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Your submission for this review:

Local government in general, and Blue Mountains City Council in particular, have community service obligations that significantly exceed capacity to generate revenue. Unless positive financial adjustments are made, the constitutional responsibilities of local government are being increasingly misaligned with the capacity to raise revenues needed to meet financial demands made upon it. This misalignment is having serious consequences for local government and communities and made worse by impacts of climate change damaging infrastructure. The draft Dam Safety NSW Levy review is proposing further cost shifting from State to Local Government that will worsen the current serious vertical fiscal imbalance. The draft report proposing sharing costs between dam owners ignores three critical elements that are fundamental omissions. The vertical fiscal imbalance that exists between levels of government. The financial sustainability of local government will almost certainly worsen if the recommendations are implemented, and this proposal continues a cumulative impact of cost shifting from state to local government. The current mandatory compliance, maintenance, renewal and risk management costs currently borne by local government, and in the case of the Blue Mountains, for a dam liability shifted from state to local government. The impact of five natural disasters on local government and fiscal impact of 2018 disaster recovery guidelines that prevent full cost recovery of natural disasters by local government.

Draft Report

July 2024



Submission prepared by:

Blue Mountains City Council

August 2024



the city within a
World Heritage Area

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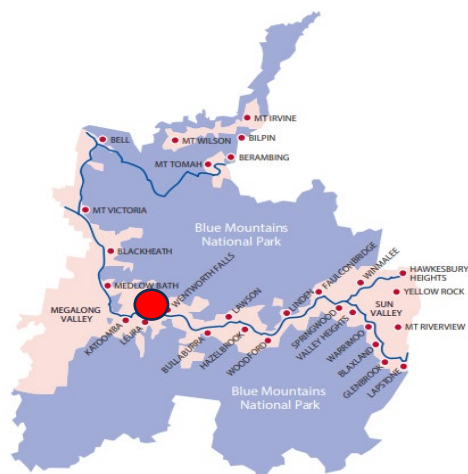


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Wentworth Falls Dam



1. Executive Summary

The Blue Mountains is one of only two cities in the world surrounded by a World Heritage Area and is a certified Eco Destination recognising decades of conservation and sustainability efforts. With a population of around 78,000 people¹, the Blue Mountains now welcomes 4.4 million domestic visitors per year², with 1.4 million staying overnight³. When including day and overnight visitors, this averages out to around 17,000 people per day in the region, 20% of the total population, which can be much higher at peak times and lower in the off-peak period.

Local government in general, and Blue Mountains City Council in particular, have community service obligations that significantly exceed capacity to generate revenue. Unless positive financial adjustments are made, the constitutional responsibilities of local government are being increasingly misaligned with the capacity to raise revenues needed to meet financial demands made upon it. This misalignment is having serious consequences for local government and communities and made worse by impacts of climate change damaging infrastructure.

The draft Dam Safety NSW Levy review is proposing further cost shifting from State to Local Government that will worsen the current serious vertical fiscal imbalance. The draft report proposing sharing costs between dam owners ignores three critical elements that are fundamental omissions:

- The vertical fiscal imbalance that exists between levels of government. The financial sustainability of local government will almost certainly worsen if the recommendations are implemented, and this proposal continues a cumulative impact of cost shifting from state to local government.
- The current mandatory compliance, maintenance, renewal and risk management costs currently borne by local government, and in the case of the Blue Mountains, for a dam liability shifted from state to local government.
- The impact of five natural disasters on local government and fiscal impact of 2018 disaster recovery guidelines that prevent full cost recovery of natural disasters by local government.

¹ Remplan (2023) Blue Mountains Community Summary

² Destination NSW (2023) Year ending September 2023 (domestic)

³ Destination NSW (2023) - National Visitor Survey time period Blue Mountains

2. Questions for Comment

- 1. Do you agree with the categories of costs we included in the levy (shown in Table 3.1)? Are there any other costs you consider are not driven by declared dam owners?

No. the categories ignore vertical fiscal imbalance between dam owners

- 2. Should overhead costs be shared equally by all dam owners, or should they be apportioned on the same basis as labour costs (i.e., based on consequence category)?

No. the categories ignore vertical fiscal imbalance between dam owners

- 3. Do you expect that the regulatory support you require from DSNSW will reduce as dam owners become more familiar with the new regulatory framework?

No. the track record is for increasing regulation and compliance cost

- 4. Is a levy based on consequence category a fair way of allocating costs between dam owners?

No. the categories ignore vertical fiscal imbalance between dam owners and historical cost shifting

- 5. What factors should a future review of the levy consider? Are there any measures of dam owner's regulatory performance that should be captured at a future review?

There should not be a levy shifting cost to local government.

- 6. Are there any additional challenges around cost recovery that we have not identified and considered in the Draft Report?

Yes, the current mandatory compliance, maintenance, renewal and risk management costs currently borne by local government, and in the case of the Blue Mountains, for a dam liability shifted from state to local government.

- 7. How frequently should the levy be reviewed? What factors should be considered at these reviews?

There should not be any levy on local government

- 8. If a future review of the levy implements a performance adjustment (i.e. an adjustment to the levy based on a dam owner's regulatory compliance), how would this influence your activities as a dam owner?

There should not be any levy on local government

- 9. What performance metrics should DSNSW publicly report on?

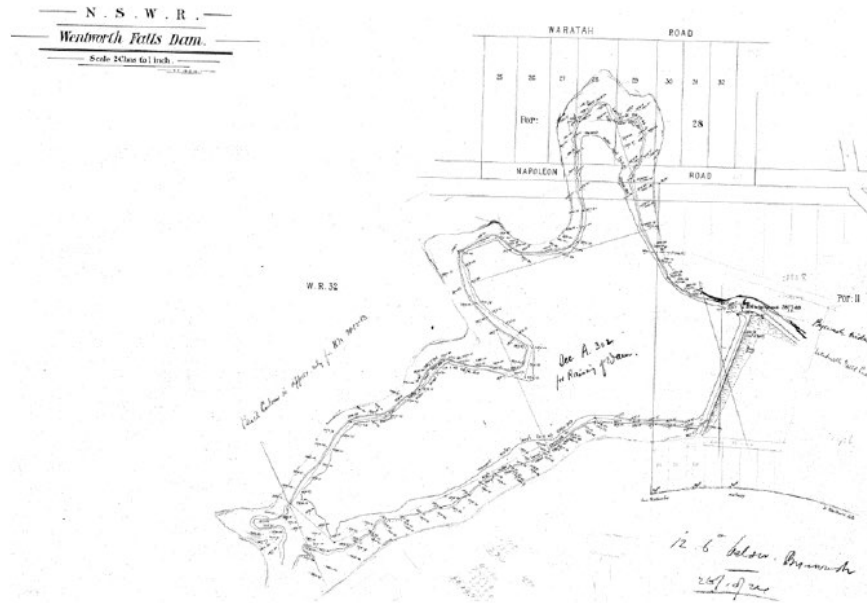
Cost of whole of life ownership to all parties including risk management, compliance, operating, maintenance, renewal and upgrade

- 10. What information would give you confidence that DSNSW is using its funds efficiently?

State government is unlikely to be transparent and accountable to local government.

1. Background.

The present lake was created by the NSW state government in 1906, to provide a reliable source of water for steam trains.



After electrification of the rail network in the 1950's, water was no longer needed to power the trains and use of the dam became primarily recreation. In addition to recreation, the dam provides passive support to firefighters during bush fires.

In 1973, ownership and financial liability of the dam was transferred from NSW Railways to the Blue Mountains City Council. At the time, Council was not made aware of the future liabilities associated with this transfer.

2. Compliance Burden

The transfer of ownership cost created an ongoing compliance and maintenance burden for Council that needs to be funded from rates. The legislative burden continues to increase with no accompanying funding to assist with compliance and includes:

NSW Dams Safety Act 2015

- Defines Objectives for Safety of Declared Dams
- Establishes the new Regulator for dam safety in NSW – being Dams Safety NSW
- Wentworth Falls Lake Dam is a Declared Dam

NSW Dams Safety Regulation 2019

- Describes management requirements for Declared Dams
- Commenced November 2019 – but some requirements commenced 1st November 2021

Costs and penalties for compliance have increased substantially.

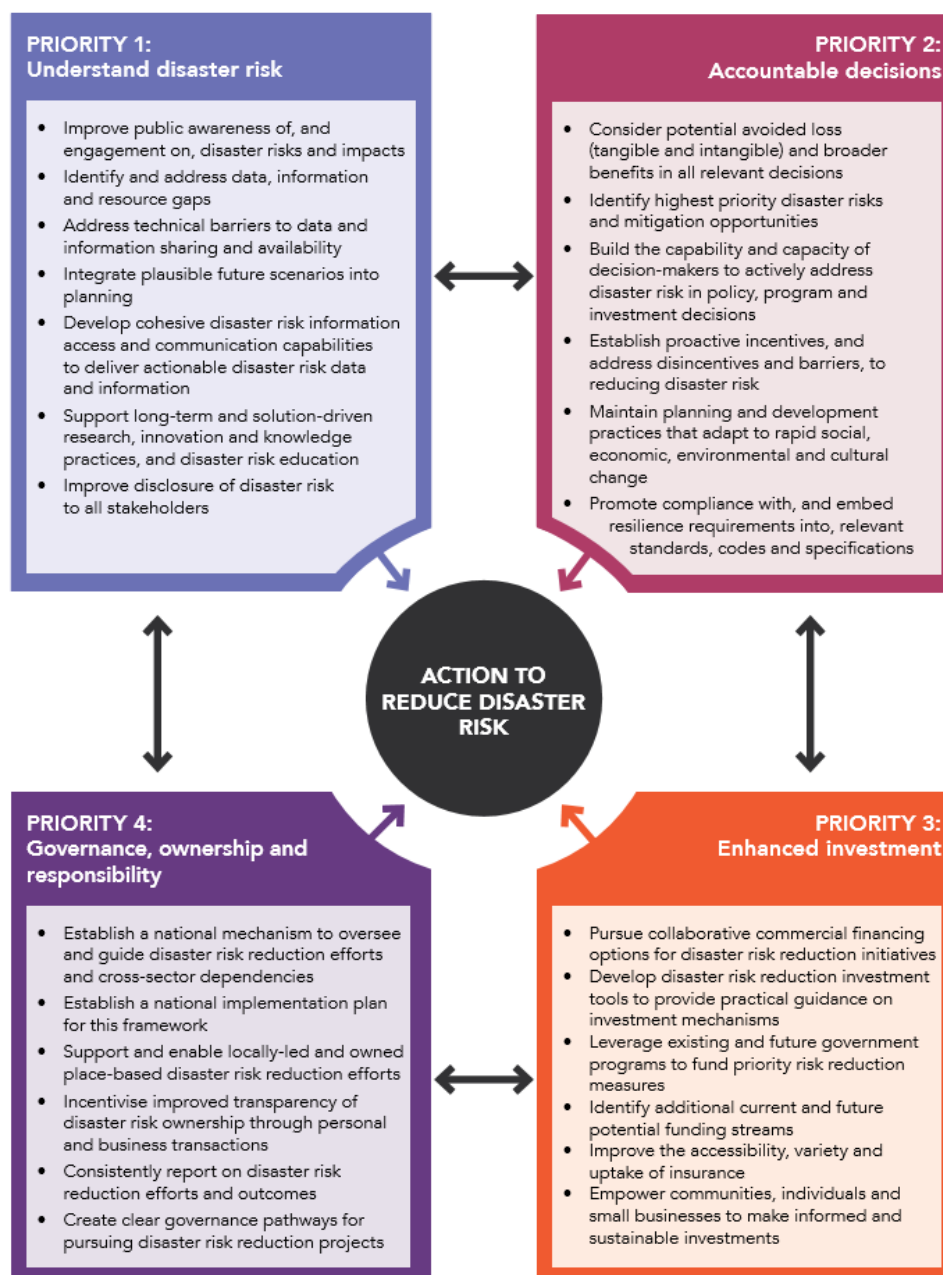
3. Maintenance and Renewal Burden

Council has inherited a liability from the State Government with no corresponding revenue and revenue must be diverted from essential services such as roads and drainage to fund mandatory dam maintenance and renewal.

Year	Renewal Project	Renewal Forecast
2024 - 2025	Construction of Upstream Embankment protection and Construction of Spillway apron improvements, reinforcement of Channel Walls/Lining. (Federal grant secured for 50% with 50% Council contribution)	\$7,000,000
Annual Operational Costs		
	An additional allocation of the pro-rata staff resources to meet additional management requirements under the new NSW Dams Safety Legislation (November 2021 onwards) (\$30k), as well as budget estimates to support the Dam telemetry system (\$10k) and necessary specialist Dam consultancy services(\$10k - \$50k).	\$90,000 p.a.

4. Cost of Risk Management

The insurance and regulatory compliance costs for a high risk liability such as a dam is continuing to increase with no funding from the state government. The figure below shows the additional risk management actions that are being implemented under a national disaster management framework that is particularly relevant to dam management. These requirements are broader than the compliance requirements imposed by DSNSW.



5. Cost Shifting and Local Government Financial Sustainability

One of the challenges faced by local government is that over time the financial costs of providing services tend to shift from state to local government. Unless financial adjustments are made, the service level obligations can become misaligned with the capacity of local government to raise revenues needed to meet financial demands made upon it. This misalignment is growing, and the vertical fiscal imbalance is a significant contributor to problems with local government financial sustainability.

The Australian Local Government Association report on Financial sustainability notes that, “Local Government NSW’s latest cost shifting report highlights a \$1.36 billion cost shift to councils in 2021-22. While metropolitan councils face the highest amount of cost shifting, ratepayers of large rural councils experience the highest cost shift per ratepayer.”⁴

All negotiations around fiscal reform suffer from the structural disadvantage by which local government are always placed in an inferior bargaining position. The result of this vertical fiscal imbalance is a breakdown in accountability for cost-effective service delivery between levels of government and deterioration of local government financial sustainability.

The proposed levy is a continuation of this cost shifting and should not proceed.

6. Impact of Natural Disasters



There have been five natural disaster declarations for extreme weather events from March 2021 to April 2024. The city of blue mountains now has over 60 active landslip sites at a cost exceeding \$76 million and damage to roads exceeding \$129 million. Under the 2018 guidelines much of this damage can not be claimed based on “pre existing damage” or “no betterment” clauses. Further cost shifting from state government should not be considered

without an understanding of the cumulative consequences on local government sustainability

⁴ Financial sustainability in Australian local government, July 2024, Australian Local Government Association

Collapse of Megalong Road During the April 2024 Natural Disaster

