

Submission on the NSW Budget for 2015/16

April 2015

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Opening

Local Government NSW (LGNSW) is the peak body for councils in NSW. LGNSW represents all the 152 NSW general-purpose councils, the special-purpose county councils and the NSW Aboriginal Land Council.

LGNSW is a credible, professional organisation representing NSW councils and facilitating the development of an effective community-based system of Local Government in NSW. LGNSW represents the views of councils to NSW and Australian Governments; provides industrial relations and specialist services to councils; and promotes NSW councils to the community.

LGNSW welcomes the opportunity to make a submission to the NSW Government budget for the financial year 2015/16. To address the newly elected NSW Government, LGNSW chose to make its submission following the NSW State Election on 28 March 2015.

Challenges

NSW faces a number of challenges, including:

- Supporting economic growth and resilience;
- Dealing with a growing and ageing population; and
- Addressing the impacts of changes in climatic conditions.

NSW councils, in cooperation with the NSW Government, play an important role in addressing and meeting these challenges. LGNSW calls on the NSW Government to assist councils in tackling these challenges through the budgetary measures set out in this submission.

Economic growth and resilience

Economic growth and resilience is dependent on the basic local infrastructure councils provide such as roads, bridges and traffic infrastructure, water supply and sewerage, stormwater and drainage systems. This basic infrastructure facilitates the production of goods and services by providing basic economic inputs such as water and sewerage and enabling the distribution of raw materials and finished products to markets.

Local Government is one of the biggest sectors in NSW economy, spending approximately \$10 billion per year, managing non-financial assets (infrastructure and land) worth \$120 billion, and employing more than 50,000 staff.

To avoid constraints in the provision of infrastructure, councils require sufficient funds to maintain and renew existing infrastructure and to construct new infrastructure. However, councils with their limited taxation power (rates on land) often do not have the capacity to raise sufficient funds on their own and are dependent on intergovernmental transfers. This is particularly the case in regional and rural areas where the rating base is small. Also, restrictions on rating revenue such as rate pegging have exacerbated funding difficulties associated with this limited revenue base. These revenue constraints have already resulted in a large infrastructure renewal backlog of \$7.4 billion at 30 June 2012¹ and will continue to constrain Local Government's ability to renew existing and provide new infrastructure.

¹ Department of Premier and Cabinet, Division of Local Government, Local Government Infrastructure Audit, (June 2013).

To support the provision of local infrastructure, LGNSW calls on the NSW Government to continue to support councils' investment in local infrastructure.

Economic growth and resilience also requires effective service planning and coordination among government, the private sector and communities. Through the community strategic planning process and the land use planning process, councils play a key role in facilitating sustainable local and regional economic development in coordination with state-wide planning. It is important that councils have the resources and skills that are required to undertake comprehensive planning for the future.

LGNSW calls on the NSW Government to continue to support councils in building their capacity to strategically plan for the future of their communities.

Population growth and ageing population

The population of NSW is projected to grow at significant levels over the next 20 years, and the proportion of older people is expected to increase. Meeting the future needs of a growing and ageing population in NSW and addressing additional demand for infrastructure and human services will require substantial council resources to address.

Over the long-term, NSW is projected to grow from 7.5 million people in mid-2014 to 9.2 million by 2031. Metropolitan Sydney makes up about 60% of the state's total population with 4.5 million residents in 2014. Metropolitan Sydney is forecast to increase to 63.5% by 2031 with 5.9 million people. Other metropolitan areas to the north (Lower Hunter and Central Coast) and south (Illawarra) of Sydney are projected to grow from 1.25 million in mid-2014 to 1.5 million in 2031, and regional NSW is to grow much slower from 1.7 million in mid-2014 to 1.85 million in 2031.

The Metropolitan Plan for Sydney, called *A Plan for Growing Sydney* contains a strong emphasis on growth and a clear mandate to accelerate housing supply and employment growth to meet the need for the expected population growth. A housing target of 664,000 additional dwellings in 20 years guides new development to the 2 CBDs (City and Parramatta), regional and strategic centres within Sydney, designated employment centres, such as the global economic corridor, the western Sydney employment area and a string of priority precincts and urban renewal corridors that line the railway network. This target is a significant expansion on previous metropolitan strategies.

Local Government is crucial in facilitating the required provision of new housing and employment and in providing the associated local infrastructure and services. Given the infrastructure deficiencies that already exist in NSW, it is imperative that the NSW Government commits to assisting councils in making the required infrastructure investment that is necessary to support the plans for growth. Also, to coordinate growth to achieve positive social, economic, environmental and health outcomes, effective regional and local strategic planning is essential. The NSW Government should continue to invest in councils' capacity to strategically plan for a growing population.

By 2031, the number of people living in NSW aged 65 years and over will increase from 1 million (14% of the population) to 2.3 million (24% of the population).²

² NSW Ageing Strategy 2012.

Councils will need to respond to the ageing of the NSW population by planning for and creating accessible environments so that older people can participate in and continue to contribute to their communities.

As older people are seeking to “age-in-place”, remaining in their own homes and staying connected to the local community, an ageing population has a number of impacts on council services, including:

- Demand for infrastructure modifications or new infrastructure to accommodate older people (e.g. seating in parks, at bus stops and along pathways, lighting, shade, toilets, pedestrian and mobility scooter paths, pedestrian islands, scooter parking, kerb ramps, bus shelters, boat ramps, access ramps for council facilities, will need to be modified to improve accessibility as the population ages).
- Modification of sport and recreation facilities to accommodate older people (e.g. walking tracks, leisure centres, swimming pools, gyms);
- Modification to tourism infrastructure to cater for the needs of older tourists (‘grey nomads’)
- Increased demand for healthy ageing programs, men’s sheds, community transport, and aged day care programs to assist older people to remain living in their own homes longer;
- Increased demand on community facilities, e.g. seniors centres, multipurpose aged services centres, community / neighbourhood centres, museums, art galleries, cemeteries;
- Adjustments to library services (e.g. collection services, mobile libraries and large print and audio books, library programs) to meet the needs of older people; and
- Demand for transport education services (e.g. aged and pedestrian safety education sessions, workshops on mobility scooters and motorised wheel chairs).

An ageing population also has indirect impacts on councils’ own source revenue base. Council revenue will be reduced by pensioner rate rebates and reduced fees and charges, including subsidies for older people to use council facilities or to participate in community programs.

Councils will also be a key partner in implementing the National Disability Insurance Scheme and achieving strategic outcomes of the National Disability Strategy relating to the inclusion of people with disability. Councils are required under the *Disability Inclusion Act (NSW) 2014* to develop Disability Inclusion Action Plans by 2017.

LGNSW calls on the NSW Government to continue to assist councils in planning for and creating age-friendly communities and to support councils in addressing the infrastructure needs of ageing populations and of people with disability in mainstream activities.

Climate change/increased climate variability

Potential impacts of climate change, such as increased frequency and intensity of extreme weather events and natural disasters, higher temperatures, or sea level rise, will put pressure on local services and infrastructure, reducing the life of assets, increasing the of whole-of-lifecycle cost, or requiring new infrastructure solutions.

There are a number of potential impacts including:

- Changes in rate of deterioration of transport infrastructure (e.g. local roads, bridges, tunnels) as a result of frequency and severity flooding as well as increased temperature (thermal expansion) and increased solar radiation;
- Damage to infrastructure as a result of increased frequency and severity of bushfires and extreme weather events (all infrastructure types);

- Damage to water supply and sewerage, stormwater and drainage infrastructure as a result of increased frequency and severity of flooding (councils in regional NSW, outside the area of operation of Sydney Water and Hunter Water, are water supply and sewerage service providers);
- Reduced security of town water supplies in regional NSW as a result of decreases in surface water run-off requiring additional supply augmentation and infrastructure solutions for alternative supply solutions (e.g. pipelines, groundwater);
- Negative impacts on water quality and water supply security as a result of increased temperature, (e.g. algae blooms) and increased occurrence of bushfires;
- Damage to coastal infrastructure and property as a result of increased storm surges and sea level rise (all infrastructure types) including housing and a need for increased expenditure on sea defences.

There may also be increasing demand for new infrastructure, for example, to mitigate impacts such as extreme heat on human health or address population shifts caused by changing climatic conditions. Also, network infrastructure will need to adapt to new flooding regimes, extreme heat, increased bushfire risks or sea level rise.

Councils need to be able to prepare for these impacts and include them in their strategic service planning and risk and asset management. LGNSW calls on the NSW Government to continue to provide planning frameworks, tools and guidelines to assist councils in coping with, or adapt to, these impact (e.g. flood plain mapping, water sensitive urban design, incorporation of climate change risks into all aspects of infrastructure planning and management). LGNSW also calls on the NSW Government to support councils in funding infrastructure required as a result of climate change.

Financial situation

If NSW councils are to meet the growing needs of NSW communities, it is essential that they have access to adequate financial resources. It is becoming increasingly clear that the current financial base of councils is inadequate to meet these needs.

NSW councils' financial capacity to maintain existing services and infrastructure is already stretched. In many instances councils are already being forced to cut services and defer critical infrastructure expenditure.

The NSW Treasury Corporation's assessment of the financial sustainability of NSW councils undertaken in 2013 indicates that existing revenue restrictions, including rate pegging, severely hamper council's ability to fund current and future levels of service.

There are several, sometimes interrelated reasons for this financial situation, including:

- Rate pegging and legislative constraints on councils fees and charges;
- The decline in Commonwealth and State financial support for Local Government relative to economic growth (GDP, GSP) and the growth in national taxation revenues;
- The expanding roles and responsibilities of councils;
- Cost and responsibility shifting onto councils by the NSW and Australian Government³, a trend acknowledged by the national *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations on Local Government Matters*, (2006); and

³ Cost shifting continues to place a significant burden on councils' financial situation and is impeding Local Government's ability to deliver services to the community and maintain essential infrastructure. Cost shifting describes a situation where the responsibility for or merely the costs of providing a certain service, concession,

The central issues that need to be addressed to improve this situation are:

- Defining councils' role and establishing a mechanism to allocate functions and associated revenue raising powers to councils. Any revenue framework needs to recognise councils' role as the third sphere of government responsible for all local matters and can only function effectively if a mechanism is in place to appropriately share public functions and correspondingly allocate funding or revenue raising powers between councils and other sphere of government.
- Improving the adequacy and flexibility of councils' revenue base to meet the demands being placed on it. Without a broader and more flexible financial base, councils will not be in the position to effectively meet new statutory obligations, deliver new services demanded by the community, to maintain existing infrastructure or to build the new infrastructure required to support the development of the state.

Until limitations of and constraints on councils' own source revenue are resolved, service and infrastructure provision will often be dependent on specific funding transfers from other spheres of government.

asset or regulatory function itself are "shifted" from a higher level of government (Commonwealth or NSW Government) onto Local Government without the provision of corresponding funding or the conferral of corresponding and adequate revenue raising capacity. Indicative figures from LGNSW's cost shifting show that cost shifting on to NSW Local Government amounts to around 6% of councils' total income before capital amounts; i.e. \$522 in 2011/12 for the whole of NSW Local Government (for further information www.lgnsw.org.au/policy/finance/cost-shifting-survey).

Budget priorities

Supporting council infrastructure

This part of the submission outlines, for consideration in the budgetary process, existing infrastructure funding programs and additional funding needs:

- To support councils in providing local infrastructure essential for economic growth and resilience;
- For supporting a growing and ageing populations, including people with disability in mainstream activities; and
- Helping to deal with pressure put on local services and infrastructure as a result of changes in climatic conditions.

Importantly, LGNSW calls on for continued focus on infrastructure investment in the areas of roads, water, and community infrastructure, in particular funding for the successful Country Town Water Supply and Sewerage Program and the Regional Roads Block Grants and Repair Program.

Coordination with state infrastructure delivery

LGNSW calls on the NSW Government to ensure that delivery of state infrastructure is strategic and takes account of infrastructure needs arising from a growing population and economy. It is essential that vital road and rail infrastructure investments are future-proofed for potential freight and transport needs over coming years.

LGNSW also calls on the NSW Government to recognise financial impacts on councils often associated with large scale state infrastructure projects and large scale residential and commercial developments. The NSW Government needs to ensure financial assistance is provided to councils where required. Growth generated by such projects often creates additional demand for local infrastructure and facilities (e.g. parks, roads, sporting facilities, community facilities).

Create a new fund for direct infrastructure funding

LGNSW calls on the NSW Government to provide additional direct funding to support councils' investment in local infrastructure. This funding needs to be in addition to existing grants to be used exclusively to help address identified infrastructure backlogs and prioritised new infrastructure requirements.

Many, particularly rural councils are likely to find it difficult to fund borrowings for infrastructure investment from their own source revenue, even with favourable interest rates (e.g. via TCorp). These councils require direct capital funding assistance to address their infrastructure renewal backlogs.

Local and regional roads funding

LGNSW calls on the NSW Government to improve road funding assistance to Local Government, with special emphasis on regional roads and timber bridges.

In recent years, *Regional Road Block Grant* funding for has largely been maintained in real terms. Compared to the 13/14 budget, combined *Regional Road Block Grants and Repair* program funding has been increased by 2.0% to \$174.3 million in the 14/15 budget. While this funding is welcome, increased funding is required to assist Local Government in addressing the road infrastructure renewal backlog and provide a local road network that is effective and efficient in facilitating private and commercial travel and the movement of goods.

Councils are responsible for managing over 164,000 km (90%) of local roads in NSW, and spend over \$1.2 billion of their own funds on maintaining these roads. The life cycle cost to operate the whole NSW local road system of 164,000 km is estimated at \$1.5 billion per year. Recent analysis shows that expenditure in 2011/12 was estimated at \$897 million leaving a life cycle funding gap of \$597 million per year.⁴

For regional roads and bridges partly funded by the NSW Government, the life-cycle cost is \$271 million per year; expenditure (including existing block grant funding) is \$182 million per annum, leaving a life cycle funding gap of \$89 million per year.⁵

Local Government does welcome and acknowledge the recent announcement of successful funding recipients for the first tranche of projects under the \$42.85 million *Fixing Country Roads* program, which honours a commitment made in last year's state budget. This funding will especially enable councils to address those key strategic freight pinch points on their local roads networks. However as the above figures show, more funding is required.

In addition to their own local road responsibilities, 81 councils are currently involved in Road Maintenance Council Contracts (RMCCs) on behalf of the Roads Transport Authority on the state road network. The overall value of these contracts is about \$146 million. Notwithstanding the current review seeking efficiencies in the delivery of road maintenance on the state road network, LGNSW remains committed to ongoing council involvement in these RMCC arrangements. Irrespective of the management/delivery model proposed in the current review, RMCCs provide important local and regional economic benefits, employment opportunities and enhanced asset management expertise for those councils and local communities involved and assists their overall level of financial viability.

LGNSW calls on the NSW Government to:

- Increase the *Regional Road Block Grant* funding to address the \$89 million per year funding gap on regional roads, including a factor to address the inadequacy of the block grant funding formulae to reflect the annual increases in road construction and maintenance costs shown by the Australian Bureau of Statistics' Local Road Construction Cost Index or, at least, the Local Government Cost Index developed by the Independent Pricing and Regulatory Tribunal of NSW. Currently, the Consumer Price Index which does not reflect construction cost movements is used for annual funding increases.
- Provide additional targeted funding assistance to strategically significant local road infrastructure on key freight corridors through programs such as the successful *Fixing Country Roads* initiative.
- Provide additional funding assistance to an increased number of bridges on local and regional roads managed by councils for example through partnering with the Australian Government as part of their recently announced *Bridges Renewal Programme*.
- Commit to ongoing council involvement in existing RMCC arrangements on the state road network.

⁴ Figures from IPWEA NSW Division Roads & Transport Directorate, Road Asset Benchmarking Project 2012, Road Management Report, (2013).

⁵ Ibid.

Resources for the Regions Program

LGNSW calls on the NSW Government to allocate a share of mining royalties to Local Government through a system that provides funding to all councils, with additional funding for councils impacted by the mining industry.

During the 2009 election, the NSW Government promised the *Resources for Regions* program worth \$160 million as an alternative to a “Royalties for Regions” program to help meet the local infrastructure needs arising from the growth of the mining industry.

In 2013/14, the NSW Government provided funding of \$113.7 million under its *Resources for Regions* to eight councils eligible for assistance – Cobar, Lithgow, Mid-Western Regional, Muswellbrook, Narrabri and Singleton, Newcastle and Wollongong.

In 2014/15, the NSW Government is to provide funding under its *Resources for Regions* to 11 councils eligible for assistance - Broken Hill, Cessnock, Cobar, Lithgow, Maitland, Mid-Western Regional, Muswellbrook, Newcastle, Singleton and Wollongong. Fourteen projects have been shortlisted with a value of \$116.6 million.

The NSW Government also announced a total funding increase of the *Resources for Regions program* to \$217 million.

LGNSW welcomes the broadening of and the funding increase for the *Resources for Regions* program. However, there are many more councils in regional areas whose infrastructure and services support and are impacted by the mining industry.

LGNSW’s position is that a share of mining royalties should be allocated to Local Government through a system that provides funding to all councils in regional areas with provision for additional funding for councils directly impacted by the mining industry.

Country Towns Water Supply and Sewerage Program (CTWSSP)

LGNSW welcomes the additional capital funding of \$110 million made available from Restart NSW for projects under the CTWSSP that have not been allocated a subsidy.

LGNSW calls on the NSW Government to establish a permanent capital funding program once the current CTWSSP ends. To ensure LWUs throughout the whole of regional NSW can continue to provide safe and secure water supply and sewerage services, it is essential to retain a permanent funding program to provide technical and financial assistance where needed for the renewal and enhancement of water supply and sewerage infrastructure.

Water Security for Regions

LGNSW also calls for a commitment to funding new supply infrastructure necessary as a result of impacts of climate change on water supplies.

Climate change, such as increased occurrence of extreme weather events, higher temperatures, or sea level rise, will put pressure on local infrastructure, reducing the life of assets, increasing the of whole-of-lifecycle cost, or requiring new infrastructure solutions (e.g. coastal asset or assets in flood prone areas).

Climate change is also projected to cause reductions in water availability for town water supplies. The NSW Government, through its pilot study to assess the impact of climate change on the secure yield of town water supplies (NSW Office of Water), is assisting LWUs in

assessing impacts of climate change on their water supplies and identifying supply augmentation solutions to address those impacts

LGNSW welcomes the NSW Government's *Water Security for Regions* program announced in the 2014/15 NSW Budget. The program is application based and provides funding for infrastructure projects in regional areas that enhance water security including storage/dam augmentation, pipeline and bore works, and water efficiency mechanisms. In total, it makes available \$366 million. So far \$38 million have been allocated to various council projects. Funding of up to \$83 million is currently in the process of assessing shortlisted project applications.

Building Local Government's capacity to deliver for the future

This part outlines, for consideration in the budgetary process, how the NSW Government can assist Local Government in enhancing its capacity to plan for the future and tackle the challenges of facilitating economic growth and building economic resilience, supporting a growing and ageing populations, including people with disability in mainstream activities, and addressing impacts of changes in climatic conditions.

Capacity building in long term strategic and financial planning and asset management

LGNSW calls on the NSW Government to provide funding to improve Local Government's capacity to undertake long term financial planning and asset management to support community strategic planning (\$1 million per year for 5 years).

LGNSW continues to urge the NSW Government to invest appropriate funds in programs to improve Local Government's capacity to undertake long term strategic and financial planning and asset management under the integrated community strategic and financial planning framework (Integrated Planning and Reporting).

Long term strategic and financial planning and asset management is for the long term benefit of councils and their community. It enables councils to better prioritise services and infrastructure provision over the long term and thereby avoid making short term, wasteful decisions. It improves the understanding of and support by the community, councillors and staff of the long term community goals, the trade-offs involved in achieving them, and the necessity of setting priorities. For this framework to be a success among councils, it is essential to continue improving the capacity of elected members and professionals to implement the new framework.

Renewed and increased focus on capacity building in long term strategic and financial planning and asset management is a major outcome of initiatives such as the Office of Local Government's Fit for the Future program, state wide council infrastructure audit, NSW Treasury Corporation's financial assessment and benchmarking of NSW councils' financial position, and the Independent Local Government Review Panel.

Climate change planning

LGNSW calls on the NSW Government to provide new funding and resources to councils to help address and mitigate the significant environmental, economic and social impacts of climate change (\$3 million per annum).

Councils require support and resources to prepare for climate change impacts and include adaptation strategies and risk management into their strategic service planning and asset management (e.g. flood plain mapping, water sensitive urban design, incorporation of climate

change risks into all aspects of infrastructure planning and management). This includes funding and support to undertake emissions inventories and risk assessments and devise and implement mitigation and adaptation measures. In particular, councils have expressed a need for funding to ensure infrastructure is resilient to climate change. Mapping, modelling, scenarios and data on projected socio-economic trends are critically needed to inform planning for climate change. This information is best produced at a regional or state level in order to be comprehensive and meaningful.

Many NSW councils are already taking significant steps to incorporate climate change into day-to-day operations, strategic planning and the land use planning and development assessment process. Since 2006, LGNSW has provided professional development to build capacity of staff and councillors to address climate risks. In the last year, LGNSW has partnered with the NSW Office of Environment and Heritage to providing funding through the *Building Resilience to Climate Change* program to fund councils to address climate change risks within their operations to protect assets and their communities. Councils have shown a high demand, with many quality projects not proceeding due to the limited funds available.

LGNSW also calls on the NSW Government to support councils in funding infrastructure required as a result of changes in climatic conditions.

Land use planning

The NSW Government and NSW councils are critical partners in planning how land is managed and urban areas are developed to accommodate population growth. Councils experience the benefits and costs of development that require up to date planning policies and systems to direct growth to the right areas as effectively and efficiently as possible, under the required regulatory processes.

LGNSW calls on the NSW Government to provide adequate funding, including the continuation of the Planning Reform Fund, to enable councils to update and implement land use planning policies to deliver the required growth anticipated in Sydney and other growth areas. This should include:

- Planning reform and subregional planning - The reform agenda will focus on reviewing the strategic plans for Sydney to meet the needs of a growing population. Councils will be required to review and update current strategic plans and local environmental planning instruments to comply with the emerging subregional plans. Planning studies on housing and employment will be required of councils to develop strategies for growth to deliver *A Plan for Growing Sydney*.
- Implementation of emerging structures under the Greater Sydney Commission (GSC) - The yet to be established GSC and subsidiary Local Government Advisory Committees will require funding to support and deliver the preparation and implementation of the subregional plans. These plans are anticipated to be completed in 2015.
- Implementation of ePlanning at the state and local level – The ePlanning Program is a transformational initiative of the Department of Planning & Environment that is strongly supported by Local Government. LGNSW is a willing partner in the program. It is vital that adequate funding is maintained for the further development and roll out of the program by the Department. The roll out will also require councils to upgrade current IT systems that support and deliver the state led ePlanning initiative.
- Finalisation of councils' local environmental plans (LEPs) - The Planning Reform Fund needs to continue to assist councils in reviewing and updating their LEPs as required under *A Plan for Growing Sydney*.

- Standardisation of local planning codes - Special needs funding is required for councils to update their Development Control Plans (DCPs) to comply with emerging best practice and an agreed format.

Ageing and disability

LGNSW calls on the NSW Government to support and provide resources to councils to prepare and assist in implementing programs relating to the ageing of the population and the inclusion of people with disability.

Specifically, LGNSW calls on the NSW Government to:

- Provide continued recurrent funding of Local Government ageing and disability workers, extending it to all councils seeking such roles (\$6.5 million per annum); and
- Provide funding to support the development of Disability Inclusion Action Plans and associated infrastructure renewal (\$5 million per year for 5 years).

Councils' ageing and disability workers will be crucial to the successful roll out of the National Disability Insurance Scheme by providing independent information for people with disability and their families, building the capacity of local services, and supporting the creation of accessible and inclusive environments (as part of the strategic outcomes under the National Disability Strategy). Ageing and Disability workers will be the driving forces behind the development of councils' Disability Inclusion Action plans by 2017.

Further, the NSW Government should assist councils with the development of quality systems enabling people with disability to have confidence in the services they access. Many councils in NSW are actively engaged in directly providing services to people with disability and require assistance to develop such systems. This is of particular importance in rural and regional areas, where councils are often the only provider of these services. LGNSW urges the NSW Government to provide access to councils to the Industry Development Fund in order to develop these quality systems. Without access to the fund, councils will not be competing on a level playing field with non-government service providers and local communities may suffer if councils withdraw from service provision.

Other budget priorities

This part outlines, for consideration in the budgetary process, other relevant Local Government priorities.

Fit for the Future

LGNSW calls on the NSW Government to continue to resource the *Fit for the Future* program including:

- *Fit for the Future* funding commitments and packages need to be maintained beyond the initial assessment to enable councils to access these resources to undertake structural reform beyond the initial proposal phase.
- Rural council implementation – The current Innovation Fund of \$4 million is inadequate to support councils identified as rural councils. The assistance level for these councils needs to be increased significantly as it is envisaged they will embark on long term improvement plans.

Public libraries

Council libraries constitute an important community facility for the wider community often reaching beyond council boundaries. Ongoing funding provided to local libraries through the

State Library has been static in recent years. In the 2014/15 budget, for the first time in years, funding increased slightly to \$27.5 million from \$26.6 million in 2013/14.

LGNSW also notes and welcomes the introduction in last year's budget of the Public Library Infrastructure Fund providing \$15 million over four years.

However, with increasing cost and service level expectation it is increasingly difficult for council to meet community needs.

Modern libraries provide essential education and leisure opportunities. They also provide internet access serving as an interface between the community and governments. For example, many NSW Government services are accessed via council libraries. In 2012/13, 3.2 million people in NSW (or 43% of the NSW population) were library members; 46.3 million items of books and other materials were lent.⁶ Over the 10 years from 2002/03 to 2012/13 in NSW, visits to libraries have grown from 30 million to 35 million and the number of public access internet terminals has grown from 1,630 (2.44 per 10,000 persons) to 3,068 (4.41 per 10,000 persons).⁷ Public libraries are thus a key resource for community well being and the delivery of government services. However, NSW Government expenditure on Local Government libraries has decreased as a proportion of total public library expenditure from 23.6% in 1980 to 7.7% in 2012/13.⁸

Local Government is concerned about the continuous decline in real terms of NSW Government support for council libraries. This decline is one of the biggest items in our annual cost shifting survey of NSW councils. To ensure council libraries can fulfil their important social role in the community, we suggest that Local Government and the NSW Government together find a more adequate funding arrangement for council libraries.

In 2012, the Library Council commissioned the State Library of NSW to work with Local Government stakeholders on a comprehensive review of the efficacy, administration and level of state funding in support of public libraries. As a result of this review, key stakeholders NSW Metropolitan Public Libraries Association, Public Libraries NSW and Local Government NSW have unanimously agreed on a new approach to the NSW Government Public Library Grants and Subsidies recommended by the Library Council of NSW.

LGNSW supports the Library Council's recommendation for more adequate funding model based on the following principles:

- Establish a base level of funding for councils with populations below 20,000 people (a safety net for small councils);
- Grant a modest increase in per capita allocations for all councils to recognise cost movements since 1994;
- Address disadvantage transparently through the application of appropriate disability factors;
- Phase out anomalies in current allocations due to former council amalgamations;
- Ensure sustainability by providing that no council receives less recurrent funding than 2012/13; and

⁶ Australian Public Libraries, Statistical Report, 2012-2013, (2014), Table - 2012-2013 Data & Indicators and Table 7 - total items lent.

⁷ Australian Public Libraries, Statistical Report, 2002-2003, (2005), Table - 2002-2003 Data & Indicators and Australian Public Libraries, Statistical Report, 2012-2013, (2014), Table - 2012-2013 Data & Indicators.

⁸ State Library of NSW, Public Library Statistics 2012/13, page vii.

- Build and maintain infrastructure via a substantial capital fund entitled the Building Library Infrastructure Program.

Therefore, LGNSW, supporting the Library Council's funding recommendations, calls on the NSW Government to:

- Adjust recurrent public library funding to councils from the current \$27.5 million to \$30 million per annum from 2015/16 and indexed from the following year. This would be allocated as follows: 68% (\$20.4 million in 2015/16) to councils by population with a base level of funding for councils with fewer than 20,000 residents, 17% (\$5.1 million) to councils to explicitly address disadvantage based on NSW Local Government Grants Commission disability factors, and 15% (\$4.5 million) applied to state wide programs.
- Increase the Public Library Infrastructure Fund from \$15 million over four years to \$30 million per annum for building and maintaining infrastructure. This would enable councils to renew library buildings, systems, collections and equipment in regional, urban and growth areas. It is proposed that this be phased in, rising to \$30 million over a 4 years period, and adequately indexed thereafter.

Arts and culture funding

LGNSW calls on the NSW Government to assist and collaborate with councils toward building sustaining vibrant communities and creative economies. LGNSW calls on the NSW Government to create a Local Government arts and cultural development fund, with a key objective being to improve arts infrastructure outside the Sydney CBD (\$5 million per year).

NSW councils play an important role in arts and culture, managing over 4000 cultural sites, delivering services, programs and leading local cultural planning. NSW Local Government investment in arts and cultural activities in 2012/13 has been calculated at \$435.7 million; an increase from \$421.8 million the previous year.⁹

Waste levy

LGNSW calls on the NSW Government to fully hypothecate waste levy payments by NSW councils to support council waste avoidance and reduction, recycling and waste management programs.

While LGNSW welcomes the NSW Government's improved focus on waste avoidance and reduction programs under its *Waste Less Recycle More* (WLRM) initiative (\$465.7 million over 5 years to 2016/17), the rate of hypothecation of councils' waste levy payments for council programs remains at low levels. Only about a third of Local Government's contribution through the waste levy is returned to Local Government.

The effective hypothecation rate over the WLRM period (2012/13 to 2016/17) is estimated to be 32% based on the following estimates/assumptions:

- The 2014/15 NSW budget papers indicate that revenue collected through the waste and environment levy during the period that the WLRM initiative is to operate is \$2.879 billion.
- \$921 million, or \$184 million dollars annually, is contributed to the waste levy revenue from Local Government based on the estimate that the municipal waste stream¹⁰ contributes to around 32% of total levy income in the period 2012/13 to 2016/17.¹¹

⁹ Australian Bureau of Statistics, Cultural Funding by Government, 2012/13 (catalogue 4183.0).

¹⁰ Municipal Solid Waste - waste collected by, or for, local councils including solid waste from households including recycling, organics and waste, and solid waste from municipal parks and gardens and other public places.

¹¹ KPMG, Review of the NSW Waste and Environment Levy - Final Report, (2012), table 2-3, page 16.

- \$298.4 million is returned to Local Government over the WLRM period adding grants quarantined for Local Government of \$222.8 million and, assuming a 50% success rate, \$69.6 million of contestable grant programs that Local Government is eligible to apply for of \$139.1 million.
- A 100% success rate in the contestable programs would equate to a 39% rate of hypothecation.

LGNSW also calls on the NSW Government to undertake a review into the appropriateness of the Regional Levy Area.

Smaller councils in the Regional Levy Area have been questioning the appropriateness of their inclusion in the levy catchment area, given their small populations, low rates of waste generation and ability to deal with waste effectively within the council area. In councils such as Dungog, Gloucester and Upper Hunter, the levy represents a flow of money out of the area and into consolidated revenue for little if any local benefit to waste management.

Noxious weeds funding

LGNSW calls on the NSW Government to increase funding for councils allocated to weed management to \$20 million per year, including adequate resourcing of a weed incursion fund.

Economic research has established that weeds cost Australia more than \$4 billion per year (\$1.2 billion in NSW) in lower farm incomes and higher food costs. In addition, governments (at all levels) spend well over \$100 million each year on monitoring, management, research and control of weeds. These costs do not include the impact on the natural environment, impacts on human health or the value of the 'volunteer army' active in weed control across Australia.

In NSW, councils play a significant role in the management of weeds. While the NSW Government helps by providing grant funding for noxious weed management activities (approximately \$11 million each year for the last 4 years under the Weeds Action Program), councils invest significantly more funds on a wide range of other weed management actions. The Natural Resources Commission's Review of Weed Management reported councils spent at least \$2 for every \$1 provided under the WAP in undertaking weed management functions between 2010/11 and 2012/13.

The NSW Government has released guidelines for the next phase of the Weeds Action Program (2015-2020). However, there has been no commitment made to the quantum of funding that will be provided on an annual or program basis. LGNSW calls for funding to be increased from the current level of \$11 million to \$20 million annually. This should include adequate resourcing of a weed incursion fund.

LGNSW also calls on the NSW Government to invest in better coordination of natural resource management data across managers including NSW Government agencies, Local Government and Local Land Services, to avoid duplication and ensure they use best available data.

Council diversity

LGNSW calls on the NSW Government to provide funding to LGNSW for a significant long-term women's development program aimed at improving the diversity of councillors (\$600,000 per year for eight years).

Cost shifting

LGNSW calls on the NSW Government to cease the practice of cost shifting and rectify current cost shifting practice including enacting legislation that requires Local Government's agreement to take on additional responsibilities, and if taken on, the provision of corresponding funding or the means to raise adequate revenue.

Cost shifting describes a situation where the responsibility for, or merely the costs of, providing a certain service, concession, asset or regulatory function are "shifted" from a higher sphere of government on to a lower sphere of government without the provision of corresponding funding or the conferral of corresponding and adequate revenue raising capacity.

Major cost shifting examples from the NSW Government to local councils include contributions to the Fire and Rescue NSW, NSW Rural Fire Services and NSW State Emergency Service, lack of adequate funding for public libraries and the NSW Government's failure to reimburse for mandatory pensioner rebates for rates

Councils are also not given sufficient financial resources for responsibilities delegated to them to regulate development applications, companion animals, manage contaminated land, control noxious weed, manage flood controls, or administer environmental regulation. Councils often have to step in and pay when the NSW Government does not adequately fulfil its responsibilities such as in the provision of medical services or community safety.

According to LGNSW's cost shifting survey, cost shifting by the Australian and NSW Government on to NSW Local Government in the financial year 2011/12 is estimated to amount to 5.63% of Local Government's total income before capital amounts or \$521 million. In absolute terms, cost shifting is estimated to have increased significantly from \$380 million in 2005/06 to \$521 million on 2011/12. Since the survey for 2009/10, the survey includes two additional cost shifting examples, i.e. revenue raising restrictions on council managed Crown lands and shortfall in cost recovery for assessing development applications. Including the additional examples, cost shifting in 2011/12 is estimated to amount to 6.28% of Local Government's total income before capital amounts or \$582 million.

Cost shifting continues to be a significant burden on councils' financial situation and is impeding Local Government's ability to deliver services and maintain infrastructure. The annual cost shifting amount of around \$521 million in 2011/12 is greater than the estimated annual infrastructure renewal gap of \$500 million per annum. This is the gap between what councils would need to spend on renewing their existing infrastructure and what they actually can afford to spend.

Pensioner rebates

LGNSW commends the NSW Government for its commitment to maintain the current level of reimbursement for mandatory pensioner rate rebates up until 2017/18 despite the cuts to the Commonwealth contribution in the 2014/15 federal budget. LGNSW calls on the NSW Government to at least maintain this funding level on a permanent basis.

The NSW Government, through the Office of Local Government, reimburses councils through the Pensioner Rebate Scheme for 55% of mandatory rebates under the *Local Government Act (NSW) 1993*. Councils cover the remaining 45% from their general revenue (or water and sewerage revenue). The 2014/15 federal budget cut about \$1.3 billion over the forward estimates (2014/15 to 2017/18) of funding provided by the Australian Government under the *National Partnership Agreement on Certain Concessions for Pensioner Concession Card and*

Senior Card Holders to a range of concessions available to pensioners. These funds were provided to the states/territories to support pensioner concessions for transport and utilities services as well as Local Government rates, water and sewerage charges and domestic waste management charges.

More principally, LGNSW calls on the NSW Government to fully reimburse councils for the provision of mandatory pensioner rate rebates.

The cost of mandatory pensioner rate rebates is a rapidly growing burden for many councils and is affecting the level and range of services that councils are able to deliver. Many councils will not be able to afford further increases in the funding they have to provide for pensioner rate rebates. It also needs to be recognised that the costs of pensioner rebates are inequitably distributed among councils. Those who qualify for rebates are disproportionately represented in low income areas with high demand for council services but limited revenue raising capacity.

Given the limited revenue base of Local Government it is unfair that it should be required to fund this form of welfare assistance. Addressing social impact issues through welfare and income support is the responsibility of higher levels of government who are able to spread the cost of such assistance more equitably and efficiently over a broader revenue base.

Budget transparency

LGNSW calls on the NSW Government to improve the transparency of the financial relations between the NSW Government and NSW Local Government by way of publicly providing detailed information in its budget papers of its total funding assistance to NSW councils.

Such a “Local Government budget statement” should provide a breakdown of expenditure, both operational and capital, by major categories of assistance and for each program. Any breakdown of grants should also distinguish between payments for services provided on behalf of the state and payments to Local Government for its own purposes.

Disclosing payments to Local Government accords with the principles of fiscal transparency and accountability and would enhance evidence based decision making. It would encourage full documentation of assistance to local areas in all spheres of government. It would also allow Local Government to have a fuller picture of its true financial position.

The publication of a “Local Government budget statement” is already standard practice in other states where state governments publish this data as part of their annual budget papers.¹² LGNSW understands that the NSW Treasury would be able to extract this information from its financial database.

Conclusion

NSW faces a number of challenges, including supporting economic growth and resilience, dealing with a growing and ageing population, and addressing the impacts of changes in climatic conditions. NSW councils, in cooperation with the NSW Government, play an important role in addressing these challenges.

¹² In South Australia, the Office for State/Local Government Relation provides a Summary of State Government grants and subsidies to councils (including for State programs) or payments to councils for Local Government or joint State-Local Government programs for each budget (see www.lga.sa.gov.au/webdata/resources/files/2013-14%20State%20Budget%20-%20Summary%20of%20Payments%20to%20Councils%20copy.pdf); in Victoria, the state budget includes in appendix B of Budget Paper No 3: Service Delivery a local government financial relations statement.

LGNSW calls on the NSW Government to assist councils in tackling these challenges by way of continued support of councils' investment in local infrastructure and in building councils' capacity to strategically plan for the future of NSW communities.

To improve the transparency of the financial relations between the NSW Government and NSW Local Government and enhance evidence based decision making, LGNSW also calls on the NSW Government to publicly provide detailed information in its budget papers of its total funding assistance to NSW councils.

LGNSW has worked with its members to identify the requested funding priorities and budgetary measures to enable Local Government to be a strong partner in meeting these challenges. LGNSW looks forward to working with the NSW Government to meet these challenges and achieve improved economic, social and environmental outcomes for the people of NSW.