

Submission on the NSW Budget for 2014/15

December 2013

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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 2014/15.

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 facilitate 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.

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

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

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 7.2 million people in 2011 to 9.2 million by 2031.² Annual growth rates are expected to be higher in Sydney compared with other parts of the state. Sydney's projected average annual growth from 2011 to 2031 will be 1.5%, compared with 1% annual growth in the other metropolitan areas to the north and south of Sydney and 0.5% growth throughout regional NSW.

Sydney makes up 59% of the state's total population with 4.3 million residents, and this is forecast to increase to 63% by 2031 with 5.8 million people. Other metropolitan areas to the north and south of Sydney are projected to grow from 1.1 million in 2011 to 1.4 million in 2031, and regional NSW will grow from 1.8 million in 2011 to 2.0 million in 2031. The Draft Metropolitan Strategy for Sydney predicts that for the Sydney Region 545,000 additional dwellings will be needed by 2031. To reach this target, 27,500 new homes need to be built each year. However, only 14,500 have been built each year in the last five years, so this target is a significant expansion on previous metropolitan strategies. These new dwellings will be needed be accommodated in Sydney's existing suburbs and in greenfield sites, predominately in the North West and South West Growth Centres on Sydney's fringes. Coastal and regional NSW will also need additional dwellings to accommodate the state's growing population.

Under Sydney's Metropolitan Strategy as well as regional growth strategies and action plans, Local Government is crucial in facilitating the provision of new housing, employment and providing supporting infrastructure 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. 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 2050, 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). (*Source: NSW Ageing Strategy 2012*).

² NSW Department of Planning & Infrastructure, New South Wales in the Future: Preliminary 2013 population projections, (2013).

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. The 2012 Age-Friendly Community Local Government Grants Program enabled 26 councils in NSW to address the impacts of population ageing through projects which develop Ageing Strategies, construct recreation infrastructure, conduct accessibility audits and improve access to council or community facilities. Around 84 councils applied for these grants, highlighting the need for further support for councils to create age-friendly environments.

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.

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

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 address population shifts caused by changing climatic conditions. Also, network infrastructure will need to adapt to new flooding regimes, increased bushfire risks or sea level rise.

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. LGNSW has been managing the project "Climate Change Action Planning for Local Government" to assist NSW councils prepare for and address climate change in a strategic, risk-based manner.

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 Independent Inquiry into the Sustainability of NSW Local Government commissioned by LGNSW found that, based predominantly on data from the financial year 2004/05, NSW councils had accumulated a huge infrastructure renewal³ backlog of \$6.3 billion that continues to grow by \$500 million per annum. Furthermore, the Inquiry found that NSW councils are running operating deficits of 5% of their own source revenues. The Inquiry finds that this gap is being financed by deferral of capital expenditure. It needs to be noted that the Inquiry's estimate only included the renewal of existing infrastructure and did

³ Infrastructure renewal refers to capital expenditure for sustaining infrastructure at the existing level of service. It does not capture infrastructure enhancement; i.e. construction of new or upgrade of existing infrastructure to provide new services or increase the level of existing services.

not take account of required new or upgraded infrastructure to cater for population and economic growth.

The recent Local Government Infrastructure Audit undertaken by the Department of Premier and Cabinet, Division of Local Government in 2013 found an infrastructure backlog of \$7.4 billion at 30 June 2012.

The NSW Treasury Corporation's assessment of the financial sustainability of NSW councils also undertaken in 2013 confirms these findings. The assessment indicates that existing revenue restrictions, including rate pegging, severely hamper council's ability to fund current and future levels of service and rates the financial sustainability of 39 (25.7%) of the 152 councils as weak or very weak. It finds that the total infrastructure backlog for NSW Councils had increased from \$5.8 billion in 2009 to \$7.2 billion in 2012 with the main component of the infrastructure backlog in public roads (including footpaths and car parks) at \$4.4 billion as at 2012.

LGNSW notes that the NSW Government, through the Local Infrastructure Renewal Scheme, provides funding of \$100 million for interest subsidy on significant loans that councils take out specifically to pay for large infrastructure projects such as roads, community halls, libraries, parks, sports facilities and water facilities. However, while the funding is welcome, the scheme is not sufficient to make significant inroads into NSW councils' infrastructure needs including a large and growing infrastructure renewal backlog. Furthermore, many rural councils are likely to find it difficult to fund borrowings for infrastructure investment from their own source revenue, even with significant interest rate subsidies. These councils require direct capital funding assistance.

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, a trend explicitly recognised by the Commonwealth Grants Commission, The Hawker Report and other reviews;
- Cost and responsibility shifting onto councils by the NSW and Australian Government⁴, again a trend recognised by the Hawker Inquiry and subsequently acknowledged by the national *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations on Local Government Matters*, (2006); and
- Deficiencies in councils' financial and asset management processes and practices.

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

⁴ 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, 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).

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.

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 public transport, roads and water infrastructure, in particular funding for the successful Country Town Water Supply and Sewerage Program, the Regional Roads Block Grants and Repair Program, and the Local Infrastructure Renewal Scheme.

Further increase the successful Local Infrastructure Renewal Scheme (LIRS)

While the current funding level of \$100 million over at least 5 years is welcome, the scheme is not sufficient to make significant inroads into councils' infrastructure needs including a huge and growing infrastructure renewal backlog.

Create a new fund for direct infrastructure funding

Many, particularly rural councils are likely to find it difficult to fund borrowings for infrastructure investment from their own source revenue, even with significant interest rate subsidies. These councils require direct capital funding assistance to address their infrastructure renewal backlogs.

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.

Regional Roads Block Grants and Repair Program

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. Combined Regional Road Block Grants and Repair program funding has been increased by 2.5% to \$170.8 million. 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 \$808 million leaving a life cycle funding gap of \$674 million per year.⁵

For regional roads and bridges partly funded by the NSW Government, the life-cycle cost is \$240 million per year; expenditure (including existing block grant funding) is \$162 million per annum, leaving a life cycle funding gap of \$78 million per year.⁶

The 2013/14 budget allocates an additional \$165 million over the four years to 2016/17 for the Bridges for the Bush program. This includes replacing or upgrading five priority higher mass limit deficient bridges on state managed roads and 12 timber truss bridges on state, regional and local roads. Only a relatively minor proportion of these funds will be applied to bridges on council managed local or regional road networks. Similar funding assistance on identified strategically significant local road infrastructure would enhance economic outcomes on key freight corridors.

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 \$78 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.
- 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.

Resources for the Regions Program

LGNSW calls on the NSW Government to build on the Resources for Regions program and increase funding for councils impacted by the mining industry and spread funding over a wider area.

⁵ Figures from IPWEA NSW Division Roads & Transport Directorate, Road Asset Benchmarking Project 2012, Road Management Report, (2013).

⁶ Ibid.

During the 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. The 2013/14 budget now makes available up to \$120 million in 2013/14 for eight communities eligible for assistance – Cobar, Lithgow, Mid-western Regional, Muswellbrook, Narrabri and Singleton, Newcastle and Wollongong.

LGNSW welcomes the broadening of 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 calls on the NSW Government to provide additional capital funding of \$250 to \$300 million under the CTWSSP for council owned and operated local water and sewerage utilities (LWUs) in regional NSW to fund projects under the program 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 in 2015/16.

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

Currently, ongoing capital funding for LWUs in regional NSW is provided under the successful Country Town Water Supply and Sewerage Program (CTWSSP). However, funding under the CTWSSP is fully allocated and the program is to end in 2015/16. However, there are still 123 projects prioritised under the program that have not been allocated a subsidy. These projects are worth an estimated \$250 to 300 million.

In the short term, it is essential that the NSW Government provide funding for the 123 unfunded projects. In the longer term, 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.

The funding program should also include funding to support infrastructure investment necessary as a result of climate change impacts. 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.

Disability

LGNSW calls on the NSW Government to provide adequate and targeted funding for councils to make public environments and facilities more inclusive and accessible for people with disability in order to meet the objectives of the National Disability Strategy. Under the National Disability Strategy, councils are recognised as a key stakeholder in achieving outcomes relating to the inclusion of people with disability.

Coordination with state infrastructure delivery

LGNSW also 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).

Furthermore, LGNSW calls upon the NSW Government to undertake further consultation and discussion with the sector on *Infrastructure NSW's* prioritised infrastructure investment plan before implementation of any recommendations; including discussion on:

- That, in terms of transport networks and infrastructure, funding priorities should be based on an appropriate balance among road, rail, public transport, not only on toll roads;
- The lack of focus on infrastructure investment in regional NSW including little investment in regional road and rail infrastructure and the absence of a commitment to the long term future of all regional Country-Link passenger rail services;
- That, in relation to water supply and sewerage services in regional NSW, councils must retain ownership and control of council owned and operated local water utilities (LWUs) and cooperation and resource sharing among LWUs should be done on a voluntary basis (e.g. LGNSW's alliance model);
- In relation to water supply and sewerage services in regional NSW, the continuation of capital funding for LWUs, including a commitment to funding new infrastructure necessary as a result of impacts of climate change on water supplies.

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 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. This should build on the successful NSW project under the Local Government Reform Fund.

Renewed and increased focus on capacity building in long term strategic and financial planning and asset management is expected to be a major outcome of pending initiatives such as the Division of Local Government's 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 support and provide resources to councils 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). LGNSW also calls on the NSW Government to support councils in funding infrastructure required as a result of changes in climatic conditions.

Councils require 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.

Land use planning

LGNSW calls on the NSW Government to provide adequate funding to implement the new land use planning system councils will be critical partner including:

- Setting up a Planning Advisory Service for councils and others;
- Introducing eplanning and, in particular, setting up the NSW Planning Portal;
- Continuing to roll out and increasing funding for the Urban Activation Precinct Program - The previously available \$8 million convert to approximately \$1 million per precinct which is an inadequate amount;
- Continuation of funding for councils under the new system provided under the previous "planning reform fund";
- Funding to support the implementation of the new subregional delivery plans including the subregional boards.

2014/15 will be the key year for introducing critical changes that will set up the new framework for the new planning system. Councils are on the frontline of bringing in the new system and will need to be well resourced to ensure the new system is implemented effectively and efficiently.

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.

In particular, the NSW Government needs to guarantee and provide funding to all councils in NSW for ageing and disability worker positions. These roles will be crucial to the successful roll out of Ability Links and 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). The estimated cost of providing such funding is \$8 million.

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.

Other budget priorities

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

Public libraries

Council libraries constitute an important community facility for the wider community often reaching beyond council boundaries. Funding provided to local libraries through the State Library has not been increased in recent years. In the 2013/14 budget, funding remained at the 2012/13 level of \$26.5 million. NSW Government expenditure on public libraries has decreased as a proportion of total public library expenditure from 23.6% in 1980 to 8% in 2010/11.

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. Over the past 10 years in NSW visits to libraries have grown by 24% to almost 36 million per annum. 3.3 million people in NSW (or 46% of the NSW population) in 2010/11 were library members. Loans of books and other materials have increased to almost 50 million per annum, and Internet usage in libraries continues to grow with more than 2.7 million hours of Internet access provided by NSW public libraries in 2010/11. Public libraries are thus a key resource for community well being and the delivery of government services.

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

Therefore, LGNSW support the Library Council's funding recommendations that:

- Recurrent public library funding to councils be modestly adjusted from the current \$26.5 million to \$30 million per annum from 2014/15 and indexed from the following year. This would be allocated as follows: 68% (\$20.4 million in 2014/15) 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.
- A Building Library Infrastructure Program of \$30 million per annum for building and maintaining infrastructure be established to replace the now defunct provision of grants from operating funds. 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 the 4 years from 2014/15 and 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 and provide increased funding under the NSW Arts Funding Program to support councils' capacity to support arts and culture.

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 2011/12 has been calculated at \$421.8 million; an increase from \$409.7 million the previous year.⁷ However, funding to councils under the NSW Arts Funding Program in 2010/11 represented only 1.1% (i.e. \$4,682,444)⁸ of total investment by councils. This includes \$110,000 annually to LGNSW to provide overall sector support.

⁷ Australian Bureau of Statistics, Cultural Funding by Government, 2010/11 (catalogue 4183.0).

⁸ NSW Department of Trade and Investment, Regional Infrastructure and Services, Annual Report 2010/11.

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.

Following the recent review of the waste levy and the release of the NSW Government's Waste Less, Recycle More (WLRM) strategy (\$465.7 million over 5 years to 2016/17) as well as announcement of further funding to councils and others (\$219 million 5 years to 2016/17), councils are projected to receive funding of about \$400 to \$450 million over the 5 years from these initiatives. Local Government NSW's estimates show that this represents a return of only about 36-40% of waste levy payments by councils.

LGNSW welcomes the new funding and improved focus on waste avoidance and reduction initiatives. However, total funding for waste avoidance and reductions initiatives of \$684.7 million is well below the projected revenue from the waste levy of about \$2,436 million (2012/13 to 2016/17). Furthermore, considering that total Local Government contributions over the 5 years to 2016/17 are estimated to amount to \$730 million (30% of total waste levy income), the hypothecation rate of council waste levy payments remains at low levels.

Noxious weeds funding

The NSW Government continues to neglect weed management in NSW. Despite costing the state over \$1.2 billion in lost production and control costs every year, the NSW Government funding continues to be grossly inadequate and contrary to the NSW Government's election commitment to increase funding by \$1.5 million each year over four years (2011/12 to 2014/15).

According to the NSW Government election promise, funding for 2011/12 should have been \$10.2 million (\$1.5 million increase of the base of \$8.7 million in 2010/11). Even though the 2011/12 budget announced funding of \$11 million, only \$9.5 million was actually provided in 2011/12; i.e. a shortfall of \$0.7 million. Funding for 2012/13 should have been \$11.7 million (\$10.2 million in 2011/12 plus \$1.5 million) but actual funding was only \$10.8 million; a shortfall of \$0.9 million. Funding for 2013/14 should have been \$13.2 million (\$11.7 million in 2012/13 plus \$1.5 million) but actual funding was only \$11.1 million; a shortfall of \$2.1 million. This represents an accumulated shortfall of \$3.7 million over the first three years.

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 approximately \$11 million in grant funding for noxious weed management activities, councils invest significantly more funds on a wide range of other weed actions. It has been estimated that councils spend more than triple this amount (up to \$30 million) in undertaking weed management functions.

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 5.60% of Local Government’s total income before capital amounts or \$520 million. In absolute terms, cost shifting is estimated to have increased significantly from \$380 million in 2005/06 to \$520 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 6.26% of Local Government’s total income before capital amounts or \$580 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 \$520 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 calls on the NSW Government to fully reimburse councils for the provision of mandatory pensioner rate rebates.

Currently, councils fund about 45% of the rebate with the remainder funded by the NSW Government. The NSW Government is the only state government that does not fully fund 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.⁹ 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.

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 have 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.

⁹ 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.