LOCAL GOVERNMENT NSW

Pre-Budget Submission

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Introduction

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

While the NSW Budget has been delayed until November, by necessity the NSW Government is continuing to make important budgetary decisions and is advancing a tax reform agenda.

LGNSW considers it important that local government is constructively engaged in the fiscal conversation that will inform budgetary decisions and the policy framework. Local government is a major part of the NSW economy being responsible for the provision of a wide range of essential infrastructure and services. NSW local government is responsible for:

- Spending over $12 billion each year
- Managing and maintaining infrastructure and land assets worth more than $153 billion
- Employing around 60,000 people, with many of these jobs in rural and regional NSW, where councils are often the single largest employer and underpin the local economy.

Local government is a partner in the economic stewardship of NSW.

Economic Context

LGNSW is acutely aware of the dire economic circumstances in which the 2020/21 NSW State Budget is being framed and the complexities presented by the precarious economic outlook. Local, State and the Australian economies are struggling with the compounding impacts of unprecedented drought, bushfires, floods and the COVID-19 pandemic. As the sphere of government closest to the community local government is at the coalface.

Prior to the COVID-19 outbreak, the NSW economy was broadly on track to grow by 1¾% over 2019-20 and was expected to see a return to trend growth of 2.5% in 2021-22. The shocks to the economy from bushfires, then the COVID-19 outbreak, means the situation has shifted dramatically[1]. The shut-down of many non-essential services in NSW has meant that many businesses and households have seen significant reductions in their incomes, resulting in reduced cashflow to support daily necessities and fixed outgoings. It has also resulted in large increases in unemployment and underemployment with real unemployment rates estimated to be more than double the official rate of around 7.4%.

We note from the Treasurer's June economic and fiscal update that the State's economy is forecast to contract by as much as 10% in the second half of the 2019-20 financial year and that the flow on effect on key revenue streams is expected to result in around $20 billion of lost revenue over the five years to 2023-24.

All spheres of government are facing dramatic increases in expenditure in response to the cumulative crises and the loss of taxation and other revenues as a direct result of the economic circumstances. All spheres of government have seen the elimination of budget surpluses and/or growth in deficits. All have taken on debt. Local government has not been immune. Councils are struggling to maintain revenue as rate defaults and deferrals increase and fees and charges revenue declines as the result of both lower economic activity and the costs of providing financial assistance as part of local responses (e.g. waiving fees and charges, rate and rent deferrals).

As the COVID-19 pandemic continues to unfold, it is difficult to predict the likely timing and trajectory for recovery. If active cases start to see steady declines, economic modelling suggests

[1] abs.gov.au/ausstats/abs@.nsf/Latestproducts/5206.0Main%20Features1Mar%202020?opendocument&tabname=Summary&prodno=5206.0&issue=Mar%202020&num=&view=

that recovery could come soon after – implying stronger than expected growth in 2021. However, this more optimistic outlook has been thrown into doubt by the COVID-19 outbreak in Victoria sending that state back into lock down and fears that this will set off a second wave in NSW.

Given the economic circumstances, this submission focuses on the ongoing need for investment in recovery, stimulus and strengthening resilience. LGNSW commends the NSW and Australian Governments on the exceptional level of expenditure on recovery assistance and economic stimulus in response to the natural disasters and the pandemic. Specifically, the NSW Government's $13.6 billion health and economic response to COVID-19 with $3 billion in direct stimulus for schools, hospitals and roads across the state taking the total infrastructure pipeline to more than $100 billion. LGNSW appreciates that a significant proportion of the road funding will be channelled through local government, ensuring stimulus is distributed widely across the state. We also acknowledge the $395 million Local Government Economic Stimulus package. As has already been demonstrated, local government is well placed to partner with the NSW and Australian Governments in the locally led recovery.

Unfortunately, the dire economic outlook indicates that current stimulus and support measures will need to be maintained and increased in the forthcoming budget. At this point, it also looks like they will need to be carried forward into 2021-22 and beyond.

LGNSW also takes this opportunity to put forward some views on tax reform and calls on the Government to broaden the discussion to include taxation policy relating to local government.

Stimulus Funding

Roads

We commend the NSW Government on its recent announcements related to funding for roads and road related infrastructure. Given the road maintenance backlog in NSW, which is currently estimated to be between $2.2 billion[2] and $3.8 billion[3], there has been a very strong need for urgent investment to bring our local, regional, and state road networks up to the required current standards. This is necessary for both general amenity and community connectivity through to improving road safety outcomes while also ensuring that freight operators have the infrastructure needed to keep the economy moving and support economic growth. First and last mile pinch points, for instance, necessitate access making decisions on the local road network that creates financial and administrative burdens for councils and in turn puts a handbrake on productivity.

LGNSW has strongly advocated for the NSW Government to provide the funding needed to bring roads across NSW up to standard and the COVID-19 pandemic has provided the imperative for the Government to provide economic stimulus for locally led economic recovery. It is pleasing to see the Government respond to this advocacy through a combination of previously committed funding, new funding and accelerated road funding totalling in excess of $500 million over the next 12 to 36 months. This is to be delivered by councils and government through programs including Fixing Local Roads, Fixing Country Bridges and the Safer Roads Program. We note that the Fixing Local Roads and Fixing Country Bridges programs are five-year or longer programs with a promised NSW Government funding commitment of $500 million per program. The Fixing Local Roads program was also recently supplemented by the Australian Government, which added an additional $191 million in funds to help accelerate the delivery of shovel-ready projects[4]. This funding is vital when we consider the estimated road infrastructure backlog in NSW.

[2] mynrma.com.au/-/media/documents/advocacy/funding-local-roads.pdf (pp.1-2)
[3] smh.com.au/national/nsw/state-warned-almost-certain-risk-of-election-commitment-shortfall-20200609-p550ws.html
[4] investment.infrastructure.gov.au/infrastructure_investment/infrastructure_investment_response_covid-19/shovel_ready_projects.aspx

It is very important that the NSW Government continues to fund these programs beyond the immediate crisis and previously promised funding commitments. Recovery from the combined impacts of drought, bushfire and the COVID-19 pandemic will take years and further stimulus will be required.

This includes formally allocating the funding necessary to deliver the Regional Road Transfer of up to 15,000km. If councils are to be able to continue to invest in the local road network and raise it to the standards expected by the community and industry, ongoing investment in road and road related infrastructure will be vital to securing jobs across the state, but also the well-being and prosperity of the economy as we emerge from the COVID-19 induced recession.

Recommendations 1 – Roads
The NSW Government should:

- Follow through on its 2019 pre-election commitment of $500 million in total state allocated funding for each of the Fixing Local Roads and Fixing Country Bridges program.
- Commit to further supplementing these programs with additional funding in response to the COVID-19 induced recession to stimulate a locally led economic recovery over the coming years.
- Use this opportunity to address first and last mile freight bottlenecks and freight access issues at the farmgate and improve road safety outcomes, particularly on regional roads which currently comprise 70 percent of the state's annual road fatalities.
- Commit to formally allocating the necessary funding to deliver the promised Regional Roads Transfer which also promises to improve road safety outcomes and freight access.

Water

LGNSW commends the NSW Government on its Emergency Water Infrastructure Projects fund which totalled some $87.8 million for 30 urgent water infrastructure projects for drought affected communities. We also commend the NSW Government and the Australian Government for their joint commitment of around $1.1 billion for the planning and delivery of three new or augmented dams in NSW. This includes the replacement of the existing Dungowan Dam near Tamworth and the raising of the dam wall at Wyangala. Water projects of this nature not only help to ensure that NSW is more resilient to drought, but also provide much needed economic stimulus. For example, the much-needed Wentworth to Broken Hill water pipeline created over 150 local jobs, reaching a peak of 500 jobs while Wentworth and Broken Hill-based businesses contributed $50 million in goods and services to the project.

While there have been some very positive developments in this space, LGNSW remains aware that the enduring drought continues to cast a shadow over the NSW economy and is causing ongoing hardship to farms, businesses and communities. Towns and regional cities that previously thought that their water supplies were secure have found that this devastating drought has proven otherwise. Some communities in NSW have had to rely on having their water supplies trucked in or temporary infrastructure deployed to help ensure water is delivered where it is urgently needed. Recent rainfalls have helped ease the situation somewhat, but they have only had a limited impact on regional and rural dam levels so far.

Even if drought-breaking rains were to occur, it would take years for the State to recover and recoup the costs of the drought. It is also set against the backdrop of climate change and expectations that severe droughts will be more frequent in future.

Clearly, current water infrastructure is no longer fit for purpose and attempting to retain the status quo is unsustainable. It calls for serious action and significant government investment needs to be injected in order to make our communities more resilient to drought. As the arm of government most closely connected to local communities, councils are playing a critical role in supporting and sustaining communities during the prolonged drought and are the key partner with the NSW Government in delivering assistance. In particular, the $1 billion Safe and Secure Water Program established in 2017 has been an effective initiative; however, funding under the existing program is exhausted.

LGNSW calls on the NSW Government to renew this program as a matter of priority in the coming budget. We also call on the government to accelerate the delivery of water infrastructure projects including the construction of new dams to align with contemporary rainfall patterns. This is needed to ensure the delivery of similar levels of water security enjoyed in metropolitan areas to communities throughout regional and rural areas as well. Both state and federal governments have a community service obligation (CSO) to subsidise water and sewerage infrastructure services in these areas and the upcoming budget is an opportunity to signal to these communities who have faced unprecedented challenges in recent times that water security is a major priority for this government. Our communities need to be better equipped if they are to be more resilient in the future.

Recommendations 2 – Water
The NSW Government should:

- Renew the funding for the Safe and Secure Water Program as this has been effective in helping to mitigate against the worst impacts of the ongoing drought in NSW.
- Accelerate the delivery of water infrastructure projects including the construction of new dams to align with current rainfall pattern as a means of providing short and medium-term stimulus while building resilience.
- Meet its community service obligation (CSO) to subsidise water and sewerage infrastructure to regional and rural communities so they enjoy similar access to adequate services enjoyed by those in metropolitan communities.

Affordable Housing

LGNSW recognises the urgent need for more social and affordable housing in all regions of NSW to provide security and a social safety net for those who otherwise may be at risk of homelessness owing to long waitlists for public housing. The economic impacts of drought, bushfire and COVID-19 are adding to the numbers in need of affordable or social housing, exacerbating the pre-existing shortfall.

A commitment by the NSW Government to set minimum targets and fund more social housing would stimulate the NSW economy and deliver enormous social and economic dividends, while contributing to the Premier’s Priority to reduce street homelessness across NSW by 50% by 2025.

In addition to increasing direct funding of more social housing, attention should be directed at the tax and transfer system to understand its effects on investment in social and affordable housing and to consider how it could better support housing affordability in general by making housing markets fairer and more efficient.

Recommendations 3 – Affordable Housing
The NSW Government should:

- Consider proposals to deliver more social and affordable housing across all parts of NSW, to stimulate local economies and address a much-needed shortage on the housing continuum between homelessness and the private market.
- Introduce minimum targets of 5-10% social and affordable housing across NSW and 25% for government-owned land under the NSW Housing Strategy.
- Commit to a review of tax and transfer systems to understand how housing affordability is affected by taxation and limited government investment in social/affordable housing, and consider incentivising institutional investment.

Community Infrastructure

Community infrastructure is essential to meeting the needs of communities, promoting social cohesion and enhancing overall quality of life. Community infrastructure is particularly important for meeting the needs of rapid population growth and movement and ensuring that all residents, wherever they live in NSW, have access to facilities and services essential to quality of life. Councils create healthy and thriving communities by delivering local facilities such as libraries, community and neighbourhood centres and halls, youth and early childhood education and care facilities, sporting facilities, swimming pools, green space and cycling and pedestrian infrastructure.

Community infrastructure also has a critical role in providing evacuation centres, promoting post-disaster recovery and in building resilient communities. New infrastructure should be built to better and more resilient standards, reducing the risk of future damage and bolstering community confidence to encourage residents to remain and rebuild in disaster affected areas.

LGNSW acknowledges the considerable amount of funding being channelled into road infrastructure as a means of providing economic stimulus. We also welcome the $500 million Local Road and Community Infrastructure Program which provides stimulus funding for both roads and other community infrastructure. It is important that local community infrastructure is not overlooked as a source of shovel ready economic stimulus projects that will contribute to building community resilience.

Recommendation 4 – Community Infrastructure
The NSW Government should bring forward funding under existing programs and provide new funding to councils to deliver community infrastructure to stimulate local economies through employment and promote social cohesion and community recovery post disaster and pandemic.

Health including Mental Health

Following years of drought, the impact of the catastrophic bushfires over 2019/20 and now the effects of the COVID-19 pandemic, there is a need for urgent action to ensure ongoing access to physical and mental health services and supports.

Access to health services – including mental health services – is an ongoing matter of concern, particularly in rural and regional areas. Although healthcare is a state and federal responsibility, councils often take on additional responsibilities to meet the needs of their communities. Even outside of emergency and recovery situations, 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. The need for these is higher than ever as communities recover from drought, bushfire and pandemic.

The NSW Government's commitments so far are welcome, including $73 million for increased mental health services across the state, including to employ 180 new mental health clinicians across the State and bolstering of capacity for the 1800 NSW Mental Health Line.

LGNSW also welcomed the NSW Government's 2019 announcement that it would develop a Regional Youth Strategy. Once developed, this strategy must be supported with funding and resources, particularly for youth mental health. Dedicated funding support will contribute to the Premier's Priorities, aiming to achieve a 20% reduction in suicide by 2023.

Disaster, drought and pandemic recovery will take years and requires an ongoing commitment from the NSW Government to restore social wellbeing, protect the most vulnerable members of our society and build resilient communities better able to withstand future shocks. While initial commitments are positive, the NSW Government must ensure increased support remains for communities in need in the longer term.

Recommendations 5 – Health and Mental Health
The NSW Government should:

- Work with the Federal Government and in consultation with local government to provide funding support to help address the critical shortage of medical and allied health specialists in rural and regional NSW.
- Provide improved long-term funding for specialised services supporting youth and community wellbeing to improve resilience of communities to bounce back post drought, bushfire and pandemic.

Community and Environmental Resilience

The drought and the devastating bushfire season clearly demonstrated the potential of climate change to take lives, destroy homes, damage community assets, cause serious disruptions to the delivery of services, generate unbudgeted financial impacts and damage the wellbeing of the community.

The 2019/20 bushfire season was unprecedented; however, it was not an unknown risk. The NSW Government's NSW and ACT Regional Climate Modelling Project (NARCliM) climate projections indicate an increase in average and severe fire weather to occur mainly in summer and spring. Investment in climate change adaptation is an investment in reducing risk and damage to public and private assets and building community resilience to the shocks presented by drought, fire, floods and storms.

Funding provided to date through the Increasing Resilience to Climate Change programs has been welcomed, however these programs are consistently over-subscribed and there is much more that can be done.

There is ample opportunity to provide stimulus through the funding of capital works to build local infrastructure that will make communities more resilient. This includes flood levies, sea walls and other mitigation works to build resilience.

Similarly, there are opportunities to stimulate both economic and environmental recovery by funding regional, on-ground conservation and land management programs such as those proposed by the Pew Charitable Trusts.

Recommendation 6 – Community and Environmental Resilience
The NSW Government provide continued funding for councils to undertake environmental recovery activities and build resilience to current and future climate risks.

Waste & Recycling

NSW is generating an increasing amount of waste, while recycling and waste diversion rates are stagnating. Following on from the effects of China's National Sword policy, the Federal Government has announced a series of waste export bans starting from January 2021 that are intended to drive domestic recycling and manufacture of value-added products.

At the same time, councils across NSW are facing ever-increasing costs to recycle materials collected at kerbside in the absence of significant NSW investment in reprocessing and remanufacturing facilities. If NSW is to transition to a circular economy, greater investment is needed to divert waste from landfill, recover valuable resources and buy Australian recycled content. Investing in recycling and a transition to a circular economy creates much-needed jobs, improves environmental outcomes and our resilience to global market shocks and changes.

The NSW Government collects about $800 million annually through its waste levy, but currently reinvests only about 18 per cent into recycling and waste management. LGNSW has been calling on the NSW Government on behalf of councils to reinvest the waste levy back into a solution to the growing waste management crisis.

Investment in recycling provides the opportunity to provide immediate economic stimulus but also help create new businesses across NSW and long-term employment opportunities into the future as we transition to a circular economy.

Experience from recent bushfires is that fire damaged debris has the potential to overwhelm waste and recycling infrastructure. Lessons learnt from this are that detailed fully funded regionally based bushfire waste management plans are required in order to be better prepared in future. The government funded clean-up of properties that were destroyed by bushfires since 1 July 2019 is an example of a successful approach to this problem and should be the model response adopted by government for future disaster events.

Recommendations 7 – Waste & Recycling
The NSW Government should:

- Fund councils to develop regional plans for the future of waste and resource recovery in their regions and stimulate the development of new businesses
- Fund the delivery of priority infrastructure and other projects, procured by local government, that are needed to deliver the regional-scale plans, particularly where a market failure has been identified.
- Increase local and state government procurement of recycled goods made with domestic content, for example by:
    - adopting recycled content targets to help drive demand and provide incentives to deliver on these targets.
    - funding further research, development and delivery of recycling technologies and products generated from recyclables, particularly by local or regional councils.
- Fund and deliver a state-wide education campaign on the importance of recycling to encourage the right way to recycle, the purchase of products with recycled content, and promoting waste avoidance.
- Fully fund and resource programs to identify and remove asbestos and other property hazards in bush fire prone areas and regionally based bushfire waste management plans.

Business Support and Stimulus

Councils are calling for increased levels of assistance to support the recovery of existing business and stimulus funding to help attract new business investment. These measures could include revitalisation of Mainstreet and CBD programs, small business growth initiatives, low interest loans and other measures to help investors meet upfront capital costs for residential and industrial development. Councils across NSW are well placed to assist in delivery of such programs to support locally led recovery.

Recommendation 8 – Business Support and Stimulus
LGNSW calls on the NSW Government to extend and increase funding for local business stimulus.

Tax Reform

LGNSW commends the NSW Government for elevating tax reform on the economic agenda and commissioning a Review of Federal Financial Relations (the Review). However, we are disappointed that the announced agenda and the draft report of the Review, ignore taxation reforms relating to local government. Local government is part of the taxation system of the State through its reliance on rates, a form of land tax, as its primary source of revenue. Local government is also impacted by the taxation and fiscal policies of the NSW and Australian Governments. The latter includes rate pegging, the system of rate exemptions, land valuation methodology and the Emergency Services Levy (ESL) on local government.

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. IPART delivered its final report to the State Government in late 2016. The Government released the final report and a further consultation paper in 2019 and released its final response in 2020. LGNSW welcomed the Government's support of several IPART recommendations to provide greater rating flexibility through additional categorisation options and catch up provisions. However, the Government's response indefinitely deferred consideration of key recommendations involving rate exemptions and the introduction of Capital Improved Valuations (CIV) methodology.

LGNSW strongly recommends that the NSW Government continue to consider reforms to the rating system in line with IPART's recommendations. Rating system reform should form part of the overall tax reform agenda.

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.

Average NSW council rates are the second lowest in Australia (with only the Northern Territory having lower average rates).

Rate pegging in NSW has undermined 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.

Rates are considered to be an equitable and efficient form of taxation. (e.g. by Productivity Commission and Henry Review of Taxation).

However, LGNSW is strongly of the view that rate pegging is unnecessary, produces undesirable consequences and should be abolished. The primary reasons for this are that:
- Rate pegging has been made redundant/obsolete by the implementation of Integrated Planning & Reporting (Community Strategic Plan, Long Term Financial Plan etc).
- 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 capping. According to the Review Panel, over the period 2001/02 to 2010/11, growth in total revenue of NSW councils was 5.7% per annum, compared to an average of 8.0% for the other mainland states, pointing to "revenue foregone" in rates of well over $1 billion over that period. More recent analysis shows that this lag persists, with NSW still having the lowest rates per capita of all the States.
- Rate pegging leads councils to impose higher user-pays charges which could result in pricing inequities.

- Rate pegging increases reliance on infrastructure contributions creating property market distortions.
- Rate pegging distorts the operation of a land valuation based rating system. Valuations do not raise net revenue but merely redistribute the rate burden within a council area.
- Councils are democratically accountable and this keeps rates in check.
- Historical experience of other jurisdictions without rate pegging has shown that rates did not blow out.
- Rate pegging distorts the operation of the rating system and produces negative consequences, including the direct and indirect suppression of the rating effort.

More recently, the NSW Productivity Commissioner, Peter Achterstraat, when launching the Issues Paper for the Review of Infrastructure Contributions in NSW, commented that local government rate pegging creates a financial disincentive for councils to accept growth and increases their dependence on other revenue sources such as infrastructure contributions.

Business lobby groups have also recently been calling on the NSW Government to abolish rate pegging as part of the government's post-pandemic recovery plan for the state. The Committee for Sydney and the Sydney and Western Sydney Business chambers say rate pegging should be removed so that struggling councils can maintain staff levels, provide essential services and invest in infrastructure.

Rate Exemptions

It is LGNSW's policy position that all land used for commercial or residential purposes should be subject to rates regardless of tenure. This accords with IPART recommendation 14:
Sections 555 and 556 of the Local Government Act 1993 NSW should be amended to:
– *exempt land on the basis of use rather than ownership, and to directly link the exemption to the use of the land, and*
– *ensure land used for residential and commercial purposes is rateable unless explicitly exempted.*

In some cases, rate exemption should simply be abolished (e.g. Forests NSW). In other instances it may be a matter of legislating tighter eligibility criteria and/or introducing a system of partial exemptions as applied in other jurisdictions.

Many current exemptions serve to provide financial benefits to numerous religious organisations, benevolent institutions, private schools, universities and some government business enterprises that are no longer justified in terms of principles of optimal taxation, particularly principles of equity and efficiency.

The distinction between charitable and social activity and commercial activity has blurred progressively over time with community orientated enterprises increasingly engaging in more commercially focused activity. Often it is no longer appropriate for local ratepayers to subsidise activities of exempt institutions where institutions act commercially, benefit from council services, and have capacity to pay.

LGNSW acknowledges that this is a complicated and contentious area. However, there are a number of exemptions where there is a strong case for reform to correct current anomalies and distortions. These include exemptions applying to:
- the commercial forestry operations of Forests NSW;
- leasehold commercial and private commercial operations in national parks; and
- social housing owned/managed by Community Housing Providers (CHPs).

Forestry Corporation of NSW

LGNSW has long argued that the commercial forestry operations of the Forestry Corporation of NSW (FCNSW) should be subject to rates. This view is strongly held in all local government areas that FCNSW operates. Local government strongly supports IPART's recommendation that these operations should be rateable.
The current exemption is a blatant anomaly that should have been addressed in past. The exemption is inconsistent with the treatment of other State-Owned Corporations (SOCs) which are subject to rates on lands used for commercial operations. It also contradicts competitive neutrality principles as its competitors, privately owned commercial forestry operators are subject to rates.

Commercial Leases in National Parks

Private and commercial leases in National Parks are exempt (such as leases for ski resorts and holiday accommodation), which is inconsistent with the treatment of private and commercial leases on Crown Lands that are subject to rates. This is clearly an anomaly that should be addressed. There is no justification for the difference in treatment.

Social Housing

Rate exemptions for social housing is an emerging problem for councils and growing at a rapid rate. The problem has largely resulted from a change in Government policy on the delivery of social housing and the emergence of new delivery mechanisms.

The Government is increasingly handing over management and ownership of social housing stock formerly controlled by State Government agencies (i.e. Department of Family and Community Services (FACs) and predecessors Housing NSW, Department of Housing, Housing Commission) to Community Housing Providers (CHPs).

The issue is not the provision of community housing, councils support affordable housing. The issue is that the Government previously paid rates on these properties whereas CHPs are seeking and often achieving rate exemptions as Public Benefit Institutions (PBIs). As a result, many councils facing large reductions in their rate base, particularly those in areas with a high concentration of social housing.

It is unfair to burden local communities with the costs of subsidising social housing, particularly as stocks of public housing are not evenly distributed. Councils are not in the position to subsidise welfare measures. Such subsidies should be funded through the broader revenue bases of State or Federal Governments.

Emergency Services Levy (ESL)

The bushfire disaster renews the focus on the funding model for emergency services in NSW (RFS, FRNSW and the SES). It highlights the need for the emergency services to have a strong funding base, but it has also highlighted the need for the funding model to be equitable, transparent and accountable.

LGNSW welcomes the Review's recommendation that the ESL on insurance policies be removed and replaced with a broad-based land tax. LGNSW has long advocated for this. We endorse the arguments that it is inequitable, lacks transparency and distorts the operation of the NSW insurance market. When combined with the cascading effect of the additional taxes - Stamp Duty and GST - that are applied on top of the combined value of the insurance premium and the ESL, insurance can become prohibitively expensive. This has no doubt contributed to higher incidences of underinsurance and non-insurance in NSW. It also distorts the taxation system as these are literally taxes on top of taxes which challenge taxation principles and clouds transparency.

LGNSW is disappointed however that the Review has failed to identify and address the ESL that applies to local government. Local government is required to fund 11.7% of the combined budgets of the emergency services. LGNSW maintains that this is also a distortionary tax that lacks equity and transparency.
The ESL on local councils is inequitable as it does not apply consistently or evenly 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 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 Tenterfield Shire Council in 2020/21 but $81,000 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.

The ESL on local government also lacks transparency as it is invisible to ratepayers. The levy is not calculated for individual properties but like other council costs, is embedded in general rates. Ratepayers are not able to identify their contribution to the funding of the emergency services and are generally not aware. Given that the majority of ratepayers are insured they are effectively being double taxed.

The ESL on councils, like the ESL and associated GST and stamp duty on insurance policies, are part of the same hidden tax regime. Ratepayers and the insured are largely unaware of the levies they are paying. There is also a concern that the lack of transparency combined with the fact that the ESL on both insurance and local government funds 85.4% of the emergency services budget, may have enabled the emergency services to avoid the same budgetary scrutiny and accountability that other agencies are subject to.

These views have been supported by numerous inquiries and reviews of fire and emergency services funding over decades. Most notably this includes 2009 Victorian Bushfires Royal Commission which concluded that the lack of equity and transparency in the current arrangements (the Victorian model was similar to the current NSW model) amounts to a good reason for moving to another system and consequently made the recommendation that:
The State replace the Fire Services Levy with a property-based levy and introduce concessions for low-income earners. (Recommendation 64).

Victoria has since introduced a broad-based property tax to fund their fire services. NSW is now the only mainland state that does not fund its fire services by a broad-based property levy. Other states have variations on this model - Queensland (1985), South Australia (1999), Western Australia (2003) and the ACT (2006–07).

All these States removed levies on local government when introducing the new funding models.

A property-based levy would ensure that all property owners finance the services in an equitable manner; not only owners of properties that are insured. The levy should be based on the rateable value of each property and, for reasons of administrative simplicity, collected by Revenue NSW.

NSW was heading in this direction with the proposed introduction of the Fire and Emergency Services Levy (FESL) in 2017. However, the NSW Government made a last-minute decision to defer the implementation FESL indefinitely. This was despite the new system being fully operational.

LGNSW recommends that the NSW Government end the FESL deferral and move quickly towards implementation of a revised FESL. However, the revised model must include removal of the ESL on councils in addition to that on insurance companies. Ideally the revised FESL would be based on the Capital Improved Value (CIV) of properties as this better reflects the value of the property being protected and is therefore more equitable. Properties are currently valued at Unimproved Capital Value (UCV-land value) for rating and land tax purposes in NSW.

Infrastructure Contributions

Infrastructure contributions are a method of financing public infrastructure that is required as a direct or indirect result of new development. User-pays or beneficiary pays is a long-standing principle of this system i.e. new development contributes towards the cost of infrastructure that will meet the additional demand it generates.

Councils rely on infrastructure contributions as a funding source for new infrastructure required to support new development and population growth.

Councils that experience significant population growth are hampered by rate pegging and caps on infrastructure contributions and would benefit from more adequate funding tools to support, and potentially capture the value increase associated with new development and urban renewal. Metropolitan councils whose communities demand a much wider set of services would benefit from more autonomy and flexibility in their revenue tools.

LGNSW has made a comprehensive submission to the current NSW Productivity Commissioner's Review of Infrastructure Contributions in NSW.

Recommendations 9 – Tax Reform
LGNSW calls on the NSW Government to broaden its tax reform agenda to include local government taxation mechanisms and NSW taxes impacting on local government. A comprehensive tax reform initiative should include consideration of the impacts of:

- Rate Pegging
- Rate Exemptions
- The Emergency Services Levy (ESL) on local government
- Land valuation methodology (used by councils and the State Government for rating and land tax purposes).
- Infrastructure Contributions mechanisms.

Conclusions

As the economy slips deeper into recession there has never been a time when it has been more important for all spheres of government to work together to defeat the COVID-19 pandemic and rebuild the national economy.

LGNSW commends the Australian and NSW Governments on their health and economic responses to the successive and compounding impacts of drought, bushfire, flood and the devastating COVID-19 pandemic. Local government is also to be commended, with councils being on the frontline in response and recovery at the local level.

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.

The current state and national economic outlook prescribes that the raft of stimulus and support measures will need to be maintained and expanded through 2020/21 through to 2021 and beyond. The outlook is highly uncertain and any tentative signs of recovery are precarious.

Beyond the more immediate 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.

LGNSW intends to make a second budget submission that presents more specific budgetary requests. We have also made a separate submission in response to aspects of the Review of Federal Financial Relations.

Appendix 1 – Summary of Recommendations

Stimulus Funding

Recommendations 1 – Roads
The NSW Government should:

- Follow through on its 2019 pre-election commitment of $500 million in total state allocated funding for each of the Fixing Local Roads and Fixing Country Bridges program.
- Commit to further supplementing these programs with additional funding in response to the COVID-19 induced recession to stimulate a locally led economic recovery over the coming years and,
- Use this opportunity to address first and last mile freight bottlenecks and freight access issues at the farmgate and improve road safety outcomes, particularly on regional roads which currently comprise 70 percent of the state's annual road fatalities.
- Commit to formally allocating the necessary funding to deliver the promised Regional Roads Transfer which also promises to improve road safety outcomes and freight access.

Recommendations 2 – Water
The NSW Government should:

- Renew the funding for the Safe and Secure Water Program as this has been effective in helping to mitigate against the worst impacts of the ongoing drought in NSW.
- Accelerate the delivery of water infrastructure projects including the construction of new dams to align with current rainfall pattern as a means of providing short and medium-term stimulus while building resilience.
- Meet its community service obligation (CSO) to subsidise water and sewerage infrastructure to regional and rural communities so they enjoy similar access to adequate services enjoyed by those in metropolitan communities.

Recommendations 3 – Affordable Housing
The NSW Government should:

- Consider proposals to deliver more social and affordable housing across all parts of NSW, to stimulate local economies and address a much-needed shortage on the housing continuum between homelessness and the private market.
- Introduce minimum targets of 5-10% social and affordable housing across NSW and 25% for government-owned land under the NSW Housing Strategy.
- Commit to a review of tax and transfer systems to understand how housing affordability is affected by taxation and limited government investment in social/affordable housing, and consider incentivising institutional investment.

Recommendation 4 – Community Infrastructure
The NSW Government should bring forward funding under existing programs and provide new funding to councils to deliver community infrastructure to stimulate local economies through employment and promote social cohesion and community recovery post disaster and pandemic.

Recommendations 5 – Health and Mental Health
The NSW Government should:

- Work with the Federal Government and in consultation with local government to provide funding support to help address the critical shortage of medical and allied health specialists in rural and regional NSW.
- Provide improved long-term funding for specialised services supporting youth and community wellbeing to improve resilience of communities to bounce back post drought, bushfire and pandemic.

Recommendation 6 – Community and Environmental Resilience
The NSW Government provide continued funding for councils to undertake environmental recovery activities and build resilience to current and future climate risks.

Recommendations 7 – Waste & Recycling
The NSW Government should:

- Fund councils to develop regional plans for the future of waste and resource recovery in their regions and stimulate the development of new businesses
- Fund the delivery of priority infrastructure and other projects, procured by local government, that are needed to deliver the regional-scale plans, particularly where a market failure has been identified.
- Increase local and state government procurement of recycled goods made with domestic content, for example by:
  - adopting recycled content targets to help drive demand and provide incentives to deliver on these targets.
  - funding further research, development and delivery of recycling technologies and products generated from recyclables, particularly by local or regional councils.
- Fund and deliver a state-wide education campaign on the importance of recycling to encourage the right way to recycle, the purchase of products with recycled content, and promoting waste avoidance.
- Fully fund and resource programs to identify and remove asbestos and other property hazards in bush fire prone areas and regionally based bushfire waste management plans.

Recommendation 8 – Business Support and Stimulus
LGNSW calls on the NSW Government to extend and increase funding for local business stimulus.

Tax Reform

Recommendations 9 – Tax Reform
LGNSW calls on the NSW Government to broaden its tax reform agenda to include local government taxation mechanisms and NSW taxes impacting on local government. A comprehensive tax reform initiative should include consideration of the impacts of:

- Rate Pegging
- Rate Exemptions
- The Emergency Services Levy (ESL) on local government
- Land valuation methodology (used by councils and the State Government for rating and land tax purposes).
- Infrastructure Contributions mechanisms.