

# **Submission on the NSW Budget for 2016/17**

February 2016

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## Summary of budget priorities

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. In addition to these challenges, Local Government in NSW is also going through a period of major reform. LGNSW calls on the NSW Government to assist councils in meeting these challenges through the following budgetary measures:

### Supporting council infrastructure

#### ***Coordination with state infrastructure delivery***

- Ensure that delivery of state infrastructure is strategic, taking account of infrastructure needs arising from a growing population and economy, and recognise financial impacts on councils often associated with large scale state infrastructure projects and large scale residential and commercial developments.

#### ***Create a new fund for direct infrastructure funding***

- 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.

#### ***Local and regional roads funding***

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

#### ***Resources for the Regions Program***

- Continue to allocate a share of mining royalties to Local Government through a system that provides funding to all councils in regional areas, with additional funding for councils impacted by the mining industry.

***Local water utilities – addressing infrastructure backlogs***

- Continue to provide infrastructure funding for council owned and operated local water utilities to ensure councils in regional NSW can continue to provide safe and secure water supply and sewerage services.

***Local water utilities - addressing climate change impacts***

- Commit to funding new water infrastructure necessary as a result of impacts of climate change.

**Building Local Government's capacity to deliver for the future*****Climate change planning***

- Provide new funding and resources to councils to help address and mitigate the significant environmental, economic and social impacts of climate change (\$3 million per annum) and support councils in funding infrastructure required as a result of changes in climatic conditions.

***Land use planning and Greater Sydney Commission***

- Provide assistance and funding support to councils to enable them to partner with the Greater Sydney Commission, particularly with respect to developing the required District Plans.
- Provide adequate funding at the state and local level to continue the development and implementation of ePlanning.
- 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.

***Ageing and disability***

- 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 including:
  - Provide continued recurrent funding of Local Government ageing and disability workers, extending it to all councils seeking such roles (\$6.5 million per annum);
  - Guarantee access for councils to at least 50% of Liveable Communities funding in each year (\$1.5 million over 3 years); and
  - Provide funding to support the development of Disability Inclusion Action Plans and associated infrastructure renewal (\$5 million per year for 5 years).

**Local Government Reform**

- Commit to covering the full costs of council mergers via merger implementation grant funding.
- Extend access to merger implementation grants and the Stronger Communities Fund to alternative council merger proposals.
- Increase funding under the Innovation Fund from \$4 million to \$10 million to assist councils identified as rural councils.
- Establish an ongoing Local Government Improvement Fund to provide resources to the Local Government sector to implement ongoing broader reforms. Commit to and resource other reform processes including IPART Review of Regulatory Burden on Local Government; IPART Review of the Local Government Rating System; and the Local Government Act Review.

## **Other budget priorities**

### ***Health protection and health promotion***

- 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 enhance community wellbeing.

### ***Public libraries***

- Adjust recurrent public library funding to councils from the current \$27.5 million to \$30 million per annum from 2016/17 and appropriately index it from the following year; and
- Increase to \$30 million per annum and make ongoing the Public Library Infrastructure Fund 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***

- Allocate appropriate funding to councils to implement the \$600 million Cultural Infrastructure Program under the NSW State Infrastructure Strategy 2014.
- 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.

### ***Waste levy***

- Fully hypothecate waste levy payments by NSW councils to support council waste avoidance and reduction, recycling and waste management programs.
- Commence planning for the continuation of the Waste Less Recycle More initiative beyond 2016/17.

### ***Noxious weeds funding***

- Increase funding for council weed management to \$20 million per year, including adequate resourcing of a weed incursion fund.

### ***Coastal management and biodiversity reforms***

- Ensure that adequate funding is provided to Local Government for all new roles and responsibilities required of councils arising from the reforms current underway in coastal management and biodiversity.

### ***Council diversity***

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

### ***Cost shifting***

- 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.

### ***Pensioner rebates***

- Maintain on a permanent basis the current level of reimbursement for mandatory pensioner rate rebates despite the cuts to the Commonwealth contribution in the 2014/15 federal budget.
- Fully reimburse councils for the provision of mandatory pensioner rate rebates.

### ***Reform of the funding of NSW emergency services***

- Abolish the emergency service levy paid by councils as part of the implementation of a property levy to fund NSW emergency services.
- If councils become the collection agent of the new emergency service property levy ensure that:
  - Councils are able to fully recover costs associated with the collection function;
  - The property levy does not form part of council rates - It must be separately and clearly identified as a NSW Government levy;
  - Council rates are given priority where a property owner does not pay the full amount of the rates and the property levy; and
  - Councils do not bear the risk of non-payment (i.e. liability will remain with the property owner).
- Fully fund any pensioner rebates provided for the emergency services property levy.

### ***NSW Rural Fire Service budget***

- Put an end to the practice by the NSW Rural Fire Service (RFS) of imposing unexpected and significant cost increases on councils and improve the RFS's budget transparency and process.

### ***Resourcing of the NSW Office of Local Government***

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

### **Budget transparency**

- 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.

## Opening

Local Government NSW (LGNSW) is the peak body for councils in NSW. LGNSW represents all 152 NSW general-purpose councils, associate members including 12 special-purpose county councils and the NSW Aboriginal Land Council. In essence LGNSW is the 'sword and shield' of the NSW Local Government sector.

LGNSW is a credible, professional organisation 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 2016/17.

## 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.

In addition, many NSW councils will be going through amalgamations and other reform processes. LGNSW calls on the NSW Government to adequately support councils in this process.

## 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 \$10 billion per year, managing non-financial assets (infrastructure and land) worth \$130 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 2012<sup>1</sup> 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 investment in local infrastructure.

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

LGNSW calls on the NSW Government to continue to support councils in building their capacity to 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 will require substantial council resources to address.

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

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

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

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

Population ageing brings challenges and opportunities. The number of people living in NSW aged 65 years and over will increase from just over 1 million people (1 in 8 people) in 2012 to 2.3 million (1 in 4 people) in 2050.<sup>2</sup>

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.

Between 2004 and 2014, the number of people in the 65 and over age group has grown rapidly across all regions in NSW. The growth in this older age group was slowest in the Far West area with 24%, which still represents a significant increase. The South East & Tablelands area experienced by far the fastest increase (46%) in its 65 and over population. The age structure in metropolitan Sydney is relatively younger than the rest of NSW. However, its 31% increase of older persons represents a gain of about 139,050 people aged 65 and over.<sup>3</sup>

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.

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<sup>2</sup> NSW Ageing Strategy 2012.

<sup>3</sup> NSW Planning and Environment, PopulationNSW, Issue, 6 September 2015; available at [www.planning.nsw.gov.au/Research-and-Demography/Demography/Information-for-Planners](http://www.planning.nsw.gov.au/Research-and-Demography/Demography/Information-for-Planners) (accessed 21/12/2015)

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

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

### **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 Environmental Trust, NSW Office of Environment and Heritage and LGNSW.

## Local Government Reform

NSW has been in the throes of Local Government reform for over four years. It has now reached a critical stage with the Minister for Local Government having proposed 35 mergers involving 75 councils.

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 NSW Local Government. It is important that the NSW Government makes a significant budget commitment to the Local Government Reform process in 2016/17 and beyond. This is not limited to a budgetary commitment to merger assistance or incentives. There is a longer term need for the NSW Government to commit resources to implement reforms in relation to the roles and functions of the NSW Government and Local Government, the processes of their interaction, and the modernisation of the NSW Local Government rating system.

## 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 Government<sup>4</sup>, a trend acknowledged by the national *Intergovernmental Agreement Establishing Principles Guiding Intergovernmental Relations on Local Government Matters*, (2006).

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

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<sup>4</sup> 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](http://www.lgnsw.org.au/policy/finance/cost-shifting-survey)).

- 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.

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 roads, water, and community infrastructure, in particular funding for the successful Country Town Water Supply and Sewerage Program, the Regional Water and Waste Water Backlog Program and the Regional Roads Block Grants and Repair Program.

### Coordination with state infrastructure delivery

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

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

### Create a new fund for direct infrastructure funding

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

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

### Local and regional roads funding

LGNSW calls on the NSW Government to improve road funding assistance to Local Government, with special emphasis on 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 14/15 budget, combined *Regional Road Block Grants* and *Repair* program funding has been increased by about 1.8% in the 15/16 budget. While this funding is welcome, increased funding is required to assist Local Government in addressing the road infrastructure

renewal backlog and provide a local road network that is effective and efficient in facilitating private and commercial travel and the movement of goods.

Councils are responsible for managing over 164,000 km (90%) of local roads in NSW, and spend over \$1.2 billion of their own funds on maintaining these roads. The life cycle cost to operate the whole NSW local road system is estimated at \$1.5 billion per year. Analysis shows that actual expenditure in 2011/12 was estimated at \$897 million leaving a life cycle funding gap of \$597 million per year.<sup>5</sup>

For regional roads and bridges partly funded by the NSW Government, the life-cycle cost is \$271 million per year. Actual expenditure (including existing block grant funding) amounts to \$182 million per annum leaving a life cycle funding gap of \$89 million per year.<sup>6</sup>

LGNSW welcomes and acknowledges the announcement last year of successful funding recipients for the first tranche of projects under the *Fixing Country Roads* program and the further commitments to a second round of funding late last year. 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.

In addition to their own local road responsibilities, 78 councils are currently involved in Road Maintenance Council Contracts (RMCCs) on behalf of Roads and Maritime Services on the state road network. The overall value of these contracts is about \$200 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.

LGNSW calls on the NSW Government to:

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

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

<sup>6</sup> Ibid.

### ***Resources for the Regions Program***

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

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 2014/15, \$184 million was provided under the *Resources for Regions* to selected councils including:

- 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 Wollongong.

In 2015/16, further funding of \$32 million is expected to be available for an expanded group of councils including all regional and rural councils outside of Sydney, Newcastle and Wollongong that can show they are mining affected.

LGNSW welcomes the broadening of and the additional funding for the *Resources for Regions* program in 2015/16. 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 backlogs***

LGNSW calls on the NSW Government to continue to provide infrastructure funding for council owned and operated local water utilities.

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 over 100 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.<sup>7</sup>

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 is to 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.

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<sup>7</sup> NSW Auditor-General, *Country Towns Water Supply and Sewerage Program – Performance Audit*, (2015), page 2.

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*.

Further, LGNSW calls on the NSW Government to establish a more permanent infrastructure funding program for councils' water and sewerage treatment facilities and distribution networks with the objectives of improving 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.

### ***Local water utilities - addressing climate change impacts***

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 welcomes the NSW Government's *Water Security for Regions* program announced in the 2014/15 NSW Budget. The program is application based and provides funding for infrastructure projects in regional areas that enhance water security including storage/dam augmentation, pipeline and bore works, and water efficiency mechanisms. LGNSW calls on the NSW Government to continue to provide funding for councils' local water utilities under this program.

### **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.

#### ***Climate change planning***

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

Councils require support and resources to prepare for climate change impacts and include adaptation strategies and risk management into their strategic service planning and asset management (e.g. flood plain mapping, water sensitive urban design, incorporation of climate change risks into all aspects of infrastructure planning and management). This includes funding and support to undertake emissions inventories and risk assessments and devise and implement mitigation and adaptation measures. In particular, councils have expressed a need

for funding to ensure infrastructure is resilient to climate change. Mapping, modelling, scenarios and data on projected socio-economic trends are critically needed to inform planning for climate change. This information is best produced at a regional or state level in order to be comprehensive and meaningful.

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

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

### ***Land use planning and Greater Sydney Commission***

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

With respect to the newly established Greater Sydney Commission, LGNSW calls on the NSW Government to provide assistance and funding support to councils to enable them to partner with the Commission, particularly with respect to developing the required District Plans.

The Greater Sydney Commission's main purpose is to deliver the NSW Government urban development strategy for metropolitan Sydney, *A Plan for Growing Sydney*, and ensure that growth plans are better integrated with the timely delivery of appropriate urban infrastructure.

Councils in metropolitan Sydney will have a key role in contributing to and delivering the work of the Commission. They will be required to provide staff and access to council facilities, or other forms of assistance considered needed by the Commission, to support its work (see *Greater Sydney Commission Bill (NSW) 2015*, part 4, clause 20). One important task in 2016 will be the preparation of the District Plans. District Plans are to be the critical planning documents providing strategic growth plans for housing and employment for each of the six districts in Sydney. Funding needs to be made available to councils to ensure councils can provide the required input and fulfil their role as key partners of the Commission.

LGNSW also calls on the NSW Government to provide adequate funding to continue the implementation of ePlanning at the state and local level.

The ePlanning Program is a transformational initiative of the Department of Planning & Environment that is strongly supported by Local Government. It is vital that adequate funding is maintained for the further development and roll out of the program by the Department. The roll out will also require councils to upgrade current IT systems that support and deliver the state led ePlanning initiative.

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***

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);
- Guarantee access for councils to at least 50% of Liveable Communities funding in each year (\$1.5 million over 3 years); and
- Provide funding to support the development of Disability Inclusion Action Plans and associated infrastructure renewal (\$5 million per year for 5 years).

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

### **Local Government Reform**

LGNSW calls on the NSW Government to make a significant budget commitment to the Local Government Reform process in 2016/17 and beyond.

LGNSW acknowledges the merger implementation grant funding being made available to councils (\$10 million for metropolitan councils and \$5 million for rural and regional councils). However, many professionals who have managed mergers in past indicate that this may not be sufficient to cover the full costs of merger implementation. LGNSW calls on the NSW Government to commit to covering the full costs of council mergers.

LGNSW also calls on the NSW Government to extend access to merger implementation grants and the Stronger Communities Fund to alternative council merger proposals. A number of councils are considering alternative merger proposals as they believe that they will deliver greater community benefit relative to the mergers currently proposed by the Minister for Local Government. Councils are currently being advised that such proposals would not have access to the merger assistance funding or the Stronger Communities Fund. Maximising community benefit should be the objective of mergers and alternative proposals that would deliver superior results should be encouraged.

LGNSW also calls on the NSW Government to increase funding under the Innovation Fund to \$10 million. The Innovation Fund of \$4 million is the only reform assistance measure available

to support councils identified as rural councils. It is clearly inadequate and needs to be increased to at least \$10 million. This funding will be 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 other reform processes, some of which are already underway including:

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

The IPART reviews in particular will lead to the NSW Government incurring implementation costs. They will involve changes in the way the NSW Government operates and this may include new roles, systems, processes and methodologies. It is impossible to assess the potential costs at this stage, but the NSW Government must maintain a budget commitment to Local Government Reform that extends well beyond the currently proposed round of mergers.

LGNSW calls on the NSW Government to establish an ongoing Local Government Improvement Fund 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) presumably 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.

### **Other budget priorities**

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

#### ***Health protection and health promotion***

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 Aboriginals 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.

### **Public libraries**

Council libraries constitute an important community facility for the wider community often reaching beyond council boundaries.

Ongoing funding provided to local libraries through the State Library had been static in recent years. In the 2014/15 budget, for the first time in years, funding increased slightly from \$26.6 million in 2013/14 to \$27.5 million. Funding remained at this level in the 2015/16 budget. Further funding of \$15 million over the four years from 2014/15 to 2017/18 is provided through the Public Library Infrastructure Fund to improve library infrastructure and information technology infrastructure.

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. Libraries are also becoming key social support facilities for socio-economically disadvantaged community members who use libraries to access government payments.

In 2012/13, 3.2 million people in NSW (or 43% of the NSW population) were library members; 46.3 million items of books and other materials were lent.<sup>8</sup> Over the 10 years from 2002/03 to 2012/13 in NSW, visits to libraries have grown from 30 million to 35 million and the number of public access internet terminals has grown from 1,630 (2.44 per 10,000 persons) to 3,068 (4.41 per 10,000 persons).<sup>9</sup> Public libraries are thus a key resource for community well being and the delivery of government services. However, NSW Government expenditure on Local Government libraries has decreased as a proportion of total public library expenditure from 23.6% in 1980 to 7.7% in 2012/13.<sup>10</sup>

Local Government is concerned about the continuous decline in real terms of NSW Government support for council libraries. This decline is a significant item in LGNSW's 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 line with the Library Council's recommendation for a more adequate funding model, LGNSW calls on the NSW Government to:

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<sup>8</sup> Australian Public Libraries, Statistical Report, 2012-2013, (2014), Table - 2012-2013 Data & Indicators and Table 7 - total items lent.

<sup>9</sup> Australian Public Libraries, Statistical Report, 2002-2003, (2005), Table - 2002-2003 Data & Indicators and Australian Public Libraries, Statistical Report, 2012-2013, (2014), Table - 2012-2013 Data & Indicators.

<sup>10</sup> State Library of NSW, Public Library Statistics 2012/13, page vii.

- Adjust recurrent public library funding to councils from the current \$27.5 million to \$30 million per annum from 2016/17 and appropriately indexed from the following year; and
- Increase to \$30 million per annum and make ongoing the Public Library Infrastructure Fund 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**

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.<sup>11</sup> 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. Councils and the NSW Government are well placed to co-deliver the program including establishing cultural hubs for Western Sydney, the Illawarra and the Hunter and creative hubs 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.

### **Waste levy**

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

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

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

- The 2014/15 NSW budget papers indicate that revenue collected through the waste and environment levy during the period that the WLRM initiative is to operate is \$2.879 billion.
- \$921 million, or \$184 million dollars annually, is contributed to the waste levy revenue from Local Government based on the estimate that the municipal waste stream<sup>12</sup> contributes to around 32% of total levy income in the period 2012/13 to 2016/17.<sup>13</sup>
- \$298.4 million is returned to Local Government over the WLRM period adding grants quarantined for Local Government of \$222.8 million and, assuming a 50% success rate,

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<sup>11</sup> Australian Bureau of Statistics, Cultural Funding by Government, 2012/13 (catalogue 4183.0).

<sup>12</sup> 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.

<sup>13</sup> KPMG, Review of the NSW Waste and Environment Levy - Final Report, (2012), table 2-3, page 16.

\$69.6 million of contestable grant programs that Local Government is eligible to apply for of \$139.1 million.

- A 100% success rate in the contestable programs would equate to a 39% rate of hypothecation.

Furthermore, funding allocations under the current WLRM initiative end in 2016/17. LGNSW calls on the NSW Government to commence planning for the continuation of the WLRM initiative and address the hypothecation issue outlined above by way of increased funding for Local Government. The WLRM initiative has provided valuable stimulus and support to the introduction of waste management infrastructure and systems in addition to the ongoing need to educate and drive behaviour change in the community.

### ***Noxious weeds funding***

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

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

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

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

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

### ***Coastal management and biodiversity reforms***

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 reforms current underway in coastal management and biodiversity.

There is potential that these reforms will place significant burdens on councils and the NSW Government is encouraged to closely consult with the sector to fully understand the scale and impact of proposed changes on Local Government operations. This should ensure funding allocated to support councils is adequate.

### ***Council diversity***

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

### ***Cost shifting***

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

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

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

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

According to LGNSW's cost shifting survey, cost shifting by the Australian and NSW Government on to NSW Local Government in the financial year 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 on 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***

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 higher levels of government who are able to spread the cost of such assistance more equitably and efficiently over a broader revenue base.

#### ***Reform of the funding of the NSW 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.

LGNSW welcomes the NSW Government's announcement to reform the funding of the NSW emergency services and replace the emergency services levy with an emergency services property levy. 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.

However, the proposed reform is not acceptable to Local Government without the abolition of the emergency service levy on councils. Furthermore, only on this basis would Local Government be agreeable to becoming the collection agent for the NSW Government of the new property based levy, provided that:

- Councils are able to fully recover costs associated with the collection function;
- The property levy would not form part of council rates - It would be separately and clearly identified as a NSW Government levy;
- Council rates are given priority where a property owner does not pay the full amount of the rates and the property levy; and
- Councils do not bear the risk of non-payment (i.e. liability will remain with the property owner).

LGNSW also calls on the NSW Government to fully fund any pensioner rebates provided for the emergency services property levy. Local Government supports the principle of pensioner

rebates but, as a welfare measure, the cost should be funded from the broader consolidated revenue pools of the NSW Government.

### ***NSW Rural Fire Service budget***

LGNSW calls on the NSW Government to put an end to the practice by the NSW Rural Fire Service (RFS) of imposing unexpected and significant cost increases on councils and to improve the RFS's budget transparency and process.

LGNSW acknowledges the importance of having a properly funded emergency services system. Local Government contributes 11.7% of the RFS budget through the emergency services levy.

However, LGNSW has serious concerns with the increases to some RFS components of the emergency services levy notified to councils recently.

The major issue is that many councils are being asked for actual contributions to the RFS that are significantly above the proposed 'probable contribution' estimates that councils agreed and budgeted for following discussion with their local RFS regions. Councils are required to budget out four years in advance. When the RFS increases its budgets drastically and unexpectedly, it is impossible for councils to plan and budget satisfactorily. Many councils have extreme difficulty absorbing these unexpected increases and have no option but to investigate where they can reduce other community services and/or programs in order to fund the RFS increases.

For example, there have been drastic increases to Local Government Volunteer and State-wide Support (VASS) contributions for 2015/16, especially in the areas of aviation support, radio communications and engineering, and other infrastructure. LGNSW has been advised of increases of 105% for aviation and 327% for radio communication categories alone, which cannot under any circumstances be considered reasonable.

Unexpected major increases of council contributions to the RFS are unsustainable and place ever increasing pressure on councils' finances. Such increases fail to recognise the ongoing squeeze on councils' rate revenue as the result of rate pegging. Rate pegging limited rate revenue increases to 2.4% in 2015/16 and 1.8% in 2016/17. This is far below the increases imposed by the RFS. The service agreement between the RFS and councils states that the RFS Commissioner is to consider councils' capacity to contribute to the fund when preparing the budget. The RFS needs to take this much more seriously.

LGNSW is also concerned about the absence of discussion or consultation with Local Government around these increases, and the overall lack of visibility and transparency about the archaic district-based RFS "budget estimate and allocation" process.

Furthermore, the RFS needs to announce councils' ESL contributions estimates much earlier in the financial year, as councils are required to finalise their budgets well before the estimates are currently released.

These recent unexpected and significant increases highlight how essential it is for Local Government to have a process where it can question/negotiate RFS charges. As previously requested as part of the consultation on the Emergency Services Legislation Amendment (Finance) Bill 2009, LGNSW calls for the inclusion of an adequate dispute resolution process to address such concerns.

### ***Resourcing of the NSW 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 inaction 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.

### **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 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.<sup>14</sup> 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.

LGNSW calls on the NSW Government to make a significant budget commitment to the Local Government Reform process in 2016/17 and beyond. This is not limited to a budgetary

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<sup>14</sup> 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](http://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.

commitment to merger assistance or incentives. There is a longer term need for the NSW Government to commit resources to implement reforms in relation to the roles and functions of the NSW Government and Local Government, the processes of their interaction, and the modernisation of the NSW Local Government rating system. To address this need, LGNSW calls on the NSW Government 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.