

Submission on the NSW Budget for 2017/18

February 2017

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1. Executive summary and key priorities

The NSW Government has benefited from (and cultivated) strong economic growth and has an unprecedented opportunity to boost much needed investment in local infrastructure.

Local Government NSW (LGNSW) urges the NSW Government to ensure measures to drive growth, productivity and liveability are central to the 2017/18 Budget and that these measures extend to “the last mile”, which is to local communities in NSW.

Sustained and enhanced economic growth, productivity, housing supply and liveability depend on the basic local infrastructure councils provide including roads, bridges, traffic facilities, water supply and sewerage, stormwater and drainage systems, libraries, parks and more.

Local government is one of the biggest sectors in the NSW economy. It contributes by:

- Spending \$11 billion each year;
- Maintaining and upgrading infrastructure and land assets worth \$142 billion; and
- Employing more than 50,000 people, including in rural and regional NSW.

Restrictions to councils’ revenue raising ability including 40 years of rate pegging mean local councils cannot meet the needs of growing communities. Treasury Corporation’s 2013 assessment of the financial sustainability of NSW councils raised serious concerns about councils’ ability to fund current and future service levels. Councils also have a large and growing infrastructure renewal backlog (\$7.4 billion at 30 June 2012).

Local government needs adequate financial resources from the NSW Government to address the current and future infrastructure needs of communities in NSW.

LGNSW’s pre-budget submission on the State Budget 2017/18 provides a comprehensive summary of more than 50 funding recommendations across 25 portfolio areas.

The NSW Government rightly prides itself on its record investment in state infrastructure, particularly major transport infrastructure.

LGNSW urges the NSW Government to ensure the 2017/18 Budget focuses on investment in local infrastructure - roads in particular – as the logical, crucial “last mile” of its infrastructure strategy and a key part of the NSW Government’s urban and regional planning agenda, driven by population growth, demand for housing and the need for liveable communities.

The local government sector’s key funding priorities in the 2017/18 State Budget include:

Local Roads

The state’s major road network ultimately connects to local roads on which the State relies for the movement of goods and people. Local roads are the last leg of the supply chain. Transport movements and demands on local roads will only increase as the NSW population grows by 2.7 million people by 2036. LGNSW believes investment in local infrastructure - roads in particular – is a crucial “last mile” component of the state’s infrastructure program.

- **Increase block grants for regional roads by \$41.5 million per annum (pa)** to address the annual life-cycle funding gap (i.e. from \$180.7m pa in 2016/17 to \$222.2 million pa in 2017/18 plus indexation) and help meet the needs of a growing population.
- **Continue the successful Fixing Country Roads program (\$50 million).**
- **Establish a “Fixing Metro Roads” program** of similar scale (\$50m pa) to the Fixing Country Roads program to address urban freight pinch points and open up heavy vehicle access on metropolitan local roads.

Water supply and sewerage

- **Replace the \$45 million pa Country Towns Water Supply and Sewerage Program** with a permanent fund so this vital funding **does not cease in 2016/17**. This is essential for the renewal and upgrade of water and sewerage services in regional NSW, and the provision of safe, secure and affordable water.

Energy efficient street lighting

- **Establish a \$50 million energy efficient street lighting fund from the proceeds of the sale of the electricity networks** to help councils fund street lighting upgrades, particularly pay out high residual values of obsolete street lights. LED street lighting is up to 70% more energy efficient, has lower failure rates and a lower overall cost but the transition costs charged by electricity distributors are prohibitive. This initiative would provide a lasting benefit for NSW electricity consumers (and ratepayers) as a result of the poles and wires sale.

Coastal erosion

- **Increase the Coastal and Estuary Grants Program from \$63.2 million to \$100 million** to provide additional funding for the restoration and modification of ageing and unsafe sea walls in estuaries and make more projects feasible including by contributing to their full life cycle cost (not just initial construction costs).

Libraries

- **Increase funding to public libraries to \$40 million pa in 2017/18** (currently \$27.5 million base funding) **and index it from the following year**. This would halt the continuous decline of NSW Government support for council libraries and deliver the NSW Government’s commitment to LGNSW Conference delegates in October 2016 to look at increasing funding to libraries.

Local Government Reform

- **Increase funding under the Innovation Fund from \$4 million to \$10 million** to assist councils identified as rural councils and maintain the *Innovation Fund* as a permanent program beyond 2017/18 with recurrent funding extended until at least 2019/20.
- **Establish an ongoing Local Government Improvement Fund of \$5 million per annum** partly funded by tax equivalents from the Treasury Loans Scheme to provide resources to the local government sector to implement ongoing broader reforms.
- **Commit to fully funding the establishment and ongoing operation** of any regional statutory body under the Far West Initiative, should it proceed.

Reform NSW Emergency Services funding

- Abolish the Emergency Service Levy paid by councils as part of the NSW Government's implementation of an Emergency Services Property Levy (ESPL).
- Make budgetary provisions to compensate councils for the full costs of collecting agent the ESPL in addition to reimbursement of incremental collection costs incurred by councils.
- Improve transparency of the NSW Government's emergency services agencies' budgetary processes by providing detailed information in budget papers about the funding councils contribute to these agencies

Planning Reform Fund

- Provide adequate funding at the state and local level to continue the implementation of ePlanning.
- Improve fiscal transparency of the Planning Reform Fund and ensure funds paid into the fund are exclusively used for the purposes for which the fund was established - to support planning reform in or for councils, including grants to councils and funding of ePlanning.

Resourcing of the NSW Office of Local Government

- Better resource the compliance and regulatory activities of the NSW Office of Local Government.

LGNSW has worked with its members to identify these and other funding priorities and budgetary measures to enable local government to be a strong partner in meeting current challenges and achieving improved economic, social and environmental outcomes for the people of NSW.

Further details on LGNSW's recommendations for the State Budget 2017/18 follow.

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3. Opening

Local Government NSW (LGNSW) is the peak body for the local government sector in NSW, representing NSW general-purpose councils, associate members including special-purpose county councils, and the NSW Aboriginal Land Council. LGNSW is the organisation for all things local government in NSW. LGNSW facilitates the development of an effective community based system of local government in the State.

LGNSW welcomes the opportunity to make a submission to the NSW Government budget for the financial year 2017/18.

NSW faces a number of challenges, including:

- Supporting economic growth and resilience;
- Dealing with a growing and ageing population;
- Housing affordability; 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 the challenges facing our state. 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 depend on the basic local infrastructure councils provide. Local infrastructure, such as roads, bridges, traffic facilities, water supply and sewerage, stormwater and drainage systems, is essential for supporting functional communities and the growth of healthy local communities and a productive economy.

Local government is one of the biggest sectors in NSW economy, spending approximately \$11 billion per year, managing non-financial assets (infrastructure and land) worth \$142 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 depend 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.

LGNSW calls on the NSW Government to continue to support 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

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

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 plan for the future of their communities strategically.

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 requires substantial council resources.

Population projections by the NSW Department of Planning and Environment show that over the long-term, NSW will grow from 7.7 million people in mid-2016 to 9.9 million by 2036. Metropolitan Sydney makes up about 60% of the state's total population with 4.6 million residents in 2016. Metropolitan Sydney is forecast to reach 6.4 million people by 2036, representing 64.7% of the state's population. Other metropolitan areas to the north (Lower Hunter and Central Coast) and south (Illawarra) of Sydney are projected to grow from 1.5 million in mid-2016 to 1.7 million in 2036. Regional NSW is to grow much more slowly, with population in the Far West projected to decline.

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. The plan was updated in November 2016 by the Greater Sydney Commission's *Towards our Greater Sydney 2056*, which has introduced a new and increased housing projection of 725,000 additional dwellings over 2016-2036. This is an increase of 9% from *A Plan for Growing Sydney* as a result of the revised population projections and is a significant expansion on previous metropolitan strategies.

Local government is crucial in facilitating the required provision of new and affordable 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, coordinating growth in order to achieve positive social, economic, environmental and health outcomes, requires effective regional and local strategic urban planning, including implementing more strategic and locally appropriate affordable housing strategies. The NSW Government should continue to invest in councils' capacity to plan for a growing population strategically.

Population ageing brings challenges and opportunities.

The number of people living in NSW aged 65 years and over will increase from 1.2 million people (1 in 8 people) in 2015 to 2.3 million (1 in 4 people) in 2050.²

² NSW Ageing Strategy 2012-2020 and Australian Bureau of Statistics, Population by Age and Sex, Regions of Australia, 2015, (catalogue no. 3235.0), New South Wales.

In regional NSW, these challenges will be greater as regional NSW has an older age profile compared to Sydney, with population ageing becoming more pronounced. While almost two thirds (65%) of the total NSW population lived in Greater Sydney, only 56% of those aged 65 years and over lived there in 2015 reflecting the preference of people aged 65 and over to retire to coastal and rural areas, and for people aged under 65 to move from regional areas to pursue work, education and other opportunities in the capital city.³

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.

Older people are now seeking to “age-in-place” and remain in their own homes and stay connected to the local community; a policy promoted by state governments and the Australian Government. An ageing population therefore 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);
- Demand for housing choice to enable older people to move to more suitable housing within their own communities;
- 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.

The *NSW Ageing Strategy 2016-2020* states that the NSW Government will partner with councils to plan and work strategically for the benefit of our ageing population. The strategy acknowledges the importance of local responses to an ageing population and that councils are well placed to develop and implement initiatives in local communities.

LGNSW calls on the NSW Government to continue to assist councils in planning for and creating inclusive communities and to support councils in addressing the infrastructure needs of ageing populations and of people with disability and carers.

³ Australian Bureau of Statistics, Population by Age and Sex, Regions of Australia, 2015, (catalogue no. 3235.0), New South Wales.

Affordable housing and housing affordability

The current housing affordability crisis, particularly in Sydney, is creating enormous stress on communities. The problem has several dimensions - first home buyers are facing often insurmountable price barriers, tenants are struggling under increasing rents, an increasing number are simply being excluded from both the home buying and rental markets and social housing waiting list continues to grow.

Increased housing supply and record development approvals have not yet had any effect on housing costs, indicating that market delivered supply is not the silver bullet. The NSW Government needs to assist local government in developing local strategies to help alleviate this crisis.

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:

- Provide consistent, high quality information, knowledge and tools about climate change;
- Provide localised climate data and information;
- Coordinate NSW's effort to adapt to climate change; and
- Provide statutory planning support.

LGNSW also calls on the NSW Government to continue to support councils by way of funding climate change adaptation activities, especially by supporting additional rounds of the Building Resilience to Climate Change program, which is a partnership between the NSW Office of Environment and Heritage and LGNSW.

Local Government Reform

NSW has been in the throes of local government reform for over five years. Twenty new councils have been proclaimed as the result of mergers and boundary changes involving 46 councils. These new councils are engaged in the costly task of amalgamating their operations. At the time of writing, a further 9 amalgamations are still pending.

At the same time, there are several major reviews underway that promise significant and far reaching reforms across the sector, many of which would be welcomed by local government if they were to eventuate.

This is a challenging time for local government in NSW. It is important that the NSW Government makes a significant budget commitment to Local Government Reform in 2017/18 and beyond.

4. 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 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 councils' ability to fund current and future levels of service.

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

- Rate pegging, rate exemptions 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; and
- Cost shifting onto councils by the NSW and Australian Government⁴, a trend acknowledged by the national *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations on Local Government Matters*, (2006).

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 7% of councils' total income before capital amounts; i.e. \$670 in 2013/14 for the whole of NSW local government (for further information www.lgnsw.org.au/policy/finance/cost-shifting-survey).

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

- Reforming the revenue raising powers of councils. Any revenue framework needs to recognise councils' role as the third sphere of government responsible for all local matters and that local government 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.

5. Budget recommendations in detail

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 improving housing affordability; 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 *Regional Roads Block Grants and Repair Program* and the *Regional Water and Waste Water Backlog Program* and *Coastal and Estuary Grants Program*.

Coordination with state infrastructure delivery

Portfolio: Planning and Environment, Transport and Infrastructure, and Premier and Cabinet (Infrastructure NSW).

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

Portfolio: Planning and Environment (Local Government), Transport and Infrastructure, and Premier and Cabinet (Infrastructure NSW).

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 if they have access to 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

Portfolio: Transport and Infrastructure (Roads and Maritime Services)

LGNSW calls on the NSW Government to improve road funding assistance to local government, with special emphasis on funding for regional roads and for freight connectivity on local roads and bridges.

In recent years, *Regional Road Block Grant* funding has largely been maintained in real terms. Compared to the NSW budget of 2015/16, combined *Regional Road Block Grants* and *Repair* program funding has been increased by about 2% in the NSW budget of 2016/17. 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 and regional roads in NSW. The life cycle cost to maintain and renew the whole local government roads and bridges network is estimated at \$1.527 billion per year with actual expenditure in 2013/14 estimated at \$1.080 billion, leaving a life cycle funding gap of \$447 million per year.⁵ For regional roads and bridges, that are partly funded by the NSW Government under *Regional Road Block Grants* and *Repair* programs, the life-cycle cost is \$248.5 million per year. Actual expenditure (including existing block grant funding) amounts to \$207 million per annum leaving a life cycle funding gap of \$41.5 million per year.⁶

LGNSW welcomes and acknowledges the announcement in the NSW Budget of 2016/17 of a second round of the successful *Fixing Country Roads* program. Funding under the program is budgeted at \$50 million in 2016/17 (up from \$39.3 million budgeted in 2015/16). This funding will enable councils to address key strategic freight pinch points on their local roads networks. However as the above figures show, more funding is required.

Recent work undertaken by LGNSW, Roads and Maritime Services (RMS), the National Heavy Vehicle Regulator and the Institute of Public Works Engineering Australasia, has shown that a similar funding need exists in the Sydney and other metropolitan areas as the result of ever increasing first and last mile demands on local roads.⁷ LGNSW calls on the NSW Government to establish a “*Fixing Metro Roads*” program to address urban freight pinch points and open up heavy vehicle access similar to the *Fixing Country Roads* available in regional areas.

LGNSW also calls on the NSW Government to provide additional targeted funding for the renewal/replacement of timber bridges on councils’ local and regional roads, for example by way of partnering with the Australian Government on its *Bridges Renewal Program*. The replacement of timber bridges on local roads has been identified as critical to ensuring a safe and efficient road network. Sub-standard bridges on local roads limit the capacity to move freight with the larger, more efficient heavy transport now approved for regional state and national roads.

In addition to their own local road responsibilities, 69 councils are currently involved in Road Maintenance Council Contracts (RMCCs) on behalf of RMS on the state road network. The overall value of these contracts is about \$215 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 involved and assist their overall level of financial sustainability.

⁵ IPWEA NSW, Road Asset Benchmarking Project 2014, Road Management Report, (2015), page iii.

⁶ Ibid, page 23 f (tables 21 and 23).

⁷ This work is currently being undertaken by the NSW Road Freight Industry Council Network Connectivity Sub-Committee.

LGNSW also calls on the NSW Government to provide funding for the construction of rail overpasses to replace level crossings along rail freight routes that are experiencing significant increases in traffic, for example, from mining activity. This is necessary to address access delays and road safety issues caused by the obstruction of level rail crossings. Many existing rail freight routes cut regional towns in two parts. The closure of level crossings due to freight traffic, often for long periods of time, causes delays to many services including medical, emergency and school services. Alternative routes are often not available.

LGNSW calls on the NSW Government to:

- Increase the *Regional Road Block Grant* funding by \$41.5 million per annum (i.e. from \$180.7m per annum in 2016/17 to \$222.2 million per annum in 2017/18 plus indexation) to address the \$41.5 million annual life-cycle 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. Currently, the Consumer Price Index, which does not reflect construction cost movements, is used to determine annual funding increases.⁸
- Provide additional targeted funding assistance to strategically significant local road infrastructure on key freight corridors by way of programs such as the successful *Fixing Country Roads* program.
- Establish a "*Fixing Metro Roads*" program of similar scale to the *Fixing Country Roads* program (\$50 million per annum) to address urban freight pinch points and open up heavy vehicle access on metropolitan local roads.
- Provide additional targeted funding for the renewal/replacement of timber bridges on councils' local and regional roads.
- Commit to ongoing council involvement in existing RMCC arrangements on the state road network.
- Provide funding for the construction of rail overpasses to replace level crossings along rail freight routes that are experiencing significant increases in traffic.

Resources for the Regions Program

Portfolio: Industry, Skills and Regional Development and Premier and Cabinet (Infrastructure NSW).

LGNSW calls on the NSW Government to resume the allocation of a share of mining royalties to local government.

Following the 2009 election, the NSW Government established the *Resources for Regions* program as an alternative to a "Royalties for Regions" program to help meet the local infrastructure needs arising from the growth of the mining industry.

From 2012/13 to 2015/16, \$207.9 million was provided under the *Resources for Regions* to groups of eligible councils.⁹ However, there have not been any further funding allocations since 2016/17.

⁸ Annual funding increases are normally slightly below the Consumer Price Index because a small supplementary component of the *Regional Road Block Grants*, which replaces the former *3x3 Council Determined Program*, is not indexed.

⁹ In 2013/14, eight councils were eligible for assistance - Cobar, Lithgow, Mid-Western Regional, Muswellbrook, Narrabri and Singleton, Newcastle and Wollongong; in 2014/15, 11 councils were eligible for assistance - Broken Hill, Cessnock, Cobar, Lithgow, Maitland, Mid-Western Regional, Muswellbrook, Newcastle, Singleton and

LGNSW calls on the NSW Government to restore funding under this program. 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.

Local water utilities – addressing infrastructure needs

Portfolio: Industry, Skills and Regional Development (Department of Primary Industries – Water) and Premier and Cabinet (Infrastructure NSW).

LGNSW calls on the NSW Government to continue to provide infrastructure funding for council owned and operated local water utilities and commit to continued council ownership of these services.

In regional NSW outside of the area of operation of Sydney Water and Hunter Water, water supply and sewerage services are provided by councils. There are 89 council owned and operated local water utilities providing these services to around 1.8 million people, generating over \$1.2 billion in annual revenue, and holding total water supply and sewerage assets valued at around \$26 billion.¹⁰

LGNSW acknowledges that infrastructure backlog funding of more than \$1 billion has been provided to councils since 1994 by way of the *Country Towns Water Supply and Sewerage Program*. This program has come to an end in 2016/17 with the NSW Government's funding commitment capped at \$1.2 billion and funding priorities based on out-of-date assessments principally undertaken in 1996.

However, to ensure councils 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.

LGNSW therefore welcomes the establishment of the NSW Government's *Regional Water and Waste Water Backlog Program*, which is to provide further funding of \$110 over a number of years for infrastructure backlog projects that have not been allocated a subsidy under the *Country Towns Water Supply and Sewerage Program*.

LGNSW calls on the NSW Government to establish a permanent infrastructure funding program, replacing the \$45 million per annum *Country Towns Water Supply and Sewerage Program*, for councils' water and sewerage storage, headworks and treatment facilities and distribution networks with the objectives of improving both public health and water security outcomes. To inform the development of such a program, LGNSW urges the NSW Government to undertake a holistic analysis of current and future priority infrastructure needs, including funding needs associated with the introduction of microbial health based targets in the *Australian Drinking Water Guidelines 2011*.

Wollongong. In 2015/16, funding was made available for an expanded group of councils including all regional and rural councils outside of Sydney, Newcastle and Wollongong that could show they are mining affected.

¹⁰ NSW Auditor-General, *Country Towns Water Supply and Sewerage Program - Performance Audit*, (2015), page 2.

Local water utilities - addressing climate change impacts

Portfolio: Industry, Skills and Regional Development (Department of Primary Industries – Water) and Premier and Cabinet (Infrastructure NSW).

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

Climate change is 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 (DPI Water), is assisting local water utilities in assessing impacts of climate change on their water supplies and identifying supply augmentation solutions to address those impacts.

Furthermore, 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).

LGNSW acknowledges the NSW Government's *Water Security for Regions* program which was 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. LGNSW calls on the NSW Government to continue to provide funding for councils' local water utilities under this program.

Coastal and estuary management

Portfolio: Planning and Environment (Office of Environment and Heritage).

LGNSW calls on the NSW Government to increase the coastal hazard component of the *Coastal and Estuary Grants Program* from \$63.2 million to \$100 million and improve funding arrangements as follows:

- Increase the matching grant amount provided by the NSW Government to ensure projects receive sufficient funding to make them feasible.
- Ensure councils are not disadvantaged if, as a result of the coastal reform process being incomplete, they are unable to satisfy the new funding criterion of having in place a certified coastal management.
- Not only provide funding for the initial construction but contribute to the full life cycle cost of any infrastructure.
- Provide additional funding under the program for the restoration and/or modification of ageing sea walls in estuaries, particularly in the Sydney region.

LGNSW welcomes the NSW Government's announcement of \$69 million of new funding on top of the existing \$14.6 million funding for coastal and estuary management under the *Coastal and Estuary Grants Program*.

However, funding criteria that apply to the \$63.2 million set aside to reduce exposure to coastal hazards appear overly restrictive and, as a result, council projects are likely to remain unfunded and not go ahead. Issues include:

- The new funding criterion to have in place a certified coastal management plan will disadvantage councils that are unable to finalise plans under the updated but not finalised *Coastal Management Manual* and are not sufficiently advanced under the old regime (and applicable transition rules) to apply for certification.

- The current funding distribution analysis which determines the contribution of funding provided by private beneficiaries, the NSW Government and councils will result in very small funding contributions by the NSW Government. This will put many important projects at risk as councils are unlikely to be able to provide the remaining funding.
- For smaller projects (i.e. worth less than \$1 million), the funding requirement to provide matching funding (i.e. 1:1 local government and NSW Government) disadvantages small councils as a lack of resources means they cannot raise or reallocate funds to match grant funding amounts as easily as larger councils. LGNSW recommends adopting the approach of *Flood Management Grants Program* which uses a funding ratio of 1:2 local government and NSW Government funding.

LGNSW also calls on the NSW Government to not only contribute for the initial cost of construction of any infrastructure but to the full life cycle costs of that infrastructure. Broader public benefits will continue to occur over the life cycle of any coastal and estuary management infrastructure and the NSW Government should contribute accordingly.

Finally, there are also significant legacy issues of sea walls in estuaries particularly in the Sydney region. Many of these walls are reaching the end of their asset life, ownership of the walls is complex, the sea walls are often protecting valuable public open space and their deterioration can represent a risk to public safety. The *Coastal and Estuary Grants Program* does not have sufficient funds to address this issue. Further consideration is required by the NSW Government on how this issue will be addressed. LGNSW Calls on the NSW Government to provide additional funding for the restoration and/or modification of ageing sea walls in estuaries.

Energy efficient street lighting

Portfolio: Planning and Environment (Office of Environment and Heritage) and Industry, Skills and Regional Development Planning (Resources and Energy).

LGNSW calls on the NSW Government to use the proceeds from the sale of the electricity networks to establish a \$50 million energy efficient street lighting fund to help councils fund street lighting upgrades, particularly pay out high residual values of obsolete street lights. This would create a lasting benefit for NSW electricity consumers and ratepayers.

Street lighting is an essential public service which councils are legally responsible for providing to the community under the *Roads Act (NSW) 1993* and the *Local Government Act (NSW) 1993*. However, with very limited exceptions, street lighting infrastructure (i.e. luminaires, lamps etc.) is provided as a non-contestable monopoly service by the three NSW electricity distribution network providers Ausgrid, Endeavour Energy and Essential Energy. Street lighting is unlike other aspects of the electricity distributors' businesses because the utility owns the end-user's electrical appliance, the street light.

This separation of ownership and responsibility has led to a fundamental misalignment of interests with financial and non-financial costs to the community. Electricity distributors are incentivised to maximise the returns from their street lighting businesses and minimise liability exposures but little else. In contrast, councils have a much wider set of street lighting priorities for which there are no drivers on the electricity distributor to incorporate including:

- Minimising total long-term costs to the community including moving to more energy efficient and/or lower maintenance lighting infrastructure;
- Reducing greenhouse gas emissions; and
- Improving lighting quality for the community with consideration to public safety, public amenity and light pollution.

LED technology is now widely accepted as the lowest total cost lighting option. Councils' position is that LED technology can save broadly 30%-70% of the energy compared to current road lighting and do so with much lower failure rates and at a lower overall cost. There are also potential safety gains from deploying high quality white light on main roads in place of high pressure sodium lighting that current dominates in NSW.

However, current regulation and high claimed residual values of old street lighting assets represent a significant barrier to investment in energy efficient lighting. Under the regulatory framework, if an upgrade occurred, councils would be exposed to the full cost of the upgrade including the unrecovered cost of the old streetlights. Inflated values assigned to old street lights would significantly affect the residual cost to be borne by councils. This is of significant concern considering the large legacy of aged, obsolete and highly overvalued public lighting assets, particularly at Ausgrid.

LGNSW calls on the NSW Government to support councils in making the transition to energy efficient street lighting, including by providing financing and funding support for upgrading street lighting infrastructure, particularly where significant regulatory barriers such as high claimed residual values of old asset are present.

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 improving housing affordability, and addressing impacts of changes in climatic conditions.

Climate change planning

Portfolio: Planning and Environment (Office of Environment and Heritage).

LGNSW welcomes the NSW Government's Climate Change Policy Framework and the Draft Strategic Plan for the Climate Change Fund. LGNSW calls for specific programs for local government to be included in the action plans to deliver on the policy framework, including providing 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). Mapping and modelling climate hazards 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. Since 2014, LGNSW has partnered with the NSW Office of Environment and Heritage to provide 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. The Building

Resilience to Climate Change program is developing tools and providing demonstration projects that increase the capacity of the local government sector.

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 and Greater Sydney Commission

Portfolio: Planning and Environment.

The NSW Government and NSW local government 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.

With respect to the Greater Sydney Commission, LGNSW calls on the NSW Government to provide assistance and funding support to councils to enable them to undertake local strategic planning in the context of the new District Plans and other policy changes, such as the increased focus on providing for medium density housing. For councils outside the metropolitan area, LGNSW requests additional funding to support councils in their roles under the NSW Government's new Regional Plans.

LGNSW also calls on the NSW Government to provide adequate funding to continue the implementation of ePlanning at the state and local level. Councils are supportive of the rollout of this transformational initiative but additional resources will be needed to ensure efficient delivery. Councils will need to upgrade current IT systems that support and deliver the ePlanning and require targeted training and support for customer service staff to assist applicants who are not familiar with the new e-lodgement system.

Finally, LGNSW calls on the NSW Government to improve fiscal transparency of the Planning Reform Fund and ensure funds paid into the fund are exclusively used to support planning reform in or for councils, including grants to councils and funding of ePlanning.

The Planning Reform Fund was established to support local government in the implementation of land use planning reforms. It is entirely funded by fees paid by councils to the Department of Planning & Environment. LGNSW is concerned about the lack of transparency with respect to income and expenditure of the fund. This needs to be improved to ensure the fund is used for its intended purpose.

Ageing and disability

Portfolio: Family and Community Services.

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
- Guarantee access for councils to at least 50% of Liveable Communities funding in each year.

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).

Local Government Reform

Portfolio: Planning and Environment (Office of Local Government) and Premier and Cabinet. LGNSW calls on the NSW Government to make a significant budget commitment to Local Government Reform in 2017/18 and beyond.

Should they proceed, LGNSW calls on the NSW Government to commit to covering the full costs of council amalgamations via amalgamation implementation grant funding.

LGNSW also calls on the NSW Government to increase funding under the *Innovation Fund* from \$4 million to \$10 million to assist councils identified as rural councils and maintain the *Innovation Fund* as a permanent program beyond 2017/18 with recurrent funding extended until at least 2019/20. The *Innovation Fund* was a one off commitment of \$4 million for 2016/17. It is the only reform assistance measure available to support councils identified as rural councils. There is clearly a need to increase funding and extend it beyond the current financial year. This funding is required to assist these resource poor councils with the implementation of long term improvement programs that will help strengthen their financial sustainability.

Local Government Reform is not solely about amalgamations. It is about ongoing economic, functional and administrative reform of the sector. This reform is entwined in the sectors' relationships and interactions with the NSW Government and, to a lesser extent, the Australian Government.

The NSW Government needs to commit to and resource reform processes, some of which are already underway, including:

- IPART Review of the Local Government Rating System;
- IPART Review of Regulatory Burden on Local Government; and
- The Local Government Act Review.

LGNSW calls on the NSW Government to establish an ongoing Local Government Improvement Fund of \$5 million per annum to provide resources to the local government sector to implement ongoing broader reforms.

Part of the funding for the Local Government Improvement Fund should come from tax equivalent payments the NSW Treasury Corporation (TCorp) makes to the NSW Government as part of the new local government loan scheme through TCorp, and on investment products and financial advice to local government. The Local Government Reform Fund should be administered by a board consisting of, and co-chaired by, representatives from LGNSW and the relevant NSW Government agencies.

LGNSW also calls on the NSW Government to fully fund the establishment and ongoing operation of any regional statutory body under the Far West Initiative, should it proceed.

Other budget priorities

This part outlines, for consideration in the budgetary process, other relevant local government priorities.

Health protection and health promotion

Portfolio: Health.

LGNSW calls on the NSW Government to provide targeted funding to support the health protection and health promotion roles of local government, and to build councils' capacity to implement health programs that will enhance community wellbeing. Targeted funding could focus on chronic disease prevention for the socio-economically disadvantaged, improving health outcomes of Aboriginal and Torres Strait islanders, maternal and child health protection, the health of young people and healthy ageing.

Local government is recognised as playing an important role in protecting and promoting health in NSW. Councils have legislative responsibilities under a range of acts, including the *Local Government Act (NSW) 1993*, the *Public Health Act (NSW) 2010*, the *Protection of the Environment Operations Act (NSW) 1997* and the *Food Act (NSW) 2003*.

In addition to statutory activities, councils are active in a range of other health areas, including skin cancer prevention through shade provisions, prevention of asthma and lung cancers, promoting physical activity, food security and nutrition, mental health, community safety and injury prevention, and minimising drug and alcohol related harm. Subject to available resources, councils often address these issues in partnership with Local Health Districts, other government departments and non-government organisations to promote the health and well-being of their communities.

Domestic and family violence prevention and victim support

Portfolio: Health (Prevention of Domestic Violence and Sexual Assault).

LGNSW calls on the NSW Government to provide funding to councils for local domestic violence prevention and support activities under the new *NSW Domestic and Family Violence Innovation Fund*. In addition, LGNSW calls for additional funding to assist councils in maintaining existing council owned refuges for victims of domestic and family violence and establishing more such refuges in at risk communities.

Increasingly, NSW councils are implementing successful initiatives to prevent domestic and family violence in communities and providing refuges for victims. NSW councils require further support to build their capacity to undertake local prevention and support activities. The Victorian Government recognises the role of local government in preventing domestic and family violence and has been providing funding to support councils since 2011.

Multicultural communities and social cohesion

Portfolio: Family and Community Services (Multicultural NSW).

LGNSW calls on the NSW Government to provide targeted funding to support council activities that promote multicultural communities, facilitate refugee resettlement, and build social cohesion.

NSW Councils undertake a range of activities that support multicultural communities and promote social cohesion, including supporting culturally and linguistically diverse communities; refugee resettlement and newly arrived migrants; participating in and supporting Harmony Day; holding citizenship ceremonies and cultural events; and facilitating peer support and the

sharing of information, knowledge, and resources through the *Local Government Multicultural Network*. However, there is currently little support from the NSW Government to assist councils in performing these functions.

Therefore, LGNSW calls on the NSW Government to provide:

- An annual grants program of \$600,000, specifically for local government, to build the capacity of councils in their role of promoting multicultural communities, facilitating refugee resettlement, and build social cohesion; and
- Funding to support the delivery of the inaugural *Local Government Multicultural Network Conference* to be held in November 2017 that will provide opportunities for multicultural workers throughout NSW to discuss issues, share activities and best practices, and enhance partnerships.

Public libraries

Portfolio: Justice (Library Council of NSW).

LGNSW calls on the NSW Government to implement adequate funding arrangements for council libraries to ensure council libraries can fulfil their important social role in the community.

LGNSW has welcomed the increase in funding for local libraries above the current funding level of \$27.5 million per annum¹¹ by \$2.1million for the Public Library Infrastructure Grant over two year period 2016/17 to 2017/18 announced in the NSW Budget 2016/17. However, LGNSW remains concerned about the continuous decline in real terms of the NSW Government's support for council libraries. NSW Government expenditure on local government libraries has decreased as a proportion of total public library expenditure from 23.6% in 1980 to 7.6% in 2014/15.¹²

Council libraries constitute an important community facility for the wider community, often reaching beyond council boundaries. 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. Libraries are also becoming key social support facilities for socio-economically disadvantaged community members who use libraries to access government payments.

In 2014/15, 3.1 million people in NSW (or 41% of the NSW population) were library members; 43.7 million items of books and other materials were lent.¹³ Over the 12 years from 2002/03 to 2014/15 in NSW, visits to libraries have grown from 30 million to 35.3 million and the number of public access internet terminals has grown from 1,630 (2.44 per 10,000 persons) to 3,309 (4.41 per 10,000 persons).¹⁴ Between 1990 and 2014/15, local government per capita expenditure on libraries increased from \$90.9 million to \$335.6 million.¹⁵ Public libraries are thus a key resource for community wellbeing and the delivery of government services.

At the 2016 LGNSW Annual Conference, the then NSW Premier, the Hon Mike Baird MP, made a commitment to review library funding. LGNSW looks forward to working with the NSW

¹¹ Includes recurrent funding of \$23.5 million and Public Library infrastructure Grants of \$4 million (2016/17).

¹² State Library of NSW, Public Library Statistics 2014-15.

¹³ State Library of NSW, Public Library Statistics 2014-15, pages 42 and 15.

¹⁴ Australian Public Libraries, Statistical Report, 2002-2003, (2005), 2002-2003 Data & Indicators and State Library of NSW, Public Library Statistics 2014-15.

¹⁵ State Library of NSW, Public Library Statistics 2014-15,

Government to find a more adequate funding arrangement for council libraries and ensure council libraries can fulfil their important social role in the community.

In line with the Library Council's recommendation for a more adequate funding model, LGNSW calls on the NSW Government to:

- Adjust recurrent public library funding¹⁶ to councils from the current \$23.5 million to \$30 million per annum from 2017/18 and index it properly from the following year; and
- Increase from \$4 million to \$10 million per annum and make ongoing the Public Library Infrastructure Grants to enable councils to renew library buildings, systems, collections and equipment in regional, urban and growth areas on an ongoing basis.

Arts and culture funding

Portfolio: Justice (Arts).

NSW councils are vital to the delivery of arts and culture, managing over 4,000 cultural sites, delivering services and programs, and leading local cultural planning, particularly in regional NSW. Councils' investment in arts and cultural activities has been demonstrated as both significant and growing.¹⁷ The estimate of total expenditure by local government on cultural activities in NSW was \$435.7 million, indicating significant direct expenditure at a community level across metropolitan, regional and remote areas. Collaboration between local government and the NSW Government is key towards sustaining vibrant communities and creative economies.

LGNSW calls on the NSW Government to allocate appropriate funding to councils to implement its \$600 million *Cultural Infrastructure Program* under the *NSW State Infrastructure Strategy 2014*.

To date, funding of \$341 million of the *Cultural Infrastructure Program*, or more than 56% of the available funds, has been allocated to NSW Government owned assets in the Sydney CBD (\$139 million for the Walsh Bay Cultural Precinct and \$202 million for the Sydney Opera House). However, almost 70% of museums and galleries in NSW are outside of the Sydney metropolitan area and one in ten Australians resides in Western Sydney. Councils are well placed to help broaden the scope of, and co-deliver, the program including establishing cultural hubs for Western Sydney, the Illawarra, the Hunter, and in regional NSW.

LGNSW also calls on the NSW Government to establish a Local Government Arts and Cultural Development Fund of \$5 million per financial year to fund programs and projects aiming to improve arts and cultural infrastructure outside the Sydney CBD. This fund would support the objective of the *NSW Arts and Cultural Policy Framework 2015* to deliver projects around the key strategic areas of excellence, access and strength for the three key regions Sydney, Western Sydney and Regional NSW.

Finally, LGNSW calls on the NSW Government to continue to provide funding to local government under the Office of Environment and Heritage's programs *Heritage Near Me* and other heritage management programs. Councils and their communities are at the forefront of the vital task of conserving the heritage of NSW. Most of the heritage items on statutory lists in NSW are managed by councils including over 27,000 individual items listed in local

¹⁶ This does not include the current Public Library Infrastructure Grants which are part of the funding envelope from the NSW State Library.

¹⁷ Australian Bureau of Statistics, Cultural Funding by Government, 2012/13 (catalogue 4183.0).

environmental plans and thousands more within 183 conservation areas.¹⁸ Ongoing funding from the NSW Government is required to manage heritage assets in NSW.

Youth and children services

Portfolio: Family and Community Services.

NSW councils play a key role in supporting youth development and providing opportunities for young people to share ideas, voice concern over issues important to them, showcase their talents, and be part of, and contribute to, their communities.

LGNSW calls on the NSW Government to increase the overall amount of funding allocated to councils for Youth Week activities, including:

- Expand the range of funding amounts to reflect the actual spending by councils on Youth Week events; and
- Provide additional un-matched funding based on need for those councils with fewer resources or with particularly high populations of young people.

In October/November each year, councils are invited to apply to the NSW Government for a small grant to fund Youth Week activities in their area. This funding of approximately \$240,000 per annum often contributes only a small part of the costs that councils incur to hold Youth Week events. Currently, Youth Week funding is based on the number of young people in each council area, up to a cap, and funding must be matched by councils.

LGNSW also calls on the NSW Government to continue to fund youth development officers in councils in recognition of their integral role in sector development, and coordinating and bringing together local services. Currently, the Department of Family and Community Services provides funding for youth development officers under the *Community Builders Program*. However, funding allocated to community capacity and community strengthening, including for youth development, is being reviewed as part of the *Targeted Earlier Intervention* reforms. LGNSW calls on the NSW Government to ensure that overall amounts of funding youth development officers in councils are maintained at, or increased from, current levels.

Finally, LGNSW calls on the NSW Government to implement a clear and reasonable transition process for legacy funding to councils for children's services. Some councils have historically received funding from the Department of Education for children's services. This legacy funding is recurrent at each quarter of the year and thus budgeted for in councils' planning. Any review of the legacy funding needs to consider and implement a clear and reasonable transition process to enable councils to plan and budget for any future funding changes.

Waste levy

Portfolio: Planning and Environment (Office of Environment and Heritage).

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.

LGNSW welcomes the NSW Government's announcement of an extension of its *Waste Less Recycle More* (WLRM) initiative (\$337 million over 4 years from 2017/18 to 2020/21).

¹⁸ NSW Office of Environment and Heritage at www.environment.nsw.gov.au/heritage/publications/localresources.htm, accessed on 14 December 2016.

While LGNSW accepts that the waste levy envelope funds other environmental programs in addition to the WLRM initiative, the funding available under the WLRM extension comprises only about 16% of the total revenue to be collected over that same period. It is LGNSW's position that revenue from waste levy payments should be fully hypothecated for waste minimisation and management programs.

The rate of hypothecation of councils' waste levy payments for council programs has fallen further and remains at very low levels. Less than one fifth of local government's contribution through the waste levy is returned to support council waste avoidance and reduction, recycling and waste management programs.

The effective hypothecation rate over the WLRM period (2017/18 to 2020/21) is estimated to be 18% based on the following estimates/assumptions:

- Pursuant to the 2016/17 NSW budget papers, revenue collected through the waste and environment levy during the period of the WLRM extension is estimated at \$2.128 billion.¹⁹
- \$681 million, or \$170 million dollars annually, is contributed to the waste levy revenue from local government based on the estimate that the municipal waste stream²⁰ contributes to around 32% of total levy income.²¹
- Local government will have access to \$70 million in direct funding from the WLRM extension, and access to a further \$100 million in contestable grants. Assuming a 50% success rate in those contestable grant programs, this results in a 18% hypothecation rate to local government.
- A 100% success rate in the contestable programs would equate to a 25% rate of hypothecation.

The effective hypothecation rate over the previous WLRM period (\$465.7 million over the 5 years from 2012/13 to 2016/17) was estimated to be 32%.²²

Of particular concern has been the reduction in funding for regional waste groups, which stifles the ability of those groups to implement regional waste strategies and apply for regional grants under the WLRM. Grant funds cannot typically be used for project management. Therefore, funding for regional waste coordinator positions is pivotal in enabling local government to access and participate in local and regional waste minimisation projects.

Noxious weeds funding

Portfolio: Industry, Skills and Regional Development (Department of Primary Industries).

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.

¹⁹ NSW Budget 16/17, Budget Paper No. 1 – Budget Statement, table 5.4, page 5-7. The budget paper does not provide forecast revenue for 2020/21. This was estimated to be the same as revenue in 2019/20; i.e. \$ 519 million.

²⁰ 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.

²¹ KPMG, Review of the NSW Waste and Environment Levy - Final Report, (2012), table 2-3, page 16.

²² LGNSW, Submission to NSW Budget 2016-17, (2017), page 21f.

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 \$10 million per year during the first *Weeds Action Program 2010-2015*), 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 *Weeds Action Program* in undertaking weed management functions between 2010/11 and 2012/13.

Under the NSW Government's *Weeds Action Program 2015-2020 (WAP1520)*, \$10 million was committed for the 2016/17 year, comprising \$8.5 million to regional projects and \$1.5 million on state wide programs. However, there has been no commitment made as to the quantum of funding that will be provided on an annual or program basis. LGNSW calls for WAP1520 funding to be confirmed for the duration of the program, and increased from the current level to \$20 million annually.

LGNSW also calls on the Department of Primary Industries to review the formula and policy which determines how noxious weeds funding is allocated to ensure funding is allocated on a more equitable basis.

Biodiversity reforms

Portfolio: Planning and Environment (Office of Environment and Heritage).

LGNSW calls on the NSW Government to ensure that adequate funding is provided to local government for all new roles and responsibilities required of councils arising from the biodiversity reforms currently underway.

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

Digital innovation

Portfolio: Finance, Services and Innovation.

LGNSW calls on the NSW Government to establish a NSW Local Government Digital Innovation Program, including funding, to recognise and facilitate the pivotal role of local government in creating local conditions conducive to technology and knowledge-driven economic development, consistent with the Australian *Government's National Innovation and Science Agenda*.

Innovation is inherently local. It relies on creative, connected communities supported by digital infrastructure and open, supportive, flexible government. Local government plays a crucial role in facilitating innovation at the local level through infrastructure, facilities and programs that enable people to connect, learn, create and innovate and facilitate local economic development.

A dedicated NSW innovation program, that supports the Australian Government's *National Innovation and Science Agenda*, is required to build capacity of local government and their communities to create conditions necessary to accelerate local innovation.

Cost shifting

Portfolio: Premier and Cabinet.

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 health 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 2013/14 is estimated to amount to 6.96% of local government's total income before capital amounts or \$670 million. In absolute terms, cost shifting is estimated to have increased significantly from \$380 million in 2005/06 to \$670 million in 2013/14.

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 \$670 million in 2013/14 is much 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.

In its recent draft report on its review of the regulatory burden on NSW local government, the Independent Pricing and Regulatory Tribunal of NSW acknowledges that there is direct cost shifting onto local government by the NSW Government, particularly as a result of restrictions placed on councils' ability to fully recover cost associated with regulatory functions required by the NSW Government.

Pensioner rebates

Portfolio: Planning and Environment (Office of Local Government).

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 fundamentally, 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 other spheres of government who are able to spread the cost of such assistance more equitably and efficiently over a broader revenue base. The NSW Government is the only state government that does not fully fund mandatory pensioner rate rebates.

Reform of the funding of the NSW emergency services

Portfolio: Treasury and Justice (Emergency Services).

LGNSW calls on the NSW Government to abolish the Emergency Service Levy paid by councils as part of its reform of the funding of the NSW emergency services and the planned introduction of the Emergency Services Property Levy (ESPL).

While LGNSW welcomed the NSW Government's decision to reform the funding of the NSW emergency services by replacing the existing Emergency Services Levy on insurance policies with the ESPL, it is disappointing that it did not also replace the 11.7% Emergency Service Levy paid by councils.

For many years, LGNSW has been calling for the abolition of the Emergency Service Levy on both insurance companies and councils and for emergency services to be funded by a broad based property levy. The Emergency Service Levy on councils was eliminated when a broad based property levy was introduced in other states. The decision to leave the Emergency Service Levy on councils in place results in double dipping from property owners. They will now pay the ESPL but they will also continue to pay the Emergency Service Levy on councils that is embedded in their rates. This outcome lacks transparency.

LGNSW also calls on the NSW Government to:

- Make adequate budgetary provision to ensure that councils are compensated for the full costs of acting as the collection agent for the ESPL and include in the formula for ongoing collection payments by the NSW Government to councils a collection fee over and above the reimbursement of incremental cost incurred by councils in collecting the ESPL;
- Fully fund any pensioner rebates provided for the ESPL; and

- Improve transparency of financial relations and budgetary processes between the NSW Government's emergency services agencies and local government by providing detailed information in budget papers about the funding councils contribute to the budgets of the emergency services agencies.

Resourcing of the NSW Office of Local Government

Portfolio: Planning and Environment (Office of Local Government).

LGNSW calls on the NSW Government to better resource the compliance and regulatory activities of the NSW Office of Local Government.

One of the main functions of the NSW Office of Local Government is to ensure compliance with legislative and regulatory instruments and relevant guidelines. However, in recent years the Office has failed to perform this compliance and regulatory function effectively, and this has contributed significantly to bringing the whole local government sector into disrepute. Targeted funding is required to strengthen the compliance and regulatory functions of the Office of Local Government.

6. Budget transparency

Portfolio: Treasury.

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 providing detailed information in its public budget papers about 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.²³ LGNSW understands that the NSW Treasury would be able to extract this information from its financial database.

7. Conclusion

NSW faces a number of challenges, including supporting economic growth and resilience; dealing with a growing and ageing population, including improving housing affordability; 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.

²³ 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 plan for the future of NSW communities strategically.

LGNSW calls on the NSW Government to make a significant budget commitment to Local Government Reform in 2017/18 and beyond and to establish an ongoing Local Government Improvement Fund.

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.