 that the submission period was to be extended to the 31 May 2024.

The extended period allows Council to review our proposed submission as a report before it is submitted.

Report

The Federal House of Representatives Standing Committee on Regional Development’s inquiry has published its draft Terms of Reference for the inquiry, as below.

The House of Representatives Standing Committee on Regional Development, Infrastructure, and Transport will inquire into and report on local government matters, with a particular focus on:

- the financial sustainability and funding of local government;
- the changing infrastructure and service delivery obligations of local government;
- any structural impediments to security for local government workers and infrastructure and service delivery;
- trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices;
- the role of the Australian Government in addressing issues raised in relation to the above; and
- other relevant issues

Our proposed submission is attached to this report.

Consultation requirements

Community engagement is not required.

Financial/Resource Implications

There are no financial implications from this report.

Submission to Standing Committee on Regional Development, Infrastructure and Transport inquiry into local government sustainability

Dear Mr Gosling,

Thank you for the opportunity to make a submission to the inquiry into local government sustainability. Please find below the submission made by North Sydney Council.

The financial sustainability and funding of local government

The rating system is the primary means of revenue generation for most councils. The current system (inclusive of a rate peg) makes it hard for councils to deliver infrastructure and services sustainably when many financial decisions are outside of their control.

We operate within a national system for many factors, including cyber security, environmental sustainability targets and changing customer expectations, but we are limited by a state led model for rates which inhibits our ability to generate revenue sufficient to maintain our assets and continue to deliver high quality services to the community.

Having reviewed available information on the rates levied by local government in the different states of Australia it is apparent that the application of rate pegging in NSW has resulted in much lower council rates in our state than others. The average per capita rates in NSW are 41% lower than the national average.

We propose the rating system is reviewed across states to determine if a more equitable model could be developed, whereby councils can more effectively respond to changing financial requirements.

The rates review should also consider that as density increases in urban areas, considerable strain is being placed on local services such as libraries, parks, footpaths, infrastructure, and sporting fields, but the current funding model based on land value does not reflect this. Rather than rates increasing with population, the same rates are just shared amongst more ratepayers who live on the same size land which does not increase rate revenue. The rating system review should consider the method of rate calculation in line with the services received, i.e. should apartments pay less than a house of the same number of residents due to the land value.

In regional and rural councils, there are not sufficient rateable properties to sustain the council services and infrastructure such as roads, waste, and public infrastructure. In councils with tourist centres, there are not sufficient rateable properties to support the cost of providing appropriate and necessary tourism infrastructure such as public amenities, roads, open space, footpaths, and cycleways.

Consideration also needs to be given to non-rateable properties such as schools and others, who use Council's services such as parks, footpaths and community centres but pay no contribution. In urban areas, rateable properties are often purchased by institutions which are exempt from paying rates resulting in a previously rateable property converting to non-rateable due to its change of use.

The Local Government NSW 2023 'Cost Shifting Report – How State Costs Eat Council Rates' demonstrates the impact on the NSW local government sector of cost shifting, with its 2021-22 survey revealing that the total of cost shifting for the year was \$1.36 billion. Consideration must be given to whether the shift in costs between the NSW state and local government is appropriate, whether this is the most efficient way of generating the revenue,

and what the impact is on councils' long term financial sustainability. To balance their budgets to account for cost shifting, councils are required to consider reducing service levels and delaying vital maintenance or renewal of infrastructure.

The continued reduction in the amount of financial assistance grants to below 1% of the Commonwealth Tax Revenue (CTR), has contributed to a funding shortfall for councils. For many councils, financial assistance grants represent one of the largest sources of discretionary revenue after general rates revenue. However, the rate peg methodology does not factor in the ongoing decrease in councils' financial assistance grant allocation, in the same way that the financial assistance grant allocation does not account for the impact of rate pegging.

We propose the financial assistance grant process is reviewed and consideration given to returning the value of the programme to its previous long-term average. The process should be equitable across all councils. Grants should be provided when councils are required to undertake new initiatives such as implementation of cyber security requirements or environmental sustainability targets.

Councils' ability to increase its own source revenue is constrained by legislation. We are unable to increase around half of our fees as they are regulated by the NSW Government, and an increase in some of our fees may mean the service we provide is no longer affordable or competitive with other providers. Most council services do not achieve full cost recovery.

the changing infrastructure and service delivery obligations of local government

State Government projects, such as the Warringah Freeway upgrade and the Metro stations, result in the creation of assets that are passed on to councils for ongoing maintenance and renewal. We suggest reviewing the impact of these transferred assets on councils' financial sustainability and making recommendations for future occurrences.

There is a growing demand for electric vehicle charging infrastructure, bike paths, and sustainable transport systems. While grant funding can be used to implement such projects, the responsibility for their ongoing maintenance falls on councils, funded by council revenue. As we shift towards electric vehicles and active transport, we must consider both the initial transition costs and the ongoing funding required for councils, with consideration of grants for future costs.

With higher density of population comes increasing requirements for access to public transport and transport interchanges in general, as well as increasing service obligations and decreasing land resources. A reduction in available land resource inevitably means more intricate and creative infrastructure requirements to meet the needs of the population, ultimately meaning more expensive asset types to build and maintain.

There have been numerous reports which have highlighted the inadequate funding for asset maintenance and renewal, which is a significant issue for the entire local government sector. The deferral of asset maintenance critically impacts the longevity of assets. The earlier that councils can fund maintenance works, the longer councils will have before they incur the costs of replacing their assets.

We propose consideration of the cost of information technology systems to councils and if these costs could be shared. Councils perform similar functions but maintain different systems, with differing levels of technical complexity and staff capability. Providing shared

services IT systems could be of particular interest to small and regional councils who may struggle to attract and retain IT staff.

any structural impediments to security/certainty for local government workers and infrastructure and service delivery;

Following the 2020 pandemic, North Sydney Council's fees and charges revenue has not recovered to the level it was previously (adjusted for inflation). This is primarily due to a sustained drop in parking revenue, attributed to increased working from home and various policies to encourage public and active transport. This drop in fees and charges revenue, in conjunction with the rate peg has caused challenges in managing a balanced budget to maintain infrastructure and service delivery levels.

The cost of many contracts has increased dramatically. This including the running of events (and new costs for hostile vehicle mitigation), insurance, utilities and fuel. These costs are increasing at a significantly higher rate than the rate peg and are impacting councils' financial sustainability.

The volume of construction projects in Greater Sydney is leading to challenges in undertaking construction and asset maintenance tasks. Costs of projects have increased dramatically in recent years, leading to higher initial costs and a higher ongoing depreciation expense, impacting our financial sustainability.

We suggest the processes for delivery of major projects in local government are reviewed, and whether these are appropriate for the large-scale projects being delivered by many councils.

We suggest consideration be given to coordination of major infrastructure projects between different levels of government, to attempt to avoid many similar projects happening at the same time, stimulating demand in a tight construction market.

trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices;

Council has challenges attracting candidates in certain fields due to a general market shortage of workers, and other sectors (including the private sector) offering potential employees incentives we are unable to match. Some roles we face challenges recruiting include town planners, building compliance officers, engineers, arborists, information technology professionals and environmental health officers.

The only tertiary institution in NSW offering an Environmental Health degree is Western Sydney University's campus in Hawkesbury. Graduates from this course do not receive hands on experience. In the UK and Ireland, Environmental Health students must complete 9 to 12 months of work experience with local authorities to graduate, covering a wide range of environmental health practices.

We propose the number of tertiary institutions offering courses relevant to local government is reviewed, as is the work experience requirement, to enable capable graduates.

We (like many councils) have an aging workforce with 33% of our employees over 55. This will put pressure on our recruitment and attraction activities over the next 10 years, in line with many other councils.

We propose consideration of initiatives to increase the number of students in areas where councils are facing shortages (such as town planning) and in other opportunities to improve councils as an employer of choice.

the role of the Australian Government in addressing issues raised in relation to the above and other relevant issues

Many councils do not have the resources available or the ability to adequately address the issues impacting their financial sustainability. The Australian Government has the resources and ability to consider these issues holistically and to propose a more equitable forward-looking strategy for sustainability in local government. Doing this would improve sustainability, service delivery, infrastructure quality and the community satisfaction, wherever this be in Australia.

Thank you again for the opportunity to provide a submission to the review.

Yours sincerely,

Luke Harvey

Director Corporate Services

North Sydney Council