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Committee Secretary
House of Representatives Standing Committee on Regional
Development, Infrastructure and Transport

By Online Form

Dear Sir/Madam,

Re: Inquiry into local government sustainability

Kempsey Shire Council (KSC) welcomes the opportunity to make a submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport regarding the inquiry into local government sustainability.

Background:

Our regional local government area is around halfway between Sydney and Brisbane, with a population of approximately 31,000, 13% of our people are indigenous and our largest employment sectors are health care and social assistance.

The Macleay River traverses through the Shire, providing both an agricultural and social lifeblood but also a major and consistent flood risk.

Kempsey Shire Council (KSC) is responsible for acquiring, maintaining, renewing, and removing \$1.5 billion of assets, including infrastructure assets for:

- Transport
- Stormwater & Flood Mitigation
- Buildings
- Commercial Businesses
- Open Space and Recreation
- Water
- Sewer
- Plant and Equipment

Financial Sustainability:

Financial sustainability is a key issue for many NSW Councils regardless of their size or location (urban vs regional vs rural), with 38% of NSW Councils reporting deficits in the 2021-22 year.

The forecast deficit for our general operating fund over the next 10 years was \$80 million, which forced KSC to seek approval from the Independent Pricing and Regulatory Tribunal (IPART) to increase rates via a Special Rates Variation from 2024-25. With only partial approval granted, the Council now faces difficult decisions about reductions to infrastructure maintenance and service delivery levels to create a viable financial position.

Contributing factors to the unsustainable financial position of our Council include:

- Rising cost of materials, labour and contractors.
- Forecast loan borrowings to help fund the deficit and backlog of asset maintenance required, being impacted by rising interest rates.
- Rate Pegging – the NSW Government restricts how much Councils can typically increase rates by, and in recent years rate rises haven't kept up with inflation.
- Millions of dollars in grant funded improvements post bushfires and floods have increased ongoing depreciation and maintenance costs.
- Community expectations that Council should improve and replace assets like roads, bridges and community facilities and not just maintain current levels of service which is all that current forecasts allow.

The Integrated Planning and Reporting (IP&R) framework, as legislated by the NSW Office of Local Government since 2009 sets out a clear and achievable methodology for NSW councils of all sizes to identify the needs of the community and quantify the level of financial and human resource required to meet those needs.

It is a mandatory IP&R requirement that the Long Term Financial Plan must promote the financial sustainability of the Council through;

- Progressive elimination of operating deficits
- Establishment of a clear revenue path for all categories of rates linked to specific expenditure proposals
- Ensure any proposed increase in services and assets is within the financial means of the Council
- Ensure the adequate funding of infrastructure maintenance and renewal
- Financially responsible use of borrowing
- Fair and equitable distribution of the rate burden across all rating categories

The legislation creates the means for Councils to identify the level of income required and to engage with the community to develop an understanding of the relationship between income generation and service levels.

The current limitations on Councils to generate the income required to meet established service levels are caused by the NSW Government rate peg and the impact of cost shifting from both state and federal governments.

An examination of the NSW rate peg versus inflation rate for the last decade reveals that the rate peg has been on average far short of the cost of inflation.

Subsequently, and before considering the supply chain pressures of the post COVID-19 economy, the cost of materials, contracts and equipment to deliver adequate road maintenance, the most basic of local government service expectations, has risen by more than the allowable rate peg.

This gap, extrapolated over many years, prevents councils being able to fund essential infrastructure maintenance works to best practice frequency and standard. For regional Councils, with a smaller rate base and many more expensive transport assets like roads, bridges and public facilities under Councils' control, the impact of rate pegs not keeping up with costs has become crippling.

Another clear example of the widening gap between the rate peg and cost increases is the Local Government State Award (2023) that came into effect on 1 July 2023 that confirmed a 4.5% pay increase in year 1. In that same year the rate peg was 3.7% immediately causing pressure on Councils being able to afford adequate resources to deliver their agreed services.

Cost shifting to Local Government:

The Local Government NSW survey and report into cost shifting released in November 2023, indicated a total cost shift of \$1.36 billion to Councils in 2021-22, the equivalent of \$460 per ratepayer annually. The data indicates an alarming rate of cost shifting over the last decade.

One of the most negative areas of cost shifting for small regional councils like Kempsey is the waste levy. In 2023-24 the flat \$84 a tonne charged to regional councils for landfill equates to an estimated cost of \$1.7 million.

The burden on regional Councils to individually manage waste services is both financially crippling and environmentally ineffective. As regulatory and compliance requirements increase the specialist knowledge, resources and facilities required to deliver a cost-effective service are less viable for small councils.

Creating opportunities to partner with private sector operators and manage waste services at a collaborative regional or Joint Organisation (JO) level would improve efficiencies, enable development of more significant recycling and reuse strategies and reduce the administrative and compliance burden for small Councils. The Federal Government could support this model by increasing investment to develop regional long-term solutions to the waste issues being faced in regional and rural areas.

Federal Funding and Grants:

Funding through the Black Spot Program, Financial Assistance Grants and Roads to Recovery programs have been critical in KSC delivering on the schedule of works adopted in our Strategic Asset Management Plan.

Council was pleased with the Government announcement last November that Roads to Recovery funding would be doubled to \$1 billion over the forward Budget estimates.

Since 1996 Financial Assistance Grants have steadily declined from one percent of Commonwealth taxation revenue to just 0.51% in 2024-25. Confirmation that Financial Assistance Grants to councils will increase by \$155 million next year, in line with the legislated indexation formula, is testament to the significant industry advocacy that has been undertaken to rectify this issue.

KSC note and applaud that the 2024-25 Budget papers state that *“The Australian Government will continue to work with states in relation to the financial support of the local government sector, including advancing funding earlier than would usually occur.”*

Councils have repeatedly called for untied and non-competitive funding to be restored to at least one percent of Commonwealth taxation revenue. This reform would provide the long-term certainty that KSC need to prioritise spending on creating a resilient, productive and liveable community.

While funding support from other levels of government is essential and valued, the burden on resource poor regional councils having to apply for, report on, often seek variations and acquit grants is enormous and highly inefficient.

This burden could be reduced by distributing a greater share of funding directly to councils for meeting infrastructure costs based on review of the asset management data required in the IP&R legislation.

Infrastructure Demands:

Australian Local Government Association 2021 National State of the Assets Report highlights that 10% of local government infrastructure assets are in poor condition and need attention.

In 2023 the Grattan Institute identified local governments needed an additional \$1 billion per year to just effectively maintain their roads.

In addition to ongoing asset maintenance our Community Strategic Plan shows our residents want homes, infrastructure, and community networks that can withstand natural disasters.

Given the location of the Kempsey Shire within the Macleay Valley management of stormwater and flood mitigation assets such as levees, drains, flood gates and flaps, are of high importance to limiting the consequences of rain and flooding events on the community.

Much of the flood mitigation infrastructure was installed during the 1960's and 1970's following the major flooding events of 1949 and 1950. Maintenance and rehabilitation of this infrastructure is critical to ensuring flooding events like those experienced in 2021 and 2022, can be managed appropriately minimising the impacts on the community across the floodplain.

Our current financial projections identify \$900,000 annual spend on flood mitigation to enable maintaining the infrastructure to its current aged standard. This is a significant financial burden that is merely stabilising and not reducing the risk of natural disasters.

Workforce Management:

Securing a diverse and skilled workforce of over 300 equivalent full-time positions will require 37% of council's expenditure for 2024-25. The skills required across our workforce are hugely diverse and must enable us meet community aspirations and expectations. We also must be prepared to respond to the impact of financial constraints, technological developments, the shire's changing demographic profile, and our cultural heritage.

As a regional council the workforce challenges are complicated by multiple additional factors including the following:

- Unlike many metro councils KSC is the water authority and responsible for waste management, with both areas requiring highly specialised skills.
- Legislated requirements for additional local government positions, such as an internal auditor and Integrated Planning and Reporting Officer require disproportionate investment to attract and retain candidates.
- Major construction such as highway upgrades and government housing risks stripping local government workforce of qualified, skilled trades.
- Significant grant funded capital works post natural disasters has forced council to establish and staff a project management team as the most cost effective and reliable delivery methodology.
- The need for continued greater investment in key functions such as asset management, project management resourcing, strategic planning, risk management, community engagement, information technology and cyber security has created significant financial and workload issues.

As the level of government closest to the people, our council is responsible for delivering a wide range of services that directly benefit the liveability and productivity of the area.

We are also the most accessible level of government that the community can direct complaints and frustrations to. We are financially restricted due to the rate peg system, long

term reductions in the untied grant funding comparative to taxation revenue and the impacts of cost shifting from both state and federal government.

The people that work in regional local governments like Kempsey Shire Council, live where they work and are passionate about delivering the prosperous future the community imagines. However, financial pressures and ever-increasing demands on our workforce threaten the basic sustainability of local government and the wellbeing of our workforce.

Thank you for the opportunity to make a submission to this important inquiry.

Yours faithfully



Stephen Mitchell
Director Corporate and Commercial