

Submission to the Inquiry into the integrity, efficacy and value for money of NSW Government grant programs

August 2020

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Opening

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing all NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community based system of local government in the State.

LGNSW welcomes the opportunity to provide a submission to the Public Accountability Committee Inquiry into the integrity, efficacy and value for money of NSW Government grant programs.

LGNSW welcomes any State Government funding provided to councils on a fair and equitable basis.

State and Federal grants and funds are a critical component for funding the massive amount of work councils are expected to undertake – from road construction to maintenance of community facilities and delivery of a myriad of services to support residents.

From our experience, application processes for grants and funding programs are generally thorough and transparent, which is necessary to ensure appropriate use of taxpayers' money.

LGNSW's primary concern about grant programs is the adequacy of the funding, and in some cases, the complexity of the application processes.

This submission has been reviewed and approved by the LGNSW Board.

Background

This inquiry was established on 3 July 2020. The Terms of Reference for the inquiry set out that the Public Accountability Committee inquire into and report on the integrity, efficacy and value for money of NSW Government grant programs, and in particular:

- a) the range and availability of funding programs;
- b) the manner in which grants are determined;
- c) measures necessary to ensure the integrity of grants schemes and public confidence in the allocation of public money; and
- d) any other related matter.

Submissions close 23 August 2020.

The Committee will provide its report by 31 March 2021.

Cost shifting and rate pegging

The financial sustainability of local government is a longstanding issue in NSW, where councils are squeezed at both ends by rate pegging and cost-shifting.

Cost shifting is one of the most significant problems faced by councils in NSW and our research shows it is increasing at an accelerated rate.

Cost shifting occurs when state and federal governments force councils to assume responsibility for infrastructure, services and regulatory functions without providing sufficient supporting funding.

The practice has imposed a cumulative total burden of \$6.2 billion over a 10-year period.

NSW has also experienced rate pegging for over 40 years now, and local government has strongly opposed the policy since its inception.

NSW councils work extremely hard to deliver services and infrastructure to their communities within the strict constraints of IPART's rate peg, which was originally designed to help minimise the cost of living for our communities.

However, LGNSW is strongly of the view that rate pegging is unnecessary, produces undesirable consequences and should be abolished.

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, let alone future, levels of service.

The NSW Independent Local Government Review Panel in its 2013 Final Report found there was mounting evidence that around a third of all NSW councils suffer from weak revenues and infrastructure backlogs and connected this with rate pegging.

More recently, the Productivity Commissioner acknowledged that rate pegging hinders growth and the delivery of infrastructure and services in NSW communities.

Cost shifting and rate pegging are increasingly undermining the financial stability of local government and its ability to deliver the services and infrastructure communities need, and LGNSW has long called on the NSW and Federal Governments to put an end to cost shifting and rate pegging.

While rates are the primary source of council revenue representing 45% of council revenue on average, it is estimated that Federal and State grants make up around 31% of council revenue (the actual mix varies across councils).

This demonstrates that grants are an essential funding source for local government, particularly in rural and regional areas, where revenue from rates, fees and charges is lower than in metropolitan areas. Without access to grants, councils would struggle to maintain and increase essential services and infrastructure for their communities.

Recommendation 1: NSW Government grant programs should continue in recognition that they are an essential funding source for local government to deliver vital community infrastructure and services.

Transparency and accountability

All State Government funding should be provided on a fair and equitable basis. Applications should be assessed according to merit and the needs of and intended benefits to communities of the proposed infrastructure or service, in accordance with approved and published grant guidelines and rules.

The assessment and ranking process, including decision making, should be thorough and transparent and be subject to stringent probity checks and balances.

Councils expend time and resources in good faith preparing grant applications and supporting evidence and expect that their applications will be assessed fairly and equitably.

Taxpayers demand, and deserve, the appropriate use of their tax dollars, and it's important to maintain public trust in our government, its leaders and its institutions.

LGNSW supports the fair and equitable allocation of grant funding that provides value for money infrastructure and services to communities in need, regardless of political representation.

Recommendation 2: NSW Government grant programs should be delivered in a fair, transparent and equitable manner.

Council feedback on grant programs

Federal and NSW Government grants to councils have delivered real value to communities right across NSW. These grants have enabled councils to, for example, tackle local litter, undertake coastal management, improve maritime facilities, drive regional tourism, improve food and organic waste recycling, improve and expand library services, create and upgrade children's playspaces, provide local infrastructure for growth and upgrade and maintain crown land facilities and reserves.

While grant funding is welcomed by councils, we know that some grant programs can be undersubscribed, while others are oversubscribed, and improvements could be made to ensure that funding is more accessible and better targeted according to need.

Some of the reasons for **undersubscription** include:

- **Pre-requisites for grant funding:** councils may need to have completed business cases or undertaken planning or other works to be eligible to apply for grant funding, and adequate time for these activities has not been accounted for within the grant application timeline.
- **Complexity of application processes:** councils have reported that grant application processes and eligibility criteria can be difficult to understand, and small councils don't always have the resources required to complete grant paperwork. At the 2017 LGNSW Annual Conference councils resolved to call on the State and Federal governments to provide sufficient time for grant applications, and at a minimum this period should be 6 weeks.
- **Ability to co-fund:** many grant programs require a co-contribution and some councils lack available funding to provide this co-contribution (or equivalent in-kind contribution), or require council approval which can be difficult to achieve within the application period (as councils meet only once a month). This can also create inequity between councils, as small councils cannot always contribute as much as some of the larger councils. It can also result in an imbalance between smaller and larger projects, as councils have a greater ability to co-fund smaller projects and may therefore defer larger high priority projects.

Recommendation 3: Grant programs should differentiate requirements for small, medium and large value grants, with those grants at the lower end having more streamlined processes for the application, tendering and reporting tasks.

There are also grant programs that are regularly **oversubscribed**, particularly road infrastructure programs.

According to the NRMA, NSW councils have reported more than a \$2 billion backlog in funding required to maintain roads to a safe standard, with the overwhelming majority (\$1.7 billion) falling to regional councils.

For example, the Fixing Country Roads program is often oversubscribed. Heavy vehicle access on local roads is a key issue for the freight industry. Oversubscription of programs like this are indicative of the underfunding of the local road network while also highlighting that councils are trying hard to improve access by applying for grants to fix heavy vehicle access pinch points.

Councils have welcomed the new and accelerated funding recently announced by the Federal and NSW Governments worth more than \$497 million for a range of local road and road safety upgrade projects, coming on top of the more than \$150 million delivered to NSW councils on 1 July as part of the \$500 million Federal Government's Local Roads and Community Infrastructure Program. Additional and sustained funding will continue to be required to address the existing significant road maintenance backlog.

The first two rounds of the Increasing Resilience to Climate Change program were also oversubscribed with funding requests of \$8.6 million and only \$2.25 million allocated. LGNSW predicts that Round 3 (opening shortly) will be even more oversubscribed as it has a much lower allocation of \$605,000.

LGNSW also notes that funding under the \$1 billion Safe and Secure Water Program established in 2017 has been exhausted and calls on the NSW Government to renew this program as a matter of priority.

Recommendation 4: The NSW Government should endeavour to better match the supply of grant funding with anticipated or known demand.

Other issues reported with grant programs include:

- **Accessibility and equity:** many grant programs rely on councils proactively applying for grants, and only after applications are received is any assessment undertaken according to benefit and need. This can result in larger councils, with greater resources and financial capacity, receiving a larger proportion of grant funding in comparison to smaller councils, as the larger councils have more capacity to develop and submit high quality grant applications. In identified areas, a more targeted, direct grant funding approach may be more suitable than a competitive grants program, to ensure that grant funding is directed to the areas of greatest need.
- **Metro, regional and rural categorisation for grant eligibility:** councils have previously expressed frustration at shifting grant funding categorisations (such as where a council is re-categorised from regional to metro for a grant program) that result in LGAs no longer being eligible for certain funding. At the 2017 LGNSW Annual Conference, councils resolved to call on the NSW Government to increase grant funding to create a rural, remote and isolated community grants category.
- **Reporting:** some departments apply onerous reporting requirements, and this can be problematic, particularly for councils with limited resources and often unnecessary due to low value grant amounts. While reporting is essential to ensure that grant funding has been used appropriately, there is opportunity to reduce reporting red tape and better match reporting requirements to risk.
- **Approvals:** there are sometimes delays in the grants approval and announcement processes (agency and ministerial sign off), and these delays have often put the project outside the budgetary cycle of councils and councils may no longer be able to provide the matching funds or have to divert funds from other projects. Knock-on effects include delays in council being able to deliver the project and managing community expectations. More timely assessment and approval of grant applications is needed to avoid these detrimental impacts.
- **Timeframes:** some grant programs can have insufficient lead times before applications open and unrealistic timeframes for implementation, particularly for infrastructure. Some infrastructure grants have required delivery within 2.5 years; however planning approvals and licensing can sometimes take the better part of 2 years before construction can commence. Similarly, grants for on-ground works may need to allow for periods of inactivity due to environmental factors such as breeding seasons or weather (extreme heat, drought, storms).

- **Evaluation:** it is not always clear whether government departments consistently evaluate the outcomes achieved from grant programs against the intended aims and objectives of the program. Consistent and transparent evaluation, with input from grantees such as councils, is an important mechanism to determine the relevance and relative success of grant programs, and to inform and improve future funding rounds or new programs.

Recommendation 5: NSW Government grant programs should be accessible to all councils across the State, regardless of size or resource capacity, and improvements made to timeframes, reporting, approvals and evaluation.

Economic stimulus

The compound effect of bushfires, floods, drought and the COVID-19 pandemic are having a profound impact on the economic and social wellbeing of communities throughout NSW.

Strong councils, supported by substantial funding and resources, are key to helping local communities survive and thrive. Councils - the closest level of government to communities - coordinate and deliver the goods and services needed to recover from disasters, and help drive and deliver projects that sustain their local economies, increase liveability, keep people in jobs and keep businesses in business.

LGNSW commends the NSW Government on the exceptional level of expenditure on recovery assistance and economic stimulus in response to the natural disasters and the pandemic, many of these measures in the form of grant programs.

Local government and their communities have benefitted from funding programs related to town water infrastructure, local roads, community infrastructure, food and organics waste recycling, local showgrounds, arts and culture, cycling, footpath and public/green space infrastructure and council pounds.

This funding has enabled councils to drive a locally led recovery, in partnership with the Federal and NSW Governments.

Many councils have also offered grants to local organisations, not-for-profits, community groups and businesses to support them and their communities through this difficult time, including small business grants, cultural sector resilience grants and community development and services grants.

Recommendation 6: The NSW Government should continue to deliver economic stimulus measures to enable councils to drive a locally led recovery and to build greater community resilience.

LGNSW administration of grant programs

LGNSW works with the NSW and Federal Governments to offer councils capacity building, development support and other resources across important local government functions.

Among these resources are the important grant programs we manage under agreements with government agencies. These grants programs bring resources into the reach of councils that otherwise may not be available.

Current grant programs include:

- **Greening our City**, in partnership with the Department of Planning, Industry and Environment: a \$12.5 million grant program to support councils and their partners to

enhance urban tree canopy and green cover by co-funding tree planting and demonstration projects across Greater Sydney.

- **Increasing Resilience to Climate Change**, Round 3, in partnership with the Department of Planning, Industry and Environment: a grant program to provide funding to address identified climate change risks and vulnerabilities facing NSW councils. \$605,000 is available for Round 3, with over \$2 million allocated under Rounds 1 and 2.

Past grant programs have included:

- Building Resilience to Climate Change
- Council Roadside Reserves Project
- Flying-fox Grant Program

LGNSW employs dedicated grant program managers who are responsible for administering the grants, including working with grantees, and reporting against key milestones.

Administration of grant programs is carried out in strict accordance with the Grant Program Agreements co-signed with the relevant NSW Government Department and grant guidelines and criteria.

Conclusion

LGNSW appreciates the opportunity to provide a submission to the Public Accountability Committee Inquiry into the integrity, efficacy and value for money of NSW Government grant programs.

As demonstrated throughout this submission, grants are an essential funding source for local government and grant funding has been used to deliver new and improved infrastructure and services to communities throughout NSW. In recent times, this has enabled councils to drive a locally led recovery, supporting their businesses and communities through the challenges of the bushfires, drought and the pandemic.

This submission has identified opportunities for improvements to grant programs to make them more accessible and streamlined to achieve the best outcomes and value for money. Grant funding must also be provided in a fair, transparent and equitable manner to ensure public confidence in the allocation of public money.

For further information, please contact Kelly Kwan, Executive Manager, Advocacy on kelly.kwan@lgnsw.org.au or 02 9242 4038.

Appendix 1: Recommendations summary

Recommendation 1: NSW Government grant programs should continue in recognition that they are an essential funding source for local government to deliver vital community infrastructure and services.

Recommendation 2: NSW Government grant programs should be delivered in a fair, transparent and equitable manner.

Recommendation 3: Grant programs should differentiate requirements for small, medium and large value grants, with those grants at the lower end having more streamlined processes for the application, tendering and reporting tasks.

Recommendation 4: The NSW Government should endeavour to better match the supply of grant funding with anticipated or known demand.

Recommendation 5: NSW Government grant programs should be accessible to all councils across the State, regardless of size or resource capacity, and improvements made to implementation timeframes, reporting, approvals and evaluation.

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