



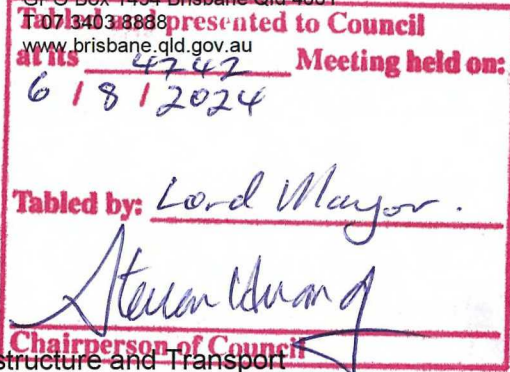
Dedicated to a better Brisbane

27 May 2024

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

RE: Parliament of Australia's inquiry into local government sustainability

I refer to The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport's inquiry into and report on local government sustainability matters.

Brisbane City Council (Council) appreciates the opportunity to provide input and has included a response in relation to the following focus points:

- the financial sustainability and funding of local government
- the changing infrastructure and service delivery obligations of local government.

Should you require further information, please contact Mr Mark Russell, Chief Financial Officer, Corporate Finance, Organisational Services, on (07) 3403 9653.

Yours sincerely

Tim Wright
A/CHIEF EXECUTIVE OFFICER

Attachment: Council's submission to the Parliament of Australia's inquiry into local governments sustainability



Council's submission to the Parliament of Australia's inquiry into local governments sustainability

Brisbane is one of Australia's fastest growing capital cities, with record numbers of people choosing to live and work in Brisbane. Recent budget papers reveal that the Australian Government Treasury underestimated interstate migration to Queensland by 7,300 people this year and expects it to be 1,600 above its forecast for next year. The Australian Bureau of Statistics predicts Brisbane will house the majority of the State's population by the end of 2027-28. This growth will place increased pressure on the availability of infrastructure and services to support our community.

As Australia's largest local government, Brisbane is faced with unique challenges which can require a different focus and perspective to other councils. The issues being considered through this inquiry however are common including impacts for long term financial sustainability associated with increased cost shifting and economic drivers increasing costs above revenue growth, whilst not receiving the growing shares of taxation being collected by other levels of government.

There have been a number of Queensland Government decisions requiring local government to address state government issues without funding. It is not anticipated that Council will see similar levels of growth in our revenue streams e.g. rates and charges, infrastructure charges, subsidies and grants due to significant limitations with both Queensland Government and Australian Government funding. This is further exacerbated by the ongoing cost increases, meaning Council achieves less with its' current revenue base. When combined with a range of recent decisions to remove or limit eligibility for Brisbane from funding opportunities, this creates a scenario which has placed unprecedented pressure on our ability to meet the needs of our growing community while remaining financially sustainable.

It also creates a scenario where Brisbane's rates revenue is being diverted to pay for Queensland and Australian Government issues. Examples include:

- investing \$140m per annum in operating funding to subsidise the cost of operating the public transport network
- provision of childhood vaccinations with Council funding 65% for delivery of immunisations
- amendment to legislation requiring Council to take responsibility for management of fire ants on Council land from 1 July 2024
- a legislative requirement to collect the Emergency Management Levy on behalf of the Queensland Government leaving Council out of pocket as the fee provided for collection has only increased by 10% since 2005. In comparison inflation has increased over 60% over this period
- legislative requirements under the *Environmental Protection Act 1994* to undertake audits, investigations and enforcement to prevent impacts on the community and environment
- maintenance of Queensland Government assets including boat ramps and pontoons.

Funding and delivery of major transport infrastructure

As Australia's largest local government, Council has an asset base of almost \$40b and therefore it is in a unique position when it comes to constructing major infrastructure. While Council's size and scale allow us to deliver projects not often undertaken by other local governments, recent expectations and costs of Council's contribution to these works directly impacts the long-term sustainability of Council. Other levels of government have not shared the risk of increasing costs on projects with Brisbane like they have with other state governments and local governments. This has meant that Brisbane has had to work hard to address the impact of cost increases as well as impacting our ability to provide other services to the community.

Council should not be in a situation where it must solely fund cost increases on Australian and Queensland Government funded and supported projects. Council is currently delivering several major transport infrastructure projects in partnership with the Australian Government. These projects are designed to relieve traffic congestion, support faster and more reliable public transport, and expand active transport options for our growing population.

These projects include the Brisbane Metro, Kangaroo Point Green Bridge, the Moggill Road Corridor Upgrade, and the Lindum Rail Crossing Upgrade. For each of these projects, the Australian Government's contribution was based on a proportion of total delivery cost at the time of construction commencement, meaning that Council holds all the project risk with respect to contract escalations. However, in line with impacts reported throughout the industry, Council is facing extreme cost pressures.

The rising price of materials and labour is contributing to unprecedented cost escalations. Other challenges, such as significant lead times and skills shortages, add to the complexity of delivering infrastructure outcomes for our community, and put project costs under further pressure. This means the ultimate Council funding contribution for these projects has significantly increased, far past the originally intended contribution. Council works to contain cost pressures across these major projects including descoping of non-essential elements of delivery, however, without changes to the ongoing funding model, these types of works will impact the delivery of other core services.

Local government delivers services directly to the community more so than any other level of government and has a responsibility in a cost of living crisis to keep any rates increases moderate. However, the ongoing increases to the cost base of local government services driven by persistent services inflation far outweighs any available revenue base growth.

Cost pressures are occurring across the breadth of services Council delivers. The revenue levers available to local government are the most limited of any level of government, meaning options to grow the revenue base in the current cost of living crisis are incredibly challenging. This is a critical issue for all local governments and is something that needs urgent attention and support by other levels of government.

This is further supported by the fact that the Queensland and Australian Government revenue base has grown in real terms through economic growth which increases taxation and other revenue services, such as PAYG tax, GST tax, company tax, property taxes, where this is clearly not the case for local government. Local government is the only tier of government that has not received real growth in funding.

Australian Bureau of Statistics data from 2012-13 to 2021-22 (10-year period), highlights the inequity in the annual taxation revenue growth experienced by different levels of government:

- Australian Government – 65% growth
- Queensland Government – 74% growth*
- local government – 46% growth.

Note: *Queensland Government land tax alone has increased by 66% over the 10-year period compared to the increase of 46% in local government rates.

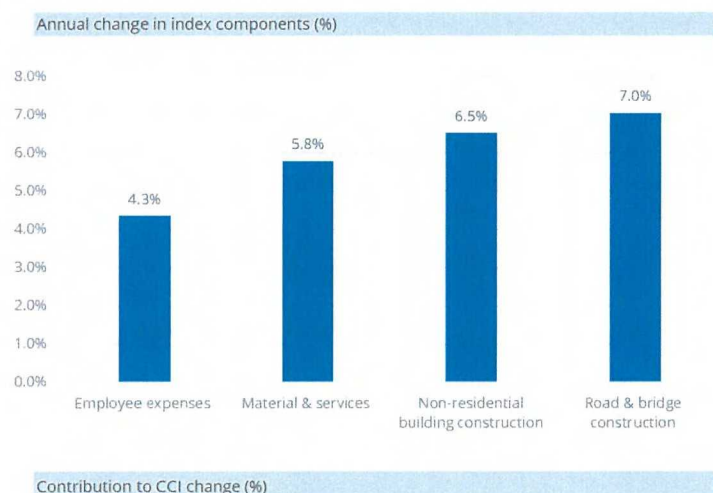
While the Queensland and Australian Governments have experienced significant revenue growth, this has not been passed onto local government through the Financial Assistance Grant. In fact, from 2014-15 to 2016-17, the grant was 'frozen' resulting in significant lost revenue to Council. Council has been further impacted by a change in the Financial Assistance Grant allocation methodology applied by the Queensland Government from 2022-23, reducing Council's share and redistributing to regional councils.

As mentioned in the Local Government Association of Queensland (LGAQ) Cost Shifting Report released in January 2024, local governments only collect 3% of 'taxes' compared to 80% by the Australian Government, yet function as the frontline service provider in the country. The current difference between revenue and responsibility is inequitable and contributes to ongoing financial sustainability pressures on every local government in Australia.

Community expectations are increasing and the increased cost of providing services, leads to reductions in the ability to deliver for communities. Dedicating sufficient Australian Government resources to directly address cost shifting considerations and consequences is critical to ensuring long term local government sustainability and urgent action is recommended.

Whilst local governments share of revenue growth is significantly below the Queensland and Australian Government, the cost to deliver core local government services has increased significantly over recent years and exponentially over the last 12 months. The Council Cost Index (CCI) provides an indicator of cost increases across a range of infrastructure and services delivered by Queensland local government.

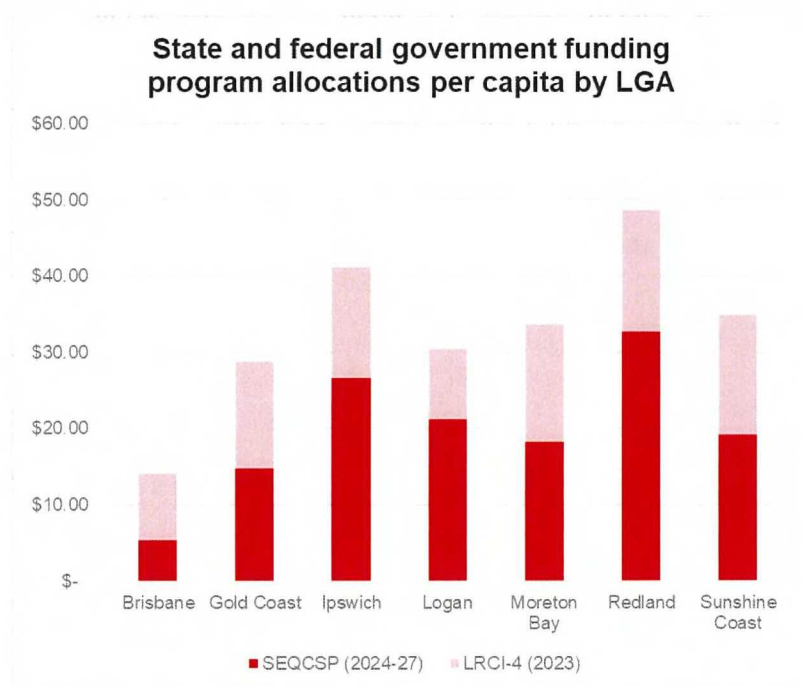
It shows that over successive years, substantial cost increases have impacted Council with average escalation of 6.9% in 2022-23, 4.4% in 2023-24 and a forecast escalation of 3.9% in 2024-25. The graph below shows the significant change experienced in components to the index including labour, commodities and service provision.



Source: LGAQ – 2024 Council Cost Index

Over the last 10-years, grant funding from the Australian and Queensland Government to local governments in Queensland, has only increased by 12%, well below the increase in operating costs at 31%. In addition to operating grants, councils have also experienced a reduction in grant programs available to fund infrastructure delivery, or requirements for Council to incur significant cost of a grant application or a requirement for co-contributions to progress.

Recently, Phase 4B of the Local Roads and Community Infrastructure Program grants restricted funding of \$250m to only 'rural, regional and outer-urban' councils, meaning Brisbane and Logan Local Government Areas did not receive any additional funding, while neighbouring Local Government Areas made up of similar mixes of metropolitan and suburban areas such as Moreton Bay City and City of Gold Coast were eligible. In addition, recent rounds of the Queensland Government's South East Queensland Community Stimulus Program mandated an arbitrary cap on the funds available to Brisbane City Council, with councils with significantly smaller populations and with lower recent population growth receiving larger allocation in actual terms, and a significantly larger allocation on a per capita basis.



Cost shifting between levels of government

All these issues would be difficult enough if the expectations of local government were remaining static. This is not the case. Another direct impact on the ongoing financial sustainability of Council is the impact of subsidisation of other levels of government services. The service delivery obligations placed on councils is only continuing to increase as is the cost of delivering those services. This not only relates to core service delivery such as road and park maintenance, waste disposal and community services, but also an extends to other areas of service delivery that were traditionally provided by other levels of government or the private sector.

For example, recent changes in expectations associated with biosecurity and invasive species in Queensland have shifted the burden of response to local government, costing Council millions of dollars. Every year, additional service delivery burdens are placed on local government forcing Council to divert rates revenue to cover these issues.

Another example unique to Council is its contribution to public transport and infrastructure. As Australia's fastest growing major capital city, increased investment in public transport and infrastructure is critical for Brisbane and more broadly in South East Queensland. Without ongoing and increased financial support to deliver these transport services, further constraints to service delivery and sustainability will occur.

Council currently invests more than \$140m per annum to subsidise public transport. Over the past 10 years, Council has invested more than \$1.4b to establish and maintain capital infrastructure to support bus public transport. This is a significant impost on Council, and one which is not expected or incurred by any other local government, and ultimately adds additional pressure to funding available for other Council services.

Increasing cost burden from waste management and disaster response/recovery

Waste disposal also remains a significant issue for Council and local government as a sector. While Council is investigating ways to improve resource recovery and reduce waste going to landfill, residual waste disposal is costly.

The increasing financial impact of the Queensland Government's Waste Disposal Levy and impending closure of remaining landfill space requires significant future investment in infrastructure to process residual waste. It also constrains ongoing financial sustainability and should be looked at holistically for solutions, rather than at an individual local government level.

The need to address critical climate impacts and the increasing frequency of natural disasters adds additional pressure on Council's financial sustainability and needs ongoing commitment by all levels of government. In February 2022, a severe rainfall and flood event caused widespread damage across Brisbane, with the cost to rebuild and recover impacting Council finances by almost \$300m. This financial impact is after proceeds from insurance and funding accessible under Disaster Recovery Funding Arrangements. This was particularly exacerbated by the material change in approach in disaster arrangements and the evidence required to establish an impact by the disaster.

In the previous major flood event in 2011, Council was required to contribute just over 33% of rebuilding and recovery costs. In the 2022 event, Council's contribution almost doubled, to more than 65%.

Timing of Federal Assistance Grant payment

Over recent years there has been significant variation in the timing of payment of annual Financial Assistance Grants. For the 2021-22 allocation approximately 49% of the amount was paid in the prior financial year. In 2022-23, approximately 79% of the annual payment amount was paid in June 2022, the prior financial year. In May 2023, the Government announced a change in the proposed timing of these grant payments for the 2023-24 year. Proposed changes suggested 100% of funding would be paid during 2023-24. A few weeks later, this position was changed, with advice that 100% of the funding would be paid by 30 June 2023.

Accounting standards require that this general-purpose funding be recognised by Councils as revenue at the time it is received. Changes to the timing of payments can significantly impact council financial statements causing significant variations from year to year. In addition to the unpredictable impacts on operating capability, these changes can impact cash flow and borrowings. With appropriate notice, Councils can plan to mitigate these impacts and budget appropriately.

The role of the Australian Government in addressing these issues

Even one of these issues would be significant for a local government with limited revenue levers to respond to. Australian and Queensland Governments need to consider the impact they are having on local governments which are driving more work, incurring greater cost and generating less revenue. Financial sustainability is now a concern for every local government in Queensland and it is clear that the system requires an overhaul.

Brisbane residents deserve their fair share of government revenue, and they deserve a system which supports growth and allows for ratepayers funds to be directed to core local government services.

- Council seeks a commitment from the Australian Government to increase funding and consider flexibility of funding to offset unforeseen cost escalations and impacts, for key infrastructure investment, major projects and transport, that considers costs escalations and unique requirements for the future investment needs of the Brisbane community as a matter of urgency.
- Council seeks a commitment from the Australian Government to actively address the impacts of cost shifting, including immediate actions to increase and maintain annual increases of the Financial Assistance Grants, to a model of at least one percent of Federal taxation revenue.

- Council seeks a commitment from the Australian Government to undertake natural disaster funding reform to provide a simpler system for approvals and access to funding.
- Council seeks a commitment from the Australian Government that future funding opportunities for local governments will not unfairly exclude one of Australia's fastest growing capital cities from consideration.
- Council seeks greater consistency in the timing of payment of Financial Assistance Grants to local governments.