

**Attachment 1**



31 May 2024

Committee Secretary  
House of Representatives Standing Committee on Regional Development, Infrastructure and  
Transport  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Online submission:  
<https://www.aph.gov.au/ParliamentaryBusiness/Committees/OnlineSubmission/Submit>

Dear Secretary

### **Inquiry – Australia’s local government sustainability**

Thank you for the opportunity to contribute to the important discourse on the subject of the sustainability of local government in Australia.

#### **Introduction**

Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of twelve local councils in the area south of Sydney harbour. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. The SSROC area covers central, inner west, eastern and southern Sydney, an area with a population of almost 1.9 million, that contributes much of Sydney’s gross domestic product.

It is important to note that local government is a creature of the NSW government, owing its existence to an Act of NSW Parliament. However, the Federal Government contributes to the prosperity of the economy and the wellbeing of all Australians with direct assistance to local governments, strengthening their finances and the financial wellbeing of our communities. The Federal Government also provides generous financial assistance to the States, and in that, it has significant levers available to ensure that State spending and decision-making is focussed on the needs of local communities and their councils.

The finances of NSW local government are increasingly heavily stressed, with rates pegged well below the level of cost increases, costs shifted from state to local government, community expectations ever-increasing, declining and ad-hoc grants from higher levels of government and ongoing management of an increasing number of depreciating assets. Financial sustainability and the ability to fund infrastructure and services is also the focus of a current inquiry by the NSW Legislative Council. The fact that two such significant inquiries are occurring concurrently is a strong signal that most Australian local governments are facing severe financial constraints.

The SSROC member Councils work hard to deliver the services our community expects, largely funded by rates revenue. However, Councils are often required to deliver on a range of federal and state government priorities, with little or no funding with which to do this, therefore placing an even greater strain on already limited budgets. It is in this light that we welcome this House of

Representatives inquiry into local government sustainability and hope that in the very least it results in a mature conversation being had between all levels of government, so that critical infrastructure and service provision is in place where it is most needed, delivered by the most appropriately resourced level of government.

## 1 The financial sustainability and funding of local government

Resilience and sustainability are important to local government, and it will be important for the Inquiry to articulate what exactly it means by “sustainability” in the context of “Australia’s local government sustainability”. SSROC member councils, through their local government finance working group, have defined Financial Sustainability as follows, which we hope may assist the Inquiry:

“A financially sustainable council is one that:

- Effectively manages its financial resources to achieve the long-term viability of essential services and infrastructure, while maintaining fiscal responsibility. This includes the ability to generate and manage revenues (through a balanced mix of sources such as rates, fees and charges and grants) and to efficiently manage operational costs and capital investments.
- Maintains a prudent level of financial reserves and adequate working capital to safeguard against unforeseen economic challenges and emergencies.
- Ensures that appropriate budgeting, responsible debt management and strategic long term financial planning are in place.
- Seeks to meet the community's needs (via the Integrated Planning & Reporting framework), without compromising the ability of future generations to enjoy similar or improved services and infrastructure.”

Financial sustainability is generally considered to be one of the highest priority issues for Councils, with local government having to rely on an antiquated 1919 system of land taxes (council rates) which was designed to fund the provision of a limited range of property related services such as roads, drainage and waste collection services, paid by landowners only. Traditionally this has been described as “roads, rates and rubbish”.

SSROC’s member council financial sustainability challenges have grown over time, with the broadening of local government roles and responsibilities, and the ever-increasing community demand, cost- and responsibility-shifting, and the need to address certain market failures. These pressures are compounded by inadequate and declining revenue.

According to SGS Economics & Planning’s (SGS) research on behalf of the Australian Local Government Association (2022), Councils on average raise over 80 per cent of their revenue independently, with approximately 38 per cent coming from rates and 25 per cent from user charges (ABS 2022). The remainder of Council’s revenue is largely derived from state and federal grants, in addition to other revenue sources such as fines and investments income. However, it should be noted that in rural and remote councils, grants can often make up over half of council revenue.

Unlike other spheres of government, Councils do not have access to a growth tax that would allow them to share in the prosperity of the economy and provide services and infrastructure to meet growing community needs. Because of this, Councils rely in part on support from the federal government through Financial Assistance Grants (FA Grants). To ensure the long-term sustainability of Councils, it is essential that FA Grants are increased to at least one per cent or more of Commonwealth Tax Revenue. More information on the FA Grants is included under Point 5 in this submission.

## 1.1 Declining Rates Revenue

While there has been significant broadening of the role of local government and services delivery over time, there has been an increasing decline in rates as a proportion of total council revenue. The overall percentage of local government revenue generated from council rates declined from 54 per cent in mid-1970s to 32.0 per cent in 2020-21 and this trend has significantly continued to date. It is notable that the proportion of revenue raised by user charges grew from 13.3 per cent to 30.3 per cent over the same period. Though Federal and NSW Governments provide substantial grants to councils, they constitute less than 10 per cent of total revenue<sup>1</sup> and generally cannot be expended on general operational requirements.

Councils often seek to balance their budgets by re-allocating funds from capital purposes to maintain recurrent service levels, impacting the long-term quality and condition of vital community infrastructure assets.

In NSW, the practice of rate-pegging has effectively and consistently eroded councils' rates revenue. The fact of so many Special Rate Variation (SRV) requests have been approved in recent years signals that the local government financial and funding model in NSW is not working. According to Local Government Professionals<sup>2</sup>, 178 SRV applications were made in the decade between 2012 and 2022, of which 165 were approved in full or in part. The necessity for so many legitimate, justifiable applications signals a very flawed funding model. The vast majority (142) of the SRV requests cited one or more of three reasons, being financial sustainability, infrastructure backlogs and future infrastructure spending obligations. All three justifications would reasonably be expected not to be issues if the funding model were right and appropriate for all that local government is required to do.

Furthermore, an SRV does not fix the fundamental underlying structural funding problem: over the course of time, any gains made by implementation of an SRV will be eroded by the continuing application of the rate peg, unless the flawed funding model is changed.

## 1.2 Resilience

The Federal Government has a very clear position on climate change and targets for carbon emissions reduction and local government is keen to play its part in this. SSROC councils have taken many actions already, including sourcing 100% renewable energy to power its large sites, small sites and street lighting.

There is much more that could be done, however councils struggle to achieve much more because of the cost of delivery. For example, building solar farms, investing in electric garbage truck and car fleets, and installing EV charging stations. Federal government support would enable local governments and their local community to reach net zero targets much faster than is possible for the foreseeable future.

Sydney is facing a serious crisis in waste management, and a massive cost to our communities is looming. Accessible landfills are almost full, and land for new waste facilities is prohibitively expensive in almost the entire area. This means transporting waste further and further out of Sydney for treatment and disposal, increasing carbon emissions and putting more trucks on the road. A lack of transfer stations risks using garbage trucks for haulage, disrupting services and creating the need for a larger fleet of trucks.

There is an opportunity for a national approach to waste management, including waste-to-energy and other current and emerging technologies that are already working well in communities around the world; however this will need both Federal and State cooperation and importantly funding, not be left to rate-pegged Councils to fund.

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<sup>1</sup> Department of Transport and Regional Services submission to the Productivity Commission – Assessing Local Government Revenue Raising Capacity.

<sup>2</sup> Local Government Professionals Australia, submission to the Review of the Rate Peg Methodology Issues Paper, 4 November 2022.

## 2 The changing infrastructure and service delivery obligations of local government

Local Government is now responsible for delivering a wide range of services that have grown over time and with NSW-mandated Community Strategic Plans required under the Integrated Planning and Reporting (IP&R) framework, NSW Councils are now compelled to fund their communities' ever-increasing expectations. This is not a criticism of the IP&R framework, but more an indication that through increased engagement with the community and the fact that local government is closest to the people, Councils are increasingly responsible for delivering a large number of services that directly benefit the liveability and productivity of their local communities. Further information on the services provided by local government can be found in Section 2.3 below.

### 2.1 Infrastructure Backlogs

Today's community expectations of their local Council includes Councils providing things like knowledge centres, dog parks, cycleways, skate parks, more open spaces with facilities like BBQ areas, and leisure and aquatic centres, in addition to hard infrastructure like roads, footpaths, stormwater & drainage and depending on where you Council is located, water and sewer services. Each time a Council delivers an additional service or is required to deliver additional services by the State government, it expands a Council's asset-base and ongoing maintenance and renewal obligations.

Infrastructure is the biggest financial risk to councils in NSW. NSW councils own and control assets with a total value of over \$198 billion in 2021-22 with the largest component of councils' asset base being infrastructure, with a net value of over \$176.3 billion.

Roads and related assets (e.g. bridges and footpaths) make up more than \$67 billion or 56.8% of these assets. Councils reported a backlog for 2021-22 estimated at \$5.6 billion<sup>3</sup>. This is a looming financial cliff for councils nationally.

The NSW Government has set an infrastructure backlog ratio of 2% (being the infrastructure backlog as a proportion of the total written down value). A ratio of less than 2% is considered the benchmark. 53% of NSW councils (69) have reported a backlog ratio greater than 2%.

Across the State, infrastructure backlog ratios ranged from 0 to 22.1%, with the state average being 3.7%, almost double what the Government suggests is acceptable. Regional town/city councils have the largest infrastructure backlogs in total dollar terms, with an average backlog of \$52 million, with metropolitan councils having an average backlog of \$28.7 million.

It is clear that the backlog will continue to grow given declining funding for both maintaining and renewing assets. A greater focus on intergenerational thinking is needed, especially given that asset condition will continue to exponentially deteriorate.

When it comes to the Federal Government investment in local government, it must invest warily and stop targeting its funding solely at new assets. While popular, this approach adds to the maintenance and asset renewal liabilities of local government, with no additional funding to Councils for these purposes. Although less attractive, a more important use of scarce Federal Government funds would be to dedicate them to asset replacement, and allow betterment only where that would create a more resilient asset for future generations.

There is an excellent precedent for such a funding model in the Federal Roads to Recovery Program, which is critical to the financial sustainability of local government.

*The Roads to Recovery Program supports the maintenance of the nation's local road infrastructure assets, which facilitates greater accessibility and improves safety, economic and social outcomes for Australians. The Program provides funding to all Local Government authorities (LGAs) and state/territories governments in areas where there are no LGAs*

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<sup>3</sup> <https://www.yourcouncil.nsw.gov.au/nsw-overview/assets/>

*(unincorporated areas). Funding recipients are responsible for choosing road projects on which to spend their Roads to Recovery funding, based on their local priorities.<sup>4</sup>*

A key feature of the Roads to Recovery Program is the mandate that recipients of the direct local government funding do not reduce their recurrent levels of capital funding for road replacements. This Federal lever ensures that the funding is a top-up to asset replacement and management, and not diverted to other uses.

Local government would benefit from this program being permanent, and more programs for funding on this basis targeting other assets.

## 2.2 Asset Resilience

Noting the comments above around funding for infrastructure, the Federal Government must ensure that any funding for renewal of aged and damaged assets is not provided on a like-for-like basis, but on the basis of betterment for resilience and longer-term financial sustainability. This will ensure good investment today which also has an exponential financial benefit to future generations and their councils.

In addition to new and varied services, councils are required to have the capacity to build resiliency into our infrastructure, so that it is not only designed to withstand current risks, hazards and threats, but for the life of the asset and to be able to withstand future hazards such as those arising from climate change. For example, not rebuilding a community hall in a floodplain, but nearby out of the floodplain or fitting out like-for-like in a historical building in a floodplain, but include flood-resilience finishes.

The capacity for the local government sector to develop its own capabilities to deal with external impacts that cause it shocks and stresses is important. For example, economic factors that drive up the cost of delivering services, and the increasing frequency of severe weather events that can jeopardise long term strategic goals.

## 2.3 Changing Complexity and Scope of Services

Local governments in Australia are increasingly providing services above and beyond services traditionally associated with council, such as roads and waste disposal, financed by rates. Some examples of new and more complex council functions and services provided today include<sup>5</sup>:

- Engineering (public works, construction and maintenance of roads, bridges, footpaths, drainage, cleaning)
- Resource recovery services (recycling, garden organics, bulky and residual waste collection, processing and disposal; community recycling centres, drop-off events, and chemical clean-up events)
- Recreation (swimming pools, sports courts, recreation centres, playgrounds, halls, kiosks)
- Health (water and food sampling, noise control, meat inspection and animal control)
- Community services (childcare, elderly care and accommodation, refuge facilities, meals on wheels, counselling and welfare)
- Building (inspection, licensing, certification and enforcement)
- Planning and development approval, place-making
- Administration and compliance (quarries, cemeteries, parking, animals)
- Cultural/educational (libraries, art galleries and museums)
- Environmental services (trees, storm water, water sensitive urban infrastructure, weed control)
- Other (abattoirs, sale yards, markets).

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<sup>4</sup> <https://investment.infrastructure.gov.au/about/local-initiatives/roads-to-recovery-program/index.aspx>

<sup>5</sup> Department of Transport and Regional Services submission to the Productivity Commission – Assessing Local Government Revenue Raising Capacity.

As previously mentioned, the services councils provide are increasing due to community needs and pressures and these services vary between metropolitan, regional and rural councils.

## 2.4 Cost- and Responsibility-Shifting

Council is consistently called upon to implement and/or administer new policy of Government. The ability for councils to adequately charge for a variety of services is in some instances, restricted by legislation and this results in an uneconomic service that unfairly costs ratepayers.

According to the most recent Local Government NSW Cost Shifting Survey and Report (2021-2022), released in November 2023, cost shifting remains one of the most significant challenges facing the NSW local government sector.

The 2021–22 LGNSW Cost Shifting Survey has revealed that cost shifting totalled \$1.36 billion in 2021–22, which far exceeds historical records and represents an increase of \$540 million since the Cost Shifting Survey was last carried out in 2017–18. Of note is the fact that the increase in cost shifting has been accelerated by various State Government policies, with the most significant examples of cost shifting in 2021–22 being:

- The waste levy, which remains the largest single contributor to cost shifting in NSW, totalling \$288.2 million, because the NSW Government did not fully reinvest the waste levy, paid by local councils, back into waste and circular economy infrastructure and programs.
- The Emergency Services Levy and associated emergency service contributions, which totalled \$165.4 million and represented the largest direct cost shift to local councils. In 2021–22, councils contributed \$142 million through the Emergency Services Levy, \$12.7 million through Rural Fire Service (RFS) obligations, and \$10.7 million in depreciation expenses on RFS assets. (It should be noted that there is currently a NSW Government review underway what is looking at the reform of the emergency services funding system.)
- The NSW Government's failure to fully reimburse local councils for mandatory pensioner rate rebates, resulting in councils losing \$55.2 million.
- The NSW Government's failure to cover the originally committed 50 per cent of the cost of libraries operations, resulting in an additional \$156.7 million in costs to councils.

In addition to the major cost shifting items mentioned above, there are many other examples of cost shifting from the NSW Government to Councils such as:

- Child care is costly to run due to legislated staff ratios and Council making a significant annual investment (loss) each year to provide the service. Most funding opportunities from State and Federal do not target local government providers. Family Daycare in particular is severely underfunded and at risk.
- Rate exemptions, mandated by the State but funded by councils.
- Shortfalls in funding for fulfilling regulatory services like Companion Animals management, Contaminated Land management, Noxious Weed management and processing of Development Applications.
- Aged care
- Section 257 Certificates of Vehicle Ownership – in late November 2023, Revenue NSW advised councils that they were no longer permitted by Transport for NSW (TfNSW) to provide s257 certificates. These certificates are required by the Court when a council prosecutes parking cases, and were previously provided by Revenue NSW at no cost. As of 22 November, all requests for s257 certificates must be forwarded to TfNSW, which charges a \$35 fee for each certificate.

By way of a more detailed example, Waverley is just a few kilometres from the city centre and a must-see destination for visitors and with three famous beaches – Bondi, Bronte and Tamarama – attracts visitors in excess of 1.5 million per year placing huge demands on its infrastructure and services including roads; waste; lifeguards and other services.

During the summer months, Waverley beaches have tens of thousands of tourists and visitors from all across Sydney, in particular around Christmas Day, Australia Day and other public holidays,

estimated to exceed around 50,000 people. The costs associated with this level of visitation illustrate the complexity and scale of the financial challenges facing councils, with escalating operational costs affecting the capacity of councils to provision for new infrastructure, renewal and maintenance. The following costs of operations at these key beaches during the peak summer period are currently borne by the ratepayers of the Waverley Council area:

- Coastal Precinct open space maintenance: approximately \$1,476,342 per annum
- Summer crews to carry out public place cleansing at beaches: \$150,000 (summer months only)
- Additional public place cleansing evening services: approximately \$700,000 per annum
- User-pays Police crowd-control and management of anti-social behaviour: approximately \$68,270 (\$41,410 for Christmas and New Years public holiday period + \$13,430 for Australia Day)
- Summer Safe Program: approximately \$97,432 (includes an onsite operations manager and up to five public space ambassadors for 4 months November to February).
- Lifeguard services: approximately \$1,839,591 per annum in salaries and an additional \$200,00 for casuals employed over the summer period and \$163,463 per annum operating expenses.

It is hoped that this House of Representatives Inquiry can recommend a way forward that sees the levels of cost shifting from the NSW Government to Councils vastly reduced, it not eliminated altogether and a fairer way of distributing costs associated with services required for visitors rather than local ratepayers.

### **3 Any structural impediments to security for local government workers and infrastructure and service delivery**

#### **3.1 Local Government Workers**

The difficulty in attracting and retaining skilled staff (see section 4 below) creates real challenges for the sector, affecting the ability of local government to efficiently deliver services. In 1975 the Whitlam Federal Government introduced reforms at every tier of education, including a national employment and training scheme, and introduced the Regional Employment Development Scheme (the RED scheme).

The RED scheme is still talked about by local councils. Funding was given directly to local councils and tens of thousands of jobs created in areas that were suffering most from unemployment. It enabled Councils to employ workers on the minimum wage whilst at the same time utilising them on important local projects that enhanced community assets like parks and recreation facilities.

The current skills shortage creates real opportunity for a progressive Government to show leadership and vision to address this issue. Options to consider are:

- Reintroduce something like the RED scheme, enabling councils to access new talent for asset maintenance and management, and in turn creating opportunities to develop skills and experience which can assist employees develop and progress in meaningful employment. This could be provided at a reasonable cost with the Federal Government providing a base-pay equivalent to current safety net payments and councils topping up those payments to minimum award payments.
- Consider incentivising and enforcing the Work for the Dole program which will be another means for Local Government to utilise and gainfully employ an army of unemployed people. Under the current program some of the activities include gardening and maintenance works, conservation or environmental activities and office administration, a vital part of Councils' service to the community. The social and cost benefits to the unemployed and Councils are immeasurable in dollar terms.

- Extend the \$10,000 wage subsidy provided to Australian businesses to include Local Government. The current program offers varying financial incentives to employers to hire and retain eligible jobseekers. It could be rightfully argued that councils are a business, competing for staff and are entitled to compete on a level playing field.

Advances in robotics and AI technology needs Federal Government investment at a grass-roots level to address serious shortcomings in the sector. There is an opportunity for the Federal Government to partner with State and local governments to get ahead and address a looming worsening of the skills shortage by implementing programs through local TAFEs. The programs would see local councils subsidised for creating scope for innovation and taking on TAFE students.

### **3.2 Infrastructure**

Assets generally provide a service to the community, and therefore are part of the balancing of priorities that all Councils must manage. Each Council's approach to the management of assets will vary slightly, as will the amount of different types of asset. For example, not all councils have water or sewage assets, and some have extensive rural road networks.

There is little liaison between local government and the State or Federal governments on priorities for local government, development of funding programs and targeting and timing of grants. More engagement with local government as programs are developed would be beneficial to all concerned.

Grants for capital projects are also generally for the capital investment only, with no funding made available to Councils for the ongoing asset management, operation and maintenance liabilities that new works come with. Councils have difficulty raising enough funds to maintain or replace assets.

Most NSW Government grant funding agreements and some funding agreements from the Federal Government (excluding FA Grants), require councils in part to fund the project and then claim reimbursement at specified milestones and/or at the time of acquittal. Depending upon the size of the project, this can cause a cash flow problem for councils, particularly at year-end and when preparing financial statements and reports and may present a barrier to applying for such grants in the first place.

In metropolitan Sydney, the issue is further exacerbated by the uncertainties relating to the current NSW Government planning reforms that are aiming to dramatically increase the availability of housing. The reforms are continuing to progress quickly, without any clear plan (at the time of writing this submission), for a funding mechanism for the necessary supporting physical and social infrastructure that will be required. This is partially due to the absence of any reliable overarching city-wide strategic plan or updated Six Cities Plan and City Plans. These plans are critical inputs to Councils planning their future infrastructure needs.

Further to this, funding growth through development contributions where there are increasing populations, does not fully address the ongoing life-cycle costs of assets. This is further complicated by the constraints of the rate peg, which limits the amount of funding available for asset renewal and maintenance.

### **3.3 Service Delivery**

Whilst it is acknowledged that this is very much a State issue, there is no clear definition of which services are core obligations for councils. Although a precise definition would vary between councils, it would be a useful guide to what should be funded by the rate peg and could be a useful prompt for councils to consider an Special Rate Variation when appropriate. There are currently no revenue guidelines or revenue policies linked to what core services should be funded, and community perceptions of what is "core", vary. The key issue is about how to create a nexus between the core services offered and rates revenue.

## **4 Trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices**

Many council officers are genuinely committed to serving their communities, and many are very highly skilled and capable. However, there is a degree of inevitability about their leaving the sector seeking the more attractive salaries of the state government or private sector.

SGS state in their research on productivity in local government, that local governments have an important role in workforce development, both for their own productivity and that of their regions. The research notes that skill shortages in private and public organisations have been exacerbated by the COVID-19 Pandemic; employee attrition and an ageing workforce are an ongoing and escalating difficulty. SGS note that there are barriers to Workforce Planning and Management (including a shortage of resources within Councils), a lack of skilled workers and the loss of corporate knowledge as employees retire or resign.

SGS also state that the workforce issue has now become inextricably linked to the housing issue, with the attraction of key workers limited for many communities if there is no housing available. This is also an issue for some SSROC member Councils, where the lack of affordable housing and housing and rentals being unaffordable in or near to their local government area is increasingly becoming an impediment to attracting appropriately skilled staff. This, combined with the current cost of living crisis means people are looking to reduce their travel times and related costs in getting to and from the workplace, placing extra pressure on the ability of Councils to attract workers.

Many staff live outside SSROC council areas and indeed out of greater western Sydney due to the cost of housing. For council operations, essential key workers include, for example, Open Spaces Maintenance and Public Place Cleansing teams. These staff provide essential services outside core hours, starting before 6am, with no access to public transport or untimed on-street parking. Limited public transport options increases claims for parking permits which promotes car use (in contravention of environmental targets), increases Council FBT expenses and reduces parking revenue for Council.

## **5 The role of the Australian Government in addressing issues raised in relation to the above**

### **5.1 Federal Assistance Grants**

Federal Assistance Grants (FA Grants) represent a recognition of the ability of the Federal Government to generate the most income of the 3 spheres of government. The Federal Government seeks to redistribute some of that income to Local Government which has the least capacity to generate income, by means of FA Grants, with the current agreement for FA Grants having been in place for over 40 years.

Over the past 30 years FA Grants have steadily declined from 1 per cent of Commonwealth Taxation Revenue (CTR), to 0.51 per cent in 2024-25. This is compounded by rate pegging, further weakening councils' financial position.

While Financial Assistance Grants have increased this year in line with the annual indexation formula, it is disappointing that the Government has failed to deliver on its pre-election promise of "fair increases" to these untied grants.

Councils have repeatedly called for the untied and non-competitive FA Grants to be restored to at least one percent of CTR. This reform would provide the long-term certainty that councils need to plan for their community's future and importantly, the flexibility to prioritise their spend on more resilient, productive and liveable communities. It is vital for councils and their local communities that Financial Assistance Grants are restored to at least 1 per cent of CTR.

Furthermore, whilst FA Grants support recurrent expenditure, they are not sufficient for any real contribution to asset management. SSROC strongly recommends that FA Grants be increased, to

a level higher than the original 1 per cent of CTR (and indexed), sufficient to provide material support to managing assets, and indexed.

The Federal Government could consider allocating funding held under the Future Fund Act 2006 to ensuring the long-term sustainability of local government throughout Australia. Section 3 of the Act notes that the object of the Act is to strengthen the Commonwealth's long-term financial position by establishing the Future Fund.

As noted earlier in this submission, the vast majority of grants, in dollar worth and number, are tied grants for capital projects i.e. the funding must be used for a particular purpose, which is almost always the priority of the State or Federal Government, being the grantor. Grants for new capital projects have a long-term operating expense impacts (depreciation and operating costs) which are not funded by the grantor. The impact of these grants therefore is to divert council resources to delivery of projects that may not be the priority of the local community and they may in fact worsen a Councils financial position.

For clarity, grants are very much welcomed and needed by local government, but such funding needs to shift from the funding of new initiatives to the maintenance and restoration of existing assets.

Thank you for the opportunity to make this submission to the Inquiry. It has been written in consultation with SSROC member council officers. However, in order to meet the consultation close date, it has not been reviewed or endorsed at a formal meeting of SSROC. I will contact you should any issues arise as result.

Should you have any further enquiries in relation to this letter, please contact me at [ssroc@ssroc.nsw.gov.au](mailto:ssroc@ssroc.nsw.gov.au).

Yours faithfully

A handwritten signature in blue ink, appearing to read 'H. Sloan', is positioned above the typed name.

Helen Sloan  
Chief Executive Officer  
**Southern Sydney Regional Organisation of Councils**

**Attachment 2**

# SSROC Financial Sustainability



APRIL 2025



**SSROC**



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# Introduction

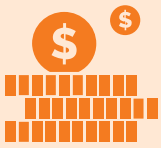
The Southern Sydney Regional Organisations of Councils (SSROC) provides a forum through which its 12-member Councils interact, exchange ideas, and work collaboratively to solve regional issues and contribute to the future sustainability of the region. Representing a region of almost 1.9 million residents (which is more than a third of the population of Greater Sydney), across 693sq km, SSROC advocates on behalf of the region to ensure that major issues are addressed by all levels of government. The 12 member Councils of SSROC are Bayside Council, Burwood Council, City of Canada Bay, City of Canterbury Bankstown, Georges River Council, Inner West Council, Randwick City, Strathfield Council, Sutherland Shire Council, City of Sydney, Waverley Council and Woollahra Municipal Council.

One critical issue that SSROC advocates on behalf of its member Councils for, is financial sustainability. Councils play a critical role in enhancing community well-being across their local area by offering a wide range of services such as road, footpath and stormwater construction and maintenance, waste services, local business support, regulatory functions, emergency management, libraries and community services, to name a few. However, Councils have limited revenue-raising capabilities, primarily relying on rates, user fees and charges and grants. This, coupled with increasing demand for services, has seen Councils endure increasing financial and operational pressures.

Through the SSROC Finance Working Group (supported by the SSROC CEO/ GM Forum), this paper includes commentary on a range of factors impacting the financial sustainability of Councils, plus it includes a series of graphs that together, highlight the current financial challenges being experienced by SSROC member Councils. This paper also points to the challenges that lie ahead, particularly in relation to the ongoing maintenance of infrastructure assets. Whilst this paper aims to highlight the financial challenges faced by SSROC Councils, it also attempts to propose some solutions to these issues, noting that any solutions to these mounting financial pressures, will require a joint approach by State and local government.

# What is Financial Sustainability?

SSROC has defined a financially sustainable Council as one that:



**Effectively manages its financial resources to achieve the long-term viability of essential services and infrastructure.**

This includes the ability to generate and manage revenues (through a balanced mix of sources such as rates, fees and charges and grants) and to efficiently manage operational costs and capital investments.



**Strives to maintain a prudent level of financial reserves and adequate working capital to safeguard against unforeseen economic challenges and emergencies.**



**Ensures that appropriate budgeting, responsible debt management and strategic long term financial planning are in place.**



**Seeks to meet the community's needs (via the Integrated Planning and Reporting framework), without compromising the ability of future generations to enjoy similar or improved services and infrastructure.**

To set the scene, below is a snapshot of 2022-2023 key financial information relating to SSROC member Councils, with the items shaded in red highlighting key financial and asset ratios that are not currently being met by SSROC member Councils:

**Key Financial Statistics-SSROC Councils**

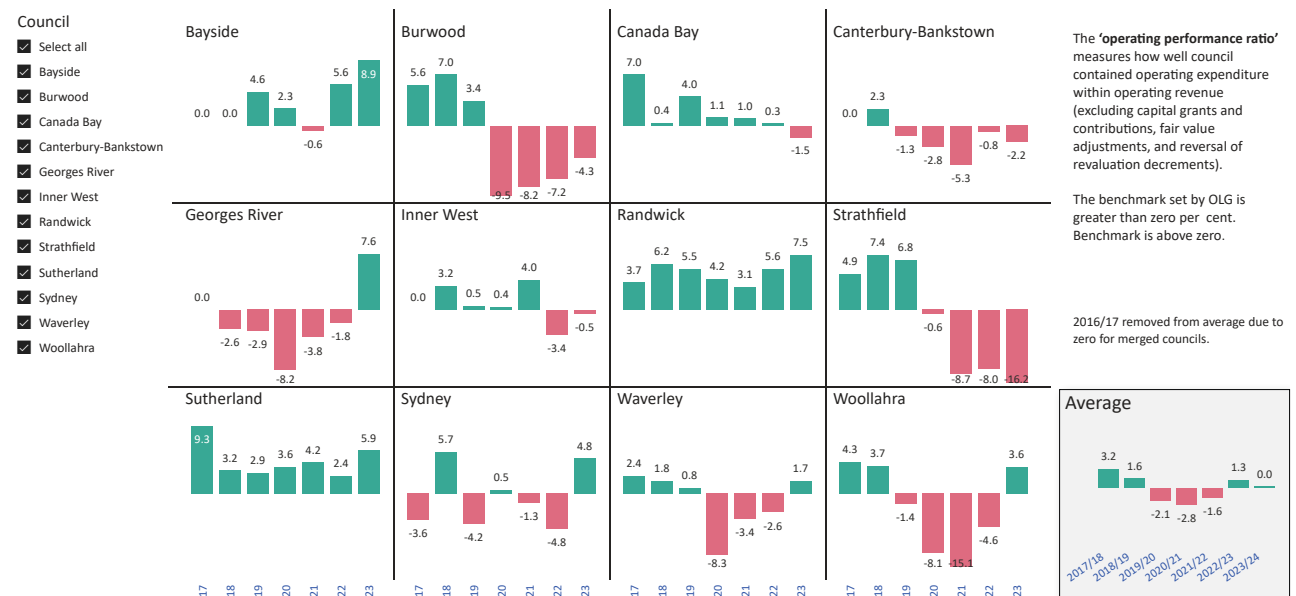


**Key Financial Statistics**

Council	Total Revenue from Continuing Operations (\$'000)	Total Expenses from Continuing Operations (\$'000)	Net Operating result before Capital(\$'000)	Operating Performance Ratio	Operating Result (000)	% Own Source Revenue	Unrestricted Current Ratio	Cash Expense Cover Ratio	Asset Maintenance Ratio(%)	Infrastructure Backlog Ratio	Building & Infrastructure Renewal Ratio(%)	Rates and Annual Charges Outstanding (%)
Bayside	258,162	189,448	7,324	8.91	68,714	71.15	4.34	37.53	94.99	2.41	140.41	7.17
Burwood	74,337	63,946	-4,144	-4.26	10,391	73.02	1.91	4.01	125.55	4.12	101.17	6.19
Canada Bay	145,340	104,687	2,433	-1.52	40,653	66.13	4.14	13.00	99.43	2.35	89.06	4.05
Canterbury-Bankstown	406,654	386,076	-15,233	-2.20	20,578	81.35	3.50	16.26	105.52	3.77	55.95	6.35
Georges River	198,946	157,888	12,125	7.60	41,058	74.49	5.31	16.30	106.78	2.56	53.59	4.37
Inner West	298,242	275,521	-6,488	-0.52	22,721	85.56	3.10	8.72	110.55	1.57	120.00	8.57
Randwick	202,156	179,406	10,937	7.48	22,750	87.43	3.89	8.90	174.25	0.46	89.70	2.89
Strathfield	60,301	56,403	-9,626	-16.23	3,898	72.40	4.32	12.77	69.31	6.80	129.22	4.82
Sutherland	313,920	285,384	6,745	5.87	28,536	81.65	4.32	12.36	101.33	0.88	108.24	4.68
Sydney	854,103	670,904	34,668	4.78	183,199	79.83	4.27	12.04	104.33	1.93	68.50	2.00
Waverley	162,425	145,450	-1,154	1.74	16,975	81.62	5.50	9.64	102.90	1.09	217.43	4.42
Woollahra	130,806	109,300	12,901	3.64	21,506	86.68	3.41	12.93	96.14	0.91	69.62	5.18

As included in the above table, the Operating Performance ratio is one of the key ratios by which a Council is measured. As detailed in the graph below, a number of SSROC member Councils struggle to consistently meet this benchmark:

**Operating Performance Ratio by Financial Year- SSROC Councils**





# Rate Peg and Income Barriers

## Key Points

In NSW, the practice of rate-pegging has eroded Councils' rates revenue over the decades, noting that Council rate bases were originally set around 40 years ago. These two factors combined, mean that rate increases have not matched inflation over that period of time, with the level of rates revenue having consistently fallen relative to costs.

The rate peg has broadly set an unrealistic expectation in the community that rates can be contained indefinitely, even when there is an increased demand for more services.

With constrained rates revenue and with statutory fees that do not cover annual cost increases, Councils are often forced to cut expenditure on things like infrastructure maintenance and renewal and on other key services, which ultimately leads to increased infrastructure backlogs and reduced services being provided to the community.

The rate peg has also meant that 94 Councils or 73% of Councils in NSW have applied for Special Rate Variations (SRVs) at least once in the last ten years, in order to enhance their financial sustainability and to address

- General cost increases that are greater than the rate peg.
- Asset maintenance and or renewal demands.
- Continued delivery of existing services.
- Increased service levels.

This would indicate that the Special Rate Variation (SRV) process is being relied upon to compensate for a broken funding model, which is based around the rate peg.

## Impact

Despite the new rate peg methodology now having a population factor, the rate peg still does not adequately support the rising expectations of our communities. This is largely due to the rate peg generally being below the increases we face across many of our services, good and materials. This leads to insufficient funding allocated to the maintenance and renewal of our existing infrastructure, which ultimately impacts the asset condition and their useful life.

The impact of lower income as a result of an insufficiently set rate peg constantly requires councils to underfund some services in order to balance the budget, with this often-impacting key services such as parks and tree maintenance and road maintenance.

The rate peg does not adequately meet the gap in revenue required to fund actual employee costs, making it difficult for Councils to compete in the market to both recruit and retain appropriately qualified staff.

There could be circumstances where Council staff may propose to Councillors, a need to apply for an SRV. This may or may not be supported by the Councillors, either before or after undertaking the required detailed community engagement processes and prior to further financial modelling exercises having been undertaken, prior to lodging an application with IPART. This all takes considerable time and effort away from the normal activities of council.

## Suggested Options

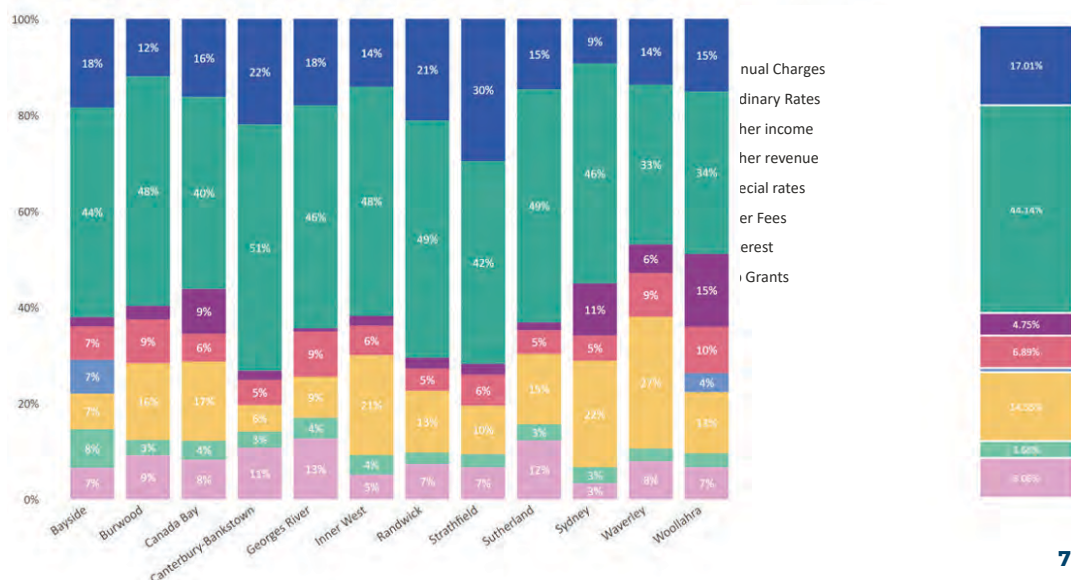
SSROC supports the urgent review of the local government rating system in line with Recommendations 1 and 2 from the NSW Parliamentary Inquiry report into the ability of local governments to fund infrastructure and services, released on 29 November 2024 and as found in Attachment 1.

### Further to the above, SSROC also suggest the following:

- 1 A correction is needed to re-base the years of deficient rate pegged increases, which has contributed significantly the current financial situation in many Councils. Without such an adjustment, Councils will continue to struggle to cover rising operational and capital expenditures with increasingly inadequate revenue from rates.
- 2 Implementation of a non-binding rate peg, which would include setting a minimum rate peg that would account for common costs incurred across Councils, with Councils then being given discretion to increase the rate peg up to a set maximum i.e. 3% - 5% above the minimum rate set, all based around local factors.
- 3 Allowing councils to use the Capital Improved Value land valuation method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type.
- 4 Better targeting eligibility criteria for rates exemptions (as per Recommendation 1 from the NSW Parliamentary Inquiry)
- 5 Ensuring that statutory charges reflect the efficient costs incurred by Councils in providing statutory services, so Councils do not need to use rates income to cover the costs of providing these services. This is in line with Recommendation 4 from the NSW Parliamentary Inquiry.

The following graph shows the split of non-capital revenue for SSROC member Councils for 2022-2023:

Percentage income split of non capital income - by Council- SSROC



# Cost Shifting

## Key Points

Cost shifting is where other levels of government shift expenses to councils through various means such as increasing changes to mandatory contributions (e.g. emergency services), allocating additional regulatory functions and infrastructure maintenance responsibilities, without providing sufficient corresponding funding or adequate revenue raising capacity and not compensated through general rate rises.

Cost shifting is not something that councils have control over, which means that councils are forced to / required to adjust service levels to account for factors outside their control.

The Local Government NSW (LGNSW) 2021-22 cost shifting survey revealed that cost shifting totalled \$1.36 billion in 2021-22 across NSW, representing an increase of \$540 million since the 2017-2018.

In line with the findings by LGNSW, some of the key examples of cost shifting are as follows:

- Waste levy.
- Emergency Services Levy.
- Pensioner rebates, where the NSW Government fails to fully reimburse Councils for mandatory pensioner rate rebates.
- Library funding, where the NSW Government does not cover the originally committed to 50% of the cost of libraries operations.

As functions are shifted on to councils to operate and or manage, consideration needs to be given as to whether these functions are appropriate to be undertaken at a local government level and secondly, whether it is reasonable for local communities to be required to meet some or all of the costs of these services.

## Impact

According to the LGNSW 2021-2022 Cost Shifting Survey, the average cost per NSW ratepayer of cost shifting is \$460.67.

SSROC member Councils have a combined total of 742,101 rates assessments therefore  $742,101 \times \$460.67 = \$341M$  – that is an additional \$341M per annum that could be generated across SSROC councils if there was no cost shifting (at current 2021-2022 levels) from other levels of government.

Without any compensating revenue, cost shifting forces councils to continually re-prioritise funding away from providing improved services to the community like roads, footpaths, community facilities, stormwater, parks, cultural services, in favour of funding the cost shifted services. The impact is substantial when cost shifting is factored together with:

- Increased levels of service expected by the community and other stakeholders
- New services expected to be delivered by local government
- Additional asset maintenance costs (new parks, roads, cycleways, facilities etc.)

According to the IPART, the majority of Councils i.e. 72 (or 56%), failed the Own Source Revenue indicator for 2022/23 of 60%, indicating the capacity of councils to compensate for cost shifting (amongst other things), is diminishing.

As an example, for two SSROC member Councils (Waverley and Woollahra), the level of cost shifting across the categories of the waste levy, emergency services levy, pensioner rate rebates, Library operations and the processing of Development Applications alone, was **\$28.6 million** for 2023-2024.

## Suggested Options

SSROC supports Recommendations 4 and 15 from the NSW Parliamentary Inquiry report into the ability of local governments to fund infrastructure and services, released on 29 November 2024, as found in Attachment 1.

### Further to the above, SSROC also suggest the following:

- 1 That the State government funds the full amount of the pensioner rate rebates, in line with inflation.

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  - 2 That the State government restores local library funding to its original level of 50% of operational cost.

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  - 3 SSROC Council's (like many Councils in NSW), are vulnerable to the impending waste crisis, therefore, we request the NSW government reinvest the waste levy revenue into the NSW waste sector (i.e. Councils) to address the current and impending waste crisis, rather than waste levy funding being directed to NSW consolidated revenue.
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# Revenue Constraints

## Key Points

Local government revenue growth lags State and Commonwealth revenue growth, with factors like rate pegging and cost-shifting exacerbating this problem.

Financial Assistance (FA) Grants from the Commonwealth have declined significantly over recent years, thereby limiting the resources available to Councils, and impacting on their financial sustainability. FA Grants now sit just above 0.5% of Commonwealth Tax Revenue (CTR), down from 1%.

The lack of financial autonomy for Councils means that Councils struggle to meet the service demands and infrastructure needs of the community, with current levels of revenue insufficient to adequately deliver the services and facilities expected by our communities.

A Councils ability to increase its own source revenue is constrained by legislation, with many fees charged by Council being regulated by the NSW Government, meaning that there is little or no increase in these fees to meet the true costs of that particular service, with full cost recovery not possible.

Whilst grants to Councils are often welcomed, they can often divert a Council from servicing, maintaining and renewing existing infrastructure. This is due to the fact that most grants are made available to support new or upgraded assets (not the maintenance of such), which can result in Councils needing to divert limited resources to deliver the grant funded projects.

While assets and infrastructure are discussed further below in more detail, it is worth noting that keeping up with adequate asset maintenance is severely hampered by the revenue constraints placed on Councils.

Councils are also subject to unexpected shocks and vulnerabilities that are unable to be planned for. These events, put pressure on existing revenue sources and can impact on a Councils financial sustainability.

Unexpected shocks are events that can have a significant impact on a Councils financial sustainability (and service delivery) and could include:

- Pandemics
- Natural Disasters
- Inflation
- Cost of Living

Vulnerability in the context of financial sustainability relates to the degree of exposure to potential shocks that could impact upon Council finances.

## Impact

Ongoing revenue constraint results in cumulative asset maintenance shortfalls that are worsening over time.

Ten out of 12 SSROC Councils have received at least one SRV over the past 10 years. Across NSW, 94 councils have applied for an SRV since the 2012/13 financial year supporting the notion that revenue is constrained for NSW local government as a sector.

As an example, the statutory stormwater levy (which has remained at the same level since its inception in 2016, stands in contrast to the stormwater service charge levied by Sydney Water on properties within catchments serviced by Sydney Water stormwater infrastructure. The Sydney Water charge is around \$81 per annum for a stand-alone house, which is over three times as much as the stormwater

levy Councils can charge. Sydney Water's charges are also reviewed by IPART and have generally risen with inflation. Ultimately, the difference in revenue collected by Sydney Water and Councils and the limitations imposed on Councils for increasing the stormwater levy has led to inequities in how stormwater management outcomes are delivered.

As noted under the Cost Shifting section above, cost shifting, combined with revenue constraints forces Councils to continually re-prioritise funding away from providing improved services to the community like roads, footpaths, community facilities, stormwater, parks and cultural services and limits a Councils ability to be able to increase levels of service as expected by the community.

## Suggested Options

SSROC supports Recommendations 1, 3, 5 and 7 from the NSW Parliamentary Inquiry report into the ability of local governments to fund infrastructure and services, released on 29 November 2024 and as found in Attachment 1.

### Further to the above, SSROC also suggest the following:

- 1 Advocacy to restore Financial Assistance Grants to at least 1% of Commonwealth Tax Revenue (CTR).
- 2 At a minimum, statutory charges should be indexed with the aim of reducing the amount of rates revenue that is required to subsidise the costs of providing those particular services.
- 3 Review the stormwater levy with the aim to provide for increases in the levy in line with inflation as a minimum.
- 4 Review grant funding programs to accommodate the cost of ongoing asset maintenance and renewal as well as initial capital investment.
- 5 Undertake a review of the cash expense coverage ratio and whether the current target of 3 months is considered satisfactory still given the rising occurrence of events and their cost impact.



# Asset and Infrastructure Maintenance

## Key Points

SSROC Councils manage assets to the value of **\$26B**.

Local government manages major, critical infrastructure such as roads, parks, community facilities and stormwater, but faces funding shortfalls. The asset maintenance gap is growing and will have significant long-term impacts on many Councils.

In theory, Councils should be aiming to renew assets at a rate equal to or greater than depreciation. However, Councils struggle to maintain assets adequately due to the impacts of ongoing and increasing cost shifting, revenue constraints and the increasing costs of goods and materials.

Spending on asset maintenance and renewal is not able to keep pace with the rate of asset deterioration, with the required asset maintenance expenditure being greater than their actual asset maintenance expenditure.

Whilst traditionally an assets useful life has been defined by its 'engineering' lifespan, with changing community needs and expectations, assets may need to be renewed before reaching the end of their 'engineering' life, as they are no longer considered fit for purpose by the community. This accelerates costs and may delay other planned works.

Asset renewal projects that target infrastructure backlog issues, generally involve betterment (and appropriately so), or expansion that requires detailed community engagement and stakeholder management. These elements whilst important, can delay overall project delivery.

## Impact

The average Asset Maintenance Ratio for SSROC Councils is 107.59 compared to the benchmark of 100.0. On the surface this would indicate that SSROC Councils are investing enough funds to stop their infrastructure backlog from growing. However, this figure defies the trend that is occurring across SSROC Councils, where the infrastructure backlog ratio has failed to be achieved for the last 6 years.

82 Councils across NSW failed to meet the Infrastructure Backlog Ratio target of 2% in 2022-2023 and at least 33 of these Councils applied for an SRV, highlighting that even with an SRV Councils could still fail the 2% target. The IPART also found in their final report on the rate peg methodology in 2023, that more than half of NSW Councils do not meet the Infrastructure Backlog Ratio.

The fact that a large group of metro councils cannot meet the target consistently over a period of time indicates that either the measure (i.e. this ratio) is flawed or the capacity of the Councils is lacking to deliver appropriately, albeit SSROC Councils generally meet many of the other criteria.

A decline in the condition of our assets is due to lower maintenance and renewal investment programs being completed when due and in some cases compounded with environmental issues or deteriorating factors. This deferral of essential maintenance and renewal impacts on the life of the assets, leads to greater costs into the future and reduces the community's benefit from using community infrastructure in a safe and a low risk manner.

## Suggested Options

SSROC supports Recommendations 5, 11, 13 and 14 from the NSW Parliamentary Inquiry report into the ability of local governments to fund infrastructure and services, released on 29 November 2024 and as found in Attachment 1.

### Further to the above, SSROC also suggest the following:

- 1 Request the State government undertake an examination of the Infrastructure Backlog Ratio in its current form to understand if it is in fact a useful guide for Council asset management and funding.
- 2 Support Councils to manage infrastructure assets with targeted support, training and then funding to address backlogs.
- 3 Coordination between the three levels of government around funding priorities so that grant funds are targeted appropriately and timely.
- 4 Review grant funding programs to accommodate the cost of ongoing asset maintenance and renewal as well as initial capital investment.

The snapshot below highlights the number of SSROC member Councils that struggle to adequately fund the maintenance and renewal of infrastructure assets, on a consistent basis. According to the OLG, a result of greater than 100% for this ratio, is considered satisfactory:

Buildings & Infrastructure Renewal Ratio % - SSROC Councils



The Infrastructure Backlog ratio assesses the rate at which assets are renewed, relative to the rate at which they are depreciating. The snapshot below highlights the number of SSROC member Councils that struggle to adequately meet the benchmark of less than 2%:

Infrastructure Backlog Ratio % - SSROC Councils





# Climate Change

## Key Points

All Councils face ongoing and major risks from weather events and natural disasters, which often leads to significant damage to their assets.

This can cause serious disruptions to the delivery of Council services, generate unbudgeted financial impacts, and affect the overall wellbeing of the community.

A lack of funding from other levels of government to adequately support Council's crucial role in climate change mitigation limits our ability to implement necessary measures.

There is also a lack of recognition from other levels of government that more funding is required in order for Councils to be able to build back better (i.e. to enable an uplift in capacity) either as a result of damaged assets, or in an effort to ensure that certain assets are improved in order to mitigate the increasing impacts of climate change.

Climate change is also forcing Councils to update design specifications so upgrades to assets like sea walls take into account the latest available climate change projections. This is in an effort to enhance resilience to future climate change impacts i.e. raising the height of a sea wall or relocating an asset to higher land.

Councils face higher costs due to the need for climate adaptation and mitigation measures. This includes upgrading infrastructure to withstand extreme weather events, investing in renewable energy, and implementing sustainability projects.

Councils need to integrate climate risks into their long-term financial planning, which must include considering the dual issues of the potential costs of inaction and the benefits of proactive measures. Failure to do this will result in adverse impacts on service delivery across all Council services.

Climate change is reducing the lifespan of Council assets such as buildings, roads and footpaths due to hotter, drier conditions, resulting more frequent inspections and increased maintenance costs.

On 19 November 2024, the report from the NSW Government *Portfolio Committee No. 7 - Planning system and the impacts of climate change on the environment and communities* released their report. The Chair's forward includes the following:

*Furthermore, given the impacts of climate change and the need to prepare and adapt to those impacts fall heavily on local communities, the report recommends that the NSW Government continue to support councils to undertake their functions in addressing climate change, such as assessing the need for additional funding and making sure councils have the appropriate skills to assess large and complex proposals.*

## Suggested Options

In line with the recommendations from the *Portfolio Committee No. 7 - Planning system and the impacts of climate change on the environment and communities* report on 19 November 2024, the following recommendations should be investigated further and implemented:

### **Recommendation 8:**

That the NSW Government continue to support councils to undertake their functions in respect of addressing climate change where necessary, such as

- Assessing the need for additional funding
- Making sure councils have appropriate skills to assess large and complex proposals.

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### **Recommendation 12:**

That the NSW Government introduce a formalised governance structure at the State level to provide leadership and better assist local coastal councils with the management of catchments, funding and administrative constraints in relation to their Coastal Management Plans.



# Cyber Security

## Key Points

Councils are increasingly targeted by cyber-attacks as they implement more increasingly integrated systems. However, Councils often lack the financial and human resources and sometimes the expertise, to manage such matters and then if a data breach or similar does occur, the ability to be able to respond to and/or reduce the risk in a robust manner.

Councils are becoming increasingly exposed to the risk of loss of data, ransom situations and fraud due to unsecure networks and weak information security practices.

Councils are being held to the same cyber security standards as the Australian government, yet without the adequate resources to manage this now or into the future.

According to the 2023-2024 annual report from the Information and Privacy Commissioner (IPC), the IPC received 54 notifications under the Mandatory Notification Data Breach (MNDB) Scheme in 2023-2024, with 19% of these coming from local Councils.

The Australian Cyber Security Centre (ACSC) estimated that the average cost of a cyber-incident for a medium-sized organisation is around \$100,000 per incident (2022-2023), an increase of 14% since 2021-2022.

According to the NSW Audit Office (AO) report into *Cyber Security in Local Government* released in March 2024, the threat from cyber security incidents continues to rise. Such incidents can harm local government service delivery and may include the theft of information, denial of access to critical technology, or even the hijacking of systems for profit or malicious intent.

## Impact

Financial constraints across Councils hamper the ability to fund the preparation and allocation of resources and the ability to be able to respond to cyber threats when they occur at a level that is acceptable to the community.

If Councils are able to address these risks early and enable protective systems and resources, there would be a lower overall level of community risk exposures and costs that would ultimately assist in maintaining the level of trust in local government.

The NSW Audit Office reports that, ineffective identification of cyber security risks, can leave Councils exposed to unmanaged risks which can lead to unnecessary costs, disruptions to services and reputational risk.

The NSW AO report into Cyber Security in Local Government released in March 2024, states that the threat from cyber security incidents continues to rise. The report says that such incidents can harm local government service delivery and may include the theft of information, denial of access to critical technology, or even the hijacking of systems for profit or malicious intent.

According to an independent review for one SSROC member Council, to implement adequate cyber protections will cost **\$1 million** in upfront costs, with annual recurring costs of up to **\$300k**.

## Suggested Options

Cyber Security NSW should provide resources, expertise and software to assist in the safety and protection of Councils from cyber-attacks. This would be far more efficient than individual Councils attempting to do this, in order for Councils to meet the recommended level of maturity.

The financial burden of meeting adequate levels of cyber security should be shared equally between rate payers and State Government, as the substantial costs of ensuring cyber security are beyond the capacity of individual Councils.

In addition to ongoing funding, the State and Federal government should establish a regular, non-competitive funding stream for Councils to support the implementation of appropriate cyber security arrangements.

By achieving a uniform standard across all Councils in NSW would be better positioned to avoid the consequences of a cyber-attack, including data breaches, financial losses, legal and regulatory liabilities for compromised information, disruptions to business continuity, and reputational damage.



# Local Politics and Political Leadership

## Key Points

Section 8B of the *NSW Local Government Act 1993* outlines the financial management principles for councils to use when making key policies and decisions impacting the financial sustainability of the Council.

However, the nature of the four-year election cycle in local government can encourage short-term decision making. Issues arise when decisions are made that appear to conflict with the principles in the *Local Government Act* that potentially threaten the longer term sustainability of the council's financial position.

By way of example, Councillors may be elected on a platform, including freezing rates. Often, such campaigns are run, and decisions are ultimately made without a full understanding of the financial position of the Council, or the future impacts that such a rate freeze will have.

Another example is that there is sometimes a belief by Councillors and members of the community that a Council should have limited or no debt funding. This approach eliminates a viable source of funding for major projects and infrastructure, but also lessens any intergenerational equity, a key financial management principle in the Act.

There may also be instances where a Council resolves to move forward with a project or a particular strategy that does not necessarily align with the professional (financial) advice of the Council staff. There is a risk that when a Council resolves against the advice of staff on matters relating to the affordability and or viability of a project/s, or the funding approach for an upcoming project, initiative or action

that the future financial sustainability of the Council could be jeopardised.

Decisions that appear to consider public sentiment over sound financial management principles have long lasting and detrimental impacts on the council, and in turn the community.

Currently, the responsible accounting officer is required to make a statement that the council is in a satisfactory financial position for the current budget year only.

There does not appear to be any mechanism to provide oversight when councils enact decisions that fail to acknowledge the principles of financial sustainability for their council and community.

## Impact

A rate freeze can have a dramatic impact on a Council depending on the size of the Council. For instance, if a high growth SSROC member Council had a rate freeze applied to it, this could result in a \$200 million shortfall over a 10-year period, noting how difficult it is likely to be to 'catch up' this funding.

A reluctance to have debt funding could mean that a Council will not have adequate funding with which to maintain critical assets into the future and will be forced to rely on any financial reserves that they have on hand to fund such projects. This in turn then puts pressure on the delivery of regular, core services to the community, noting the billions of dollars of assets under the care and control of Councils.

## Suggested Options

### SSROC suggests the following:

- 1 The NSW government implement a process requiring any council considering a rate freeze or reduction is required to undertake the same process required for an SRV associated with a rate increase. This process including community engagement, long term financial planning and a submission to the IPART.
- 2 If a rate freeze is to be contemplated by a Council, then from an IPR perspective, such a rate freeze should be shown in the long term financial plan (LTFP) as an option and publicly exhibited in the same way an SRV is exhibited and communicated.
- 3 If a rate freeze was to be implemented, it is possible that showing this could worsen the future intergenerational inequity and likely force the imposition of higher special rate variations in the future unless the overall service demand is adjusted accordingly.
- 4 The LTFP would also need to identify which services or projects would not progress for the duration of the LTFP.



# Getting our own house in order

As demonstrated throughout this paper, there are many factors impacting the financial sustainability of local government. Whilst all these factors have real-life consequences for Councils and their communities, each Council also has a responsibility to get its own house in order, that is, to be as efficient and effective as it can be, across the range of services it provides and within the resources it has available to it.

In order to build long term financial sustainability, Councils need to take steps to ensure that the services being provided to the community are those that the community need and are willing to fund, at least in part.

There is little doubt that factors such as the rate peg and gaps between inflation and the rate peg have contributed to Councils reducing levels of service over the decades. It would be fair to say that Councils have been reluctant to demonstrate to the community the true cost of any particular service, as this can heighten political tensions within a community. However, without a logical basis for discussion, some Councils may struggle to engage and focus on improving their own efficiency and sustainability, until financial sustainability is at a critical point. Whilst many Councils, including SSROC will argue that the rate peg should be abandoned, there appears to be very little prospect of this occurring in the near future.

Therefore, Councils must intensify their own critical assessment of the services being provided, reduce expenditure where possible and look to increase revenues outside of rates and grants, none of which is easy. The recent introduction of service reviews through the IP&R process is stimulating local government across NSW to focus on efficiency and effectiveness and when partnered with the broader activities of IP&R enables councils to have sound discussions on future service provision options between the community, their elected Councillors and within the organisation.

This will not remove the need for SSROC or the local government sector more broadly, to continue to advocate for an overhaul of the funding model for local government in NSW, rather it needs to work within the current system, whilst continuing to advocate for positive and impactful change. We need to do what we can now with what is within our control to avoid the challenges we are dealing with becoming even more insurmountable than they already seem.

Councils need to continue to focus on ensuring that their current budget and financial processes are delivering value for money for ratepayers and residents in alignment with local priorities and that through better planning and reporting, there is greater transparency for Councillors and the community over the financial and operational performance of their Council.

# SSROC member Councils will continue to ensure that they:



Effectively manage their financial resources to achieve the long-term viability of essential services and infrastructure.



Strive to maintain a prudent level of financial reserves and adequate working capital to safeguard against unforeseen economic challenges and or emergencies.



Have in place appropriate budgeting, responsible debt management and strategic long-term financial planning.



Continue to meet the community's needs (via the Integrated Planning & Reporting framework), without compromising the ability of future generations to enjoy similar or improved services and infrastructure.





# SSROC

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**Attachment 3**



Held at the Civic Gallery, PHIVE, Parramatta on 23 July 2025

## SUMMIT REPORT

### Background

NSW councils are facing increasing local infrastructure and services responsibilities. At the same time, their finances are increasingly heavily stressed; local government revenue sources are rising at a slower rate than costs are increasing, costs are being shifted from state to local government, and community expectations are ever increasing.

Southern Sydney Regional Organisation of Councils (SSROC) Finance Group developed a regional response to the cumulative impacts of a range of imposts upon, and cost-shifting to Councils and shared the report with other councils in greater Sydney. An inaugural Local Government Financial Sustainability Summit was subsequently organised and held on Wednesday, 23 July 2025 at the Civic Gallery, Parramatta.

The Summit was attended by 59 delegates comprising Chief Executive Officers / General Managers, Chief Finance Officers and Directors of Corporate / Finance from councils across greater Sydney. It was also attended by representatives from the Office of Local Government and Local Government NSW.

The Chair of SSROC Finance Group and General Manager Woollahra Council, Craig Swift-McNair and the Chief Executive Officer, City of Parramatta, Gail Connolly welcomed participants to the Summit.

The Summit featured presentations and table discussions. One of the key highlights was a panel session featuring Therese Cole (CEO, North Sydney Council), Caroline Foley (CEO, Northern Beaches Council), Michael Mamo (General Manager, Strathfield Council), Kerry Robinson (CEO, Blacktown Council) and Steven Head (CEO, Hornsby Council).

The Office of Local Government presented on NSW Governments Local Government reforms. Selected highlights of presentation is in **Appendix 1**.

Another key feature of the Summit was a detailed presentation by Geoff Burton (Business Planning & Performance Manager at the City of Sydney) and Richard Sherian (Director – City Performance at Bayside Council) on the state of finances across Sydney metropolitan Councils.

The Summit provided an opportunity for attendees to discuss priorities and collective approaches to advocacy that can strengthen council financial sustainability across metropolitan Sydney and NSW. The list of Councils /Organisations represented at the Summit is in **Appendix 2**.

## Identified Issues Impacting on Financial Sustainability

(shown in no particular order)

The following information has come directly from feedback provided at and post the Summit and are here to reflect the intent of the issues raised.

### Special Rate Variation Process:

- Need to simplify the Special Rate Variation (SRV) process. Introduce a new model of rate increase that may not require an SRV. For example this could be where a Council could apply a certain percentage increase above the IPART determined rate peg, if they achieve a benchmark or level of governance or based on another factor, without the need to apply for an SRV. Community engagement would need to be factored in but would differ from the current SRV expectation. Any increase above that determined percentage would need an SRV application as per current practice.
- Somehow there needs to be a separation from the politicisation of the SRV process, where some councils have made SRV related decisions from a political perspective that could put the Council in future financial peril and ignoring their responsibility as stewards of the community's assets.
- Consider potential new criteria to be included in the SRV process that demonstrates how much of the funds derived from the SRV would be applied to new and or existing infrastructure. The current assessment of SRVs does not appear to differentiate between the two.
- The current SRV process excludes major projects from the calculation, but includes reserves, which are not useable revenue for most purposes. It requires Councils to present the SRV to Councillors and the community as cumulative and compounding and this should be discontinued.
- Diversity of councils needs to be recognised in the SRV process.
- IPART's process for determining SRVs is increasingly opaque and flawed. With no opportunity to talk through a proposed SRV with IPART, nor to

respond to any issues that IPART perceives with an application, leaves open the opportunity for misinterpretation by IPART. Coupled with no opportunity to appeal or even to reply to the IPART determinations, councils and their communities may be denied and then face the costly process to re-apply in future years on the basis of a mis-interpretation.

### **Rates:**

- There is currently no barrier to a sitting Council making a decision on a project and or additional services that may not in the long-term, be financially sustainable, thereby leaving a future elected Council to have to make a decision about potentially applying for a special rate variation in order to address the project and or services being provided.
- In some councils, business rates are low relative to the impact of the business on the local area.

### **Build to Rent:**

- Build to Rent is an issue in that the individual units are not rateable, just as the one lot, therefore reducing substantial revenue to Councils for local infrastructure.
- A review to introduce new different rating categories is needed, in addition to the existing “residential” or “business” categories for metropolitan councils. For example, Build to Rent should be a separate category and Queensland has multiple rating categories to address similar issues

### **Planning Reforms:**

Planning reforms and the impact of Housing Development Authority (HDA) approvals; State Significant Development approvals (SSD) and the Low and Mid Rise (LMR) housing reforms all have funding impacts for councils. Minimal adequate funding (and in some cases none), coming to Councils to support the population and housing growth adds further stress on communities facing development and population growth. Voluntary Planning Agreements (VPAs) are also at risk with these developments. There is a substantial lack of value capture for councils and their communities, leaving the funding of matching infrastructure in the hands of the local Council to deal with into the future.

### **Council Reporting:**

Many financial reports are incomprehensible to Councillors, Council staff and to the community. To address this, new guidelines on financial sustainability and reporting should be incorporated into the Integrated Planning & Reporting (IPR) legislation and handbook, to be followed by all Councils. If this advice was within the IPR framework, it would enhance the integration and the importance of financial planning and reporting within the IPR framework when councils adopt their long term plans and short term decisions.

### Asset Management:

- Inadequate investment into infrastructure assets has been ongoing for many years, yet investment in assets saves costs in the future. Inadequate asset maintenance today, simply shifts the cost to future generations, raising intergenerational equity concerns.
- Infrastructure in local government is rapidly ageing. For example, legacy landfill sites, built to the standards of the day, now require costly remediation.
- Understanding the asset backlog is difficult, and there are no standard definitions or consistent methodology for assessing it. Consistency in how Councils calculate their asset / infrastructure backlogs.
- Basic asset condition data is lacking and inadequate s7.11 income leaves councils billions of dollars across NSW short for new local infrastructure.

### Councillors and Notices of Motion:

- Elected councillors clearly have a right to put up Notices of Motion (NOMs) to any council meeting. Notice of Motions are very wide and varied but can result in changing priorities and additional expenditure and or staff resourcing being required to do whatever the NOM requires. Accountability needs to be built into the role of the Councillors to ensure that their resolutions do not force Council now or into the future, into dire financial circumstances.
- It should be noted that the proposed new draft model Code of Meeting Practice (as publicly exhibited) takes away the requirement for Councillors to give consideration to how the initiative they are putting forward in a NOM is to be funded.
- Need to review the role of Councillors in decision-making in the above circumstances, when it comes to financial decisions that may impact on the Council.

### Service Levels:

- Councils face the real risk of a decline in the ability to maintain adequate service levels due to insufficient funds to maintain services.
- There is no clear definition of, or methodology for “service reviews” that all councils are required to undergo, including what IPART means by it.
- It is impossible to run a council effectively like a business, under the current LG legislation / regulation environment such as procurement restrictions.
- Perhaps it is time to define core and non-core services and require full cost recovery, especially for non-core services. Persistent tension between cost recovery/user pays and social justice values exist

### **Increasing Population:**

Issues of more population, increased pressures on infrastructure and community services that councils will be expected to deliver.

### **Regional Procurement:**

Councils should undertake more and targeted regional /sub-regional procurement to ensure best value for money.

### **Cost Shifting:**

Cost shifting is a major issue as confirmed in the latest Local Government NSW (LG NSW) Cost Shifting report and highlighted by the NSW Parliamentary Committee Inquiry. The LG NSW's cost shifting report in July 2025 stated a total cost shift to councils of \$1.5 billion in 2023-24.

### **Debt Funding:**

Councils define their asset infrastructure back log in different ways – and there is a need for a consistent methodology if we are to compare and use standardised measures. There is a need for a methodology for debt funding, including the criteria to meet IPART requirements.

### **Other:**

- Lack of trust – The current circumstances of NSW Councils has been hampered by a lack of trust in Councils, by successive NSW Governments.
- There is a greater role for the Audit, Risk and Improvement Committees (ARIC) across all Councils in determining when a Council is financially sustainable or not and what actions should be recommended to Council for implementation.

## Proposed Improvements to Council Financial Sustainability

### Planning Reforms:

- Need for the Department of Planning, Housing and Infrastructure to work together with the Office of Local Government on the issues around the potential financial impact on Councils from the current suite of planning reforms.
- Advocate to have Build to Rent as a separate residential rating category as part of the review of the rating system, as detailed in the Inquiry recommendations.
- Advocate for removal of the rating exemptions so that Councils can recoup some funding from all the facilities /institutions that currently do not pay rates.
- Develop managing options for affordable housing that may be handed to Councils from Housing Development Authority (HDA) approvals. This is not core business for Councils and introduces a new business to a Council.

### Rates and Charges:

- Introduce a new model of rate increase that may not require an SRV. Example, where a Council can apply a certain % increase above the IPART determined rate peg if they achieve XYZ, without the need to apply for an SRV and without the need for majority agreement from the community. Any increase above that determined % would need an SRV.
- The statutory stormwater management charge to change, including an annual price indexation mechanism, following some catch up rate being applied.
- The mandatory pensioner rebate has not been indexed and either needs to be indexed via an appropriate mechanism or be funded by the State or Federal government as a direct individual welfare contribution.
- The selected use of Capital Improved Value land valuation model within a metropolitan setting would be more equitable and efficient method.
- Revaluation processes should prioritise value creation and meaningful reform.
- Revisit full service review before applying again for SRV, including a survey of the local community on services. What services that should be kept or discontinued, knowing that it could lead to rate increase. Put out some scenarios, noting that surveys could be affected by politics within community.

### Special Rate Variations:

- Advocate for removal of the need for the cumulative percentage to be used when applying for an SRV.

- Establish consistency in how financial reserves should be managed and reported on. Build in more flexibility into how financial reserves can be used - interest earned from reserve funding is currently required to remain as part of that reserve. Ideally, such interest should be able to be applied to General Fund for use as the Council sees fit.

### Asset Management:

- The LTFP can be improved to make it more robust and transparent. The asset management plan should be incorporated within the LTFP, so that Council has to acknowledge insufficient funding of asset expenditure. With minor amendments to the IPR legislation and framework, asset management plans could be incorporated into Long Term Financial Plan (LTFP), so they are considered at the same time and that any real financial gap becomes evident and reported on. We would intend to work with IPWEA and CPA on how best to get consistency around asset management.
- Explore and introduce a uniform methodology for how to determine the cost of services across NSW (metro, regional, rural), so that there is consistent reporting and benchmarking.
- Need for consistency across Councils in how they report on assets and infrastructure backlog. This should be measurable and offer opportunity for a real understanding of the funding gap between what we have today and what the LTFP indicates we need over the next 10 years.
- Explore combining asset management and business performance. Engage with Auditor General on whether asset audits are still necessary.

### Shared Services:

- More opportunities for shared services for things like debt recovery, possibly asset management and accounting systems.
- Joint procurements among councils and regional and subregion areas.

### Depreciation and Revaluations:

- Advocate for depreciation to be separated out from Council financials, which is the current practice.
- Refine the process for revaluations - every year this a major cost across all Councils.
- Explore opportunity to cease undertaking fair value assessments of all assets on the current annual cycle.

### Other:

- Amend the Audit, Risk and Improvement Committee (ARIC) Charter so that they play a far stronger role in financial sustainability oversight and reform.
- IPART should have an oversight role in any proposed cost-shifting.
- Consideration of more appropriate cost escalation measures than just CPI noting that the basket of goods for local government is different to that of a household. It is suggested that the Local Government Cost Index (LGCI) be used.

## Potential Focus Areas for Financial Sustainability

(Shown in no particular order)

1. Increase a range of statutory charges that have not been indexed such as the stormwater management fee. These type of charges should be linked to CPI or the local government cost index or components of it each year. Also, remove the restriction on how such funds can be used.
2. Introduce a new rating category for Build and Rent and other specific categories.
3. Remove the council liability for pensioner rebates.
4. Agree and define a consistent approach to asset condition assessment.
5. Maximise regional procurement opportunities.
6. Remove the requirement to show the cumulative, compounding effect of a Special Rate Variation (SRV).
7. Share learnings, experiences, guidelines and tools to enhance financial sustainability.

## Suggested Motions for the LGNSW 2025 Annual Conference

- Build to Rent: Parramatta City Council – Build to Rent should be a separate/ standalone category from residential. Current rating category not fit for purpose.
- Pensioner Rate Subsidy to be removed.
- Capital Improved Value (CIV) as a metro rating model.

## Suggested Next Steps

1. Establish a Financial Sustainability Advisory Group comprising finance, rate, assets, business operations, strategic planning experts to report back to the SSROC Finance Group, with the group to focus on refining the matters raised at the Summit.
2. Develop a policy paper on key financial sustainability advocacy matters and the potential role of Mayors as part of any advocacy, that broadly represent the concerns of Sydney metro Councils. Engage with NSW Government Expert Advisory Panel when established by OLG.

## Appendix 1

### **Selected highlights of Office of Local Government presentation at the Summit**

Financial pressures facing councils - high inflation, rising materials and labour costs, impacts of natural disasters. Solutions need to be balanced with pressures facing families and business. OLG is aware of diversity of councils.

Issues raised by councils and stakeholders in NSW Parliamentary Committee inquiry:

- Rate peg, and rates exemptions
- Council fees and charges
- Grants, including Financial Assistance Grants
- Ageing infrastructure
- Depreciation and impacts of revaluation processes; and
- Skill shortages

Government response to Parliamentary Committee inquiry:

- Recognition for importance of democracy and council autonomy
- Support 15 of 17 recommendations in full or part across 5 key areas
- Reforms aimed at promoting long-term sustainability without burdening rate payers, including:
  - Maintain IPART control over council rates
  - A Comprehensive Spending Review for permanent rates adjustments
  - Streamline financial statements and reporting
  - Establish an Expert Advisory Panel.

Link to presentation: To be inserted.

## Appendix 2

### List of Councils and Organisations represented at the Summit

Council /Organisation
1. Bayside Council
2. Blacktown City Council
3. Blue Mountains City Council
4. Burwood Council
5. Canada Bay City Council
6. Canterbury Bankstown City Council
7. Fairfield City Council
8. Georges River Council
9. Hawkesbury City Council
10. Hornsby Shire Council
11. Inner West Council
12. Lane Cove Council
13. Local Government New South Wales
14. Mosman Council
15. North Sydney Council
16. Northern Beaches Council
17. Northern Sydney Regional Organisation of Councils (NSROC)
18. Office of Local Government
19. Parramatta
20. Ryde
21. Southern Sydney Regional Organisation of Councils (SSROC)
22. Strathfield
23. Sutherland
24. Sydney
25. Waverley
26. Wollondilly
27. Woollahra
28. Western Sydney Regional Organisation of Councils (WSROC)