

# **2021-2022 State Budget – NSW Local Government Priorities**

April 2021

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## Opening

Local Government NSW (LGNSW) is the peak body representing councils in NSW. We support, promote and advocate for our members, empowering them to build strong, liveable communities.

Collectively, NSW councils:

- Employ around 60,000 people. Many of these jobs are in rural and regional NSW, where councils are often the single largest employer and underpin the local economy.
- Spend more than \$12 billion each year.
- Manage and maintain infrastructure and land assets worth more than \$153 billion.

The unique breadth of essential infrastructure and services delivered by local government to the people of NSW makes the sector a critical partner in the economic stewardship of this State.

## Background

The Berejiklian-Barilaro Government has deftly balanced public health with economic stimulus, delivering a phenomenal turnaround in which our economy is recovering better and more quickly than expected. But in the words of Treasurer Dominic Perrottet, this is only the beginning. NSW must maintain the momentum hard won through a \$13.6 billion health and economic response to the early stages of the COVID-19 pandemic and the natural disaster response that preceded it. These measures were reinforced in the delayed 2020-21 NSW Budget in November, with additional resources provided in response to the recent floods.

Local government has been pleased to partner with the NSW Government in meeting the challenges posed by the COVID-19 pandemic and a succession of natural disasters. By channelling stimulus funding to or through councils, this partnership has been successful in maintaining employment and generating jobs growth.

But there is still a long way to go. Economic recovery, while promising, has been patchy and remains fragile. The impacts of the cessation of Job Keeper and the reduction of Job Seeker payments have yet to filter through; recent floods have set back tentative recovery in some regions, and many businesses have failed to reopen. Underemployment remains unacceptably high. The slower than expected roll out of the vaccination program means that Australia remains vulnerable to further COVID-19 outbreaks, particularly of more virulent strains.

It is vital that the NSW Budget reinforces and extends the economic stimulus measures that have helped put NSW in the vanguard of economic recovery. The Government must resist the temptation to move into budget repair mode and withdraw these programs prematurely.

## Overview of LGNSW's submission

This submission presents local government's budget funding priorities for the 2021-22 financial year and re-emphasises the need for continued State Government support to drive a locally led recovery, particularly in maintaining employment and driving jobs growth. The submission also emphasises the need to strengthen the resilience of our infrastructure, services and systems to cope with inevitable future disasters. The promise of economic recovery that we are experiencing should not be seen as an opportunity to reduce stimulus funding, but as an opportunity to refocus stimulus funding on building resilience.

The priorities align with LGNSW's member-determined advocacy priorities and have the potential to create more than 68,000 jobs in NSW: a true, locally-led recovery.

Unsurprisingly, the biggest ticket budget item for local government relates to the construction and maintenance of roads, footpaths and cycleways. Local Government is responsible for 90 percent of these vital and expensive public assets. But this category of local infrastructure is

far from the only area of investment in which State and local government can work in partnership.

Investment in water, affordable housing, tourism and waste and recycling management are all innovative ways to generate jobs, support businesses and simultaneously deliver public good. Funding for pressing social priorities in the areas of physical and mental health, drug rehabilitation, childcare and in arts and community services delivers similar benefits, while helping to prevent future remedial expenditure.

To date, NSW has led the nation in managing the economic and social impacts of consequential crises, both natural and otherwise. The 2021-22 State Budget is a prime opportunity to further cement this leadership, via collaborative and constructive partnerships between all levels of Government.

## LGNSW Budget Funding Recommendations

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Budget Funding Recommendation	Supporting Case
<b>1. Fund local roads and infrastructure</b>	
<p><b>1.1.</b> Commit to provide the necessary funding to deliver on the promised transfer of up to 15,000 km of Regional Roads</p>	<p>Although the NSW Government has commenced the process of identifying regional roads for transfer into State government ownership from various councils, it has not allocated the funding necessary to complete the transfer or for the upgrade and ongoing maintenance of these roads.</p>
<p><b>1.2.</b> Invest at least \$1 billion in road safety improvements over the next five years; to raise the standard of regional roads so that the most high-risk regional road corridors meet an AusRAP rating of at least 3 Stars.</p>	<p>The most recent data from the NSW Centre for Road Safety shows that 70% of road fatalities occur on rural and regional roads. The cost of road trauma causes untold societal harm, but also damages the economy with the cost of road trauma to the Australia economy estimated at \$30 billion annually based on 2015 figures.</p> <p>Increased expenditure on road safety infrastructure will reduce road fatalities and trauma while delivering economic stimulus and job creation across the state.</p>
<p><b>1.3.</b> Formally allocate ongoing funding for the Fixing Local Roads and Fixing Country Bridges Programs for the forthcoming financial year which are vital to improving local amenity as well as helping to address freight access pinch points.</p>	<p>Although \$250 million was allocated as part of the first round, this included an injection of \$191 million from the Federal Government. The NSW Government promised \$500 million for this program and we look forward to the government detailing when and how the remaining \$441 million will be invested over the remaining four years of the program.</p> <p>Expenditure on these programs will boost economic productivity while also delivering immediate economic stimulus and job creation across the state.</p>
<p><b>1.4.</b> Increase Road Block Grant funding by at least the historical index of 2.0%. LGNSW estimates that this should result in an estimated allocation of at least \$162 million for the 2021-2022 financial year.</p>	<p>Road Block grants remain a vital source of recurrent road funding for councils and with the backlog in road maintenance on local and regional roads estimated to be between \$2.1 billion and \$3.8 billion, increasing the Road Block allocation by a minimum of 2% is warranted.</p>
<b>2. Support community and economic recovery</b>	
<p><b>2.1.</b> Guarantee a Local Government Arts &amp; Cultural Funding program of at least \$15 million for 2021/22.</p>	<p>By investing in arts and culture through councils, communities will more quickly help provide a locally-led recovery from the economic and social impacts of the pandemic and other raft of disasters we've faced. Councils can retain and increase arts and culture staff and deploy arts and culture grants into the community through council-owned libraries, galleries, performances spaces, youth centres, museums and public spaces. Councils were not eligible for the \$50 million Rescue and Restart package for NSW arts and cultural organisations released in May last year.</p>

Budget Funding Recommendation	Supporting Case
<p><b>2.2.</b> Provide \$6.4 million per year for four years to support long-term grant funding for every council across NSW (\$50,000 per council per year) to allow for specialised services supporting youth and community wellbeing, to improve the resilience of communities to bounce back post drought, bushfire and pandemic.</p>	<p>Access to health services – including mental health services – is an ongoing matter of concern, particularly in rural and regional areas. Healthcare is a state and federal responsibility, but councils take on additional responsibilities to meet the needs of their communities. Many rural and regional areas struggle to fill vacant medical, psychological and health and wellbeing positions. Regional communities also experience higher levels of youth suicide, worsened by a lack of youth counselling services, programs and centres. Councils across NSW operate youth centres and services, but often cannot fund these for full time staff or hours of operation.</p>
<p><b>2.3.</b> Extend funding for at least 2 more years for disaster recovery mental health programs due to cease on 30 June, including the farm gate counsellor and bushfire recovery clinician programs.</p>	<p>Community recovery requires a long-term commitment to mental health and a face-to-face presence from specialists. Particularly following widespread storms and flooding in early 2021, the need for mental health assistance remains critical.</p>
<p><b>2.4.</b> \$25 million for another round of the Community Recovery and Resilience Fund for 2021/22, equitably and transparently distributed to councils affected by recent floods and storms to promote community wellbeing and support future disaster resilience.</p>	<p>Councils and communities that received funding under the Bushfire Community Recovery and Resilience Fund were able to invest in much needed community wellbeing and resilience initiatives. Following the 2021 floods and storms, dozens of LGAs across NSW are in need of continued and direct assistance to contribute to a locally-led recovery.</p>
<p><b>2.5.</b> \$30 million over three years from 2021/22 to continue the engagement of Community Recovery Officers in disaster affected councils and associated community recovery programs</p>	<p>Dedicated Community Recovery Officers in councils have contributed enormously to the recovery and resilience of communities post the severe bushfires two years ago, and LGNSW welcomed the recent 12 month extension to their terms following the recent floods. Community recovery is a long and at times slow process and requires a long term commitment from the NSW Government to ensure the vibrancy and sustainability of our disaster affected communities is ensured</p>
<p><b>3. Invest in better waste, recycling and circular economy solutions</b></p>	
<p><b>3.1.</b> Reinvest the waste levy (almost \$800 million collected annually) to:</p> <ul style="list-style-type: none"> <li>- Fund the delivery of priority infrastructure and other projects, procured by local government, that are needed to deliver the regional-scale plans, particularly where there is market failure identified in the regional plans.</li> </ul>	<p>The amount of levy collected by the NSW Government each year is increasing substantially as waste generation increases.</p> <p>State waste and resource recovery targets are not being met and the amount allocated to waste management and resource recovery by the government is reducing.</p>

Budget Funding Recommendation	Supporting Case
<p><b>3.2.</b> Increase local and state government procurement of recycled goods made with domestic content, for example by:</p> <ul style="list-style-type: none"> <li>- adopting recycled content targets to help drive demand and provide incentives to deliver on these targets</li> <li>- funding further research, development and delivery of recycling technologies and products generated from recyclables, particularly by local or regional councils.</li> </ul> <p><b>3.3.</b> Fund and deliver state-wide education campaigns on the importance of recycling to encourage the right way to recycle, the purchase of products with recycled content, as well as promote waste avoidance.</p> <p><b>3.4.</b> Work with the Federal Government to introduce producer responsibility schemes for soft plastics and other emerging problem wastes</p>	<p>According to the NSW Auditor General the government spends about one third of the revenue raised through the levy on waste and environmental programs.</p> <p>NSW councils play a lead role in their communities' waste management and recycling efforts and should be given priority in funding decisions, as well as be closely involved in helping identify worthy projects for funding.</p> <p>A greater investment in waste and recycling infrastructure will not only preserve the environment, but also boost the economy and create new jobs.</p>
<p><b>4. Emergency Services Levy (ESL)</b></p>	
<p><b>4.1.</b> Fund the increase in the ESL on councils in 2021-22.</p>	<p>The NSW Government implicitly recognised the negative impact of the ESL by providing rebates to assist councils with large increases in 2019/20 (\$14 m) and 2020/21 (\$32.8 m).</p> <p>Many councils advise the sheer enormity of levy increases will this year consume any cost-of-living rate rises ... and more. As councils slip further and further behind the financial demands placed on them, jobs are lost, particularly in rural and regional economies.</p> <p>By continuing the rebate, the NSW Government will prevent the contraction of local economies across NSW, and continue to protect the jobs that will underpin not only economic recovery, but future resilience and growth.</p>
<p><b>5. Support strong &amp; inclusive communities</b></p>	
<p><b>5.1.</b> Commit to funding new jobs to support councils as part of the Closing the Gap jurisdictional implementation plan.</p>	<p>The Commonwealth requires the State Government to work with councils to develop NSW's Closing the Gap implementation plan. To avoid placing additional pressure on</p>

Budget Funding Recommendation	Supporting Case
	council finances it is critical that councils are provided with the funds to employ new staff or expand staff roles to help deliver the initiatives under this plan.
5.2. Invest at least \$2 billion in providing 5,000 additional units of social housing right across NSW to address the homelessness and housing affordability crisis.	The impacts of drought, bushfire, COVID-19, floods and the growth on holiday rentals are exacerbating a pre-existing shortfall and adding to the numbers in need of affordable or social housing.
5.3. Increase funding for the Specialist Homelessness Services Program by at least 20% to support services to meet current demand.	Homelessness is expected to surge nine per cent this year, while housing stress is forecast to increase by 24 per cent across Australia. A NSW Government commitment to set minimum targets and fund more social housing would stimulate the NSW economy, result in jobs growth and deliver enormous social and economic dividends, while contributing to the Premier's Priority to reduce street homelessness across NSW by 50% by 2025.
5.4. Fully fund the costs of the NSW Government's free preschool program (up to \$240m per year). Funding is currently based on outdated enrolment data. In some cases enrolment has increased 50%. So, the current \$120m commitment for the calendar year 2021 needs to be doubled.	Free community preschool for 3-5 year olds introduced in the wake of the pandemic is not fully funded, requiring councils already under financial pressure to subsidise the program. Adequate funding to cover costs must be invested by the State Government if councils are to maintain these preschools with adequate staffing levels.
<b>6. Deliver secure, sustainable town water supplies</b>	
6.1. Commit \$1 billion to renew funding for the Safe and Secure Water Program	The 2017 allocation of \$1 billion to the Safe and Secure Water Program is close to being fully expended. Without significant further investment we risk leaving communities across the State vulnerable to running dry in the next big drought.
6.2. Invest at least \$1 billion to the development the next tranche of dam projects outlined in the WaterNSW 20-year Infrastructure Options and the need for upgraded water infrastructure in regional and rural communities as highlighted in the recent Draft NSW Water Strategy to help ensure water security for communities in regional and rural NSW.	LGNSW commends the NSW Government for its initial investments in an upgrade for the Wyangala and the new Dungowan Dams, but further funding must be allocated to accelerate the delivery of water infrastructure projects, including the construction of new dams and pipelines, if NSW is to ensure water security for our councils and their communities
<b>7. Improve rural and regional health services</b>	
7.1. Fast track the \$2.8 billion announced in 2019/20 for 8,300 frontline health staff, with 45% to be located in regional NSW.	

Budget Funding Recommendation	Supporting Case
<p><b>7.2.</b> \$2 million per year to establish a joint taskforce representing local, state and federal governments to formulate a model for improving access to healthcare in rural and regional areas.</p>	<p>A collaborative approach by the State and Federal Government, in consultation with local government, is necessary to address the critical shortage of medical and allied health specialists in rural and regional NSW.</p>
<p><b>7.3.</b> \$15 million over four years to establish two new drug and alcohol rehabilitation centres in regional NSW.</p>	<p>The announcement in 2020 of a new rehabilitation centre in Dubbo is welcome, yet much of regional and rural NSW remains too distant from this essential community infrastructure. The establishment of new centres will help return more people to the workforce and relieve labour shortages while boosting employment in these regions during construction and operation.</p>
<p><b>8. Reallocate unspent Job Retention Allowance (JRA) funding to councils for locally led recovery.</b></p>	
<p><b>8.1.</b> Commit the unutilised proportion of the JRA funding allocation (approximately \$110 million) to support councils in need.</p>	<p>The \$112.5 million JRA was a major component of the NSW Government's \$395m economic stimulus program for local government – but less than \$500,000 has been allocated.</p> <p>LGNSW requests that the remaining unutilised JRA funds should be re-allocated to support councils to deliver the vital infrastructure and services their communities need.</p>

## Skills shortages

In order to support the delivery of economic stimulus measures and jobs growth, there is an urgent need to also address skills shortages across NSW. With 80% of NSW councils experiencing skills shortages in fields such as engineering, asset management, planning, building surveying, IT and project management, and these shortages also felt by other employers, **financial incentives for graduates and skilled staff** to work in regional areas would help to deliver a pipeline of talent, generate employment for young people and alleviate skills shortages.

Reductions in funding to TAFE NSW and the VET system have reduced access to training in regional areas and in specialist qualifications that are low in numbers but critical to job roles in local government and other industries. For example, significant public health risks exist if training in the water industry is not adequately resourced.

LGNSW urges the NSW Government to **increase funding to TAFE and the VET system** to support the employment of additional trainers, develop quality training products and reduce the cost of course participation in areas of skill need.

## Other budget funding recommendations

- **Joint Organisations:** Commit to recurrent funding of at least \$300,000 per year, per joint organisation for the next 3 years to support JOs. Ongoing funding needs should then be reviewed.
  - JOs need adequate support if they are to expand and strengthen regional collaboration. Funding needs to be commensurate with the roles and responsibilities assigned to them.
- **Cladding remediation:** Commit \$600 million to fund a program to fix the cladding on private residential buildings, including financial support for individual unit owners, funding to assist councils assess and issue remediation orders and for additional engineering, building and fire safety specialists.
  - Support and funding are needed to help reduce the significant financial stress and risk posed by non-compliant combustible cladding installed on public and privately owned buildings, with some individual unit owners being required to pay as much as \$15,000 to \$25,000 each for their share towards the remediation.
  - The Victorian State government is spending \$600 million to fix the cladding on private apartments and the ACT government has committed millions of dollars to help eligible private buildings over the next three years as well as millions for specialist engineering and building certifiers over the next 4 years.
- **Local government elections:** Commit to funding any increase in the cost of local government elections in excess of the rate peg imposed on councils.
  - The costs of holding the next local government elections in NSW are set to significantly increase. Councils across NSW are already hard hit by drought, fire, COVID-19 and flood are under enormous financial pressure. The election cost increases are a significant new form of cost shifting, right at the time when councils and their communities can afford it least.
  - IPART's decision to include a 0.2% component in the rate peg for 2021/22 to help fund the soaring costs of the 2021 local government elections and the NSW Government's decision to cover the cost of holding COVID-safe elections is welcome. However, this will only go part of the way towards funding increased election costs.

## Financial sustainability

The pre-eminent challenge facing NSW local government is financial sustainability. Therefore, LGNSW's highest tax reform priorities on behalf of the sector are:

- the removal of rate pegging; and
- in the context of property tax, the replacement of the Emergency Services Levy (ESL) on both councils and insurance policies with a broad-based property levy (or tax).

While the Independent Pricing and Regulatory Tribunal (IPART) was commissioned to undertake a Review of the NSW Local Government Rating System in 2015, the terms of reference specifically excluded rate pegging – a major omission given that rate pegging is a key element of the NSW rating system and a major obstacle to the financial sustainability of councils.

### End Rate Pegging

LGNSW calls for the removal of rate pegging.

NSW has experienced rate pegging for over 40 years now, having been introduced in 1976/77. Local government has strongly opposed the policy since its inception. LGNSW firmly maintains that rate pegging is unnecessary, results in unintended harmful consequences and should be abolished. Rate pegging in NSW is undermining the financial sustainability of councils and has resulted in:

- Under-provision of community infrastructure and services; and
- The deferral of infrastructure maintenance and renewal expenditure resulting in massive infrastructure backlog.

The case for the removal of rate pegging is strong.

The NSW Productivity Commission Review of Infrastructure Contributions has also recommended reform of rate pegging. The final report includes the key finding that local government is constrained in its ability to service growing communities due to the long-standing practice of rate pegging. Currently, the formula does not allow councils to increase their rates revenue with population. This has resulted in declining per capita revenue for high growth councils and is a disincentive for councils to accept development. LGNSW notes that the NSW Government has announced its intention to implement the Productivity Commission's recommendation to amend the rate peg to allow councils' general income to increase with population.

The NSW Productivity Commission also confirmed that NSW has the lowest per capita rates as the result of rate pegging and estimated that NSW rates are around 30% below the national average with NSW councils having foregone \$15 billion over the past 20 years when compared to Victorian councils. This has inarguably had a negative impact on the provision of local infrastructure and services and local job creation in NSW and continues to undermine the financial sustainability of NSW councils.

Business and professional advocacy groups have added their voices to LGNSW's call to abolish rate pegging as part of NSW's post-pandemic recovery plan. The Committee for Sydney and the Sydney and Western Sydney Business chambers say rate pegging should be removed so struggling councils can maintain staff levels, provide essential services and invest in infrastructure.

LGNSW cautiously welcomes the Government's recent commitment to modify rate pegging to allow rates to increase with population growth but strongly opposes making this conditional on reduced infrastructure contributions.

## **Replace the Emergency Services Levy (ESL)**

LGNSW calls for the introduction of a broad-based property levy to replace both the Emergency Services Levy on insurance policies and the 11.7% Emergency Services Levy on local government. As an interim measure, LGNSW is continuing to advocate for legislative amendments that would decouple the ESL from general income and the rate peg and enable councils to fully recover the costs of the ESL through an annual charge shown separately on rates notices.

Councils are struggling with the ever-increasing cost of the ESL. High annual increases over the past decade and large increases in 2019-20 and 2020/21 are eroding council budgets to the extent that they are severely impacting on the ability of many councils to maintain spending on infrastructure and services.

The ESL on local councils is inequitable as it does not apply consistently or equitably across all councils. While the levy is now collected centrally through Revenue NSW, each of the services have different budgetary structures and cost allocation mechanisms. There are different regional structures and allocations are variously based on land valuation and/or population. This complex budgetary process is largely incomprehensible to councils and the general public. Apart from the obvious lack of transparency in the budgetary process, one of the consequences is that the cost burden occurs disproportionately across councils and therefore ratepayers. The cost burden on councils is greatest on rural and regional councils with small rate bases and a relatively large RFS component.

For example, the 2.6% rate peg will provide an additional \$120,000 in revenue to one rural council in 2020/21 but \$81,000 or 67.5% of the increase will be consumed by the increase in ESL. Leaving little to offset increases in other expenses. This is a common result, particularly among rural and regional councils with small rate bases and high RFS costs.

This situation is not financially sustainable for councils. The ongoing erosion of the revenue base of councils cannot be allowed to continue. Many councils have already been pushed into deficit by the ESL. Several will find themselves in serious financial difficulty if the current funding arrangements continue.

The State Government implicitly recognised the impact of the ESL by providing rebates to assist councils with large increases in 2019/20 (\$14 million) and 2020/21 (\$32.8 million); however, we have been advised that these one-off rebates will not be continued. It should be noted that the increases in those years will form part of the cost base for future years which will have to be fully met by councils.

## **Conclusion**

LGNSW commends the NSW Government on the health and economic responses to the successive and compounding impacts of drought, bushfire, flood and the devastating COVID-19 pandemic to date. Local government is also to be commended, with councils being on the frontline in response and recovery at the local level, acting in partnership with the NSW Government in locally led recovery. This partnership, involving the channelling of stimulus funding to or through councils, has been successful in maintaining and generating jobs growth.

LGNSW warns against winding down stimulus programs in response to than better than expected indicators of economic recovery. The recovery remains tentative and fragile. It is vital that the NSW Budget reinforces and extends the economic stimulus measures that have helped put NSW in the vanguard of economic recovery. The Government must resist the temptation to move into budget repair mode and withdraw these programs prematurely. To do so would put job recovery and growth at risk.

If anything, unanticipated recovery provides the opportunity to focus on investment in building the resilience of our infrastructure, services, and systems to better cope with inevitable future disasters. This will generate employment in the construction stage but also reduce risks and encourage private investment, creating more jobs into the future.

LGNSW seeks to strengthen the partnership between local government and the State Government in driving the recovery in NSW and building resilience against future natural disasters and pandemics. Local government is well positioned to play a major role in locally led recovery in the numerous local economies that collectively make up the NSW economy. As already recognised by the Australian and NSW Governments, local government provides an effective conduit for delivering assistance and economic stimulus to support local business and employment.

Beyond the responses to the current crisis, LGNSW also seeks to be closely engaged in longer term economic reforms to promote investment and growth in the NSW economy. This includes engagement in the current tax and fiscal relationships reform conversation. A comprehensive review of the State taxation must include all taxes, including those imposed by or impacting on local government. This includes the local government rating system and the emergency services levy on local government.

For further information in relation to this submission, please contact Shaun McBride, Chief Economist and 9242 4072 or email: [shaun.mcbride@lgnsw.org.au](mailto:shaun.mcbride@lgnsw.org.au).