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STANDING COMMITTEE ON STATE DEVELOPMENT

Ability of local governments to fund infrastructure and services

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Standing Committee on State Development

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Ability of local governments to fund infrastructure and services.

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Chair: Hon Emily Suvaal MLC

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Terms of reference

That the Standing Committee on State Development inquire into and report on the ability of local governments to fund infrastructure and services, and in particular:

(a) the level of income councils require to adequately meet the needs of their communities

(b) examine if past rate pegs have matched increases in costs borne by local governments

(c) current levels of service delivery and financial sustainability in local government, including the impact of cost shifting on service delivery and financial sustainability, and whether this has changed over time

(d) assess the social and economic impacts of the rate peg in New South Wales for ratepayers, councils, and council staff over the last 20 years and compare with other jurisdictions

(e) compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff

(f) review the operation of the special rate variation process and its effectiveness in providing the level of income Councils require to adequately meet the needs of their communities

(g) any other related matters.

The terms of reference for the inquiry were referred to the committee by the Hon Ron Hoenig MP, Minister for Local Government on 8 March 2024 and adopted by the committee on 14 March 2024.[1]

[1] *Minutes,* NSW Legislative Council, 19 March 2024, p 981-982.

Committee details

Committee members

Hon Emily Suvaal MLC	Australian Labor Party	*Chair*
Hon Sam Farraway MLC	The Nationals	*Deputy Chair*
Hon Mark Buttigieg MLC	Australian Labor Party	
Dr Amanda Cohn MLC *	The Greens	
Hon Scott Farlow MLC *	Liberal Party	
Hon Emma Hurst MLC	Animal Justice Party	
Hon Stephen Lawrence MLC	Australian Labor Party	
Hon Peter Primrose MLC	Australian Labor Party	

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***** Dr Amanda Cohn MLC substituted for Ms Cate Faehrmann MLC from 15 March 2024 for the duration of the inquiry.

***** The Hon Scott Farlow MLC replaced the Hon Taylor Martin MLC as a substantive member of the committee from 8 May 2024.

Secretariat

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Chair's foreword

As the level of government closest to local communities, it is important that local governments deliver the services communities expect in a financially sustainable way. This inquiry examined whether the level of income councils receive adequately meets the needs of their communities.

Within the legislative and regulatory framework underpinning local governments, it is clear that local councils face significant revenue raising and cost pressures to adequately meet the needs of their communities. The evidence showed that the financial challenges councils are experiencing cannot be overcome through fiscal discipline alone and are threatening the long-term sustainability of the sector.

The committee heard that for almost 50 years the rating system legislated in the *Local Government Act 1993* has restricted the ability of local governments to set their own rates. Alongside this, community expectations of their local councils have changed over time. More than 'roads, rates, and rubbish', councils have responded to community demands by offering services like childcare, aged care, arts and culture. In regional and remote communities, councils are the 'provider of last resort', offering services like post offices and even medical facilities where there is no service delivery alternative available from State or Federal Governments, or the private sector. The provision of these services, under a system where rating income is externally fixed, has in many cases led to an erosion of the broader budgetary and financial sustainability of these councils.

Even in councils that focus on the provision of basic services, the committee heard clear evidence that the rate peg has not kept pace with the level of income councils require to adequately meet the needs of their communities.

Therefore, a key recommendation of this report is that the NSW Government redesign the local government rating system, including reassessing council base rates. In doing so, the NSW Government should seek to implement measures to provide local government greater flexibility to set rates in response to actual cost increases and community service demands and expectations, while ensuring that there are sensible safeguards to keep rates affordable. Councils should also continually evaluate their service delivery to ensure that ratepayer money is being spent effectively.

Stakeholders also shared concerns about financial sustainability impacts from other sources of income for local councils, such as annual charges and user fees and charges, grants funding and developer contributions. Many of these other sources of income no longer meet or reflect the actual cost of providing required community services. The committee has made several recommendations in this report on this issue, which should assist in improving the financial sustainability of local governments.

In addition to sources of income, the committee also examined the expenditure of local governments in delivering services and managing assets and infrastructure. Local governments have a growing role in the community and operating expenditure has increased over the last decade for all council types, with rural councils experiencing the largest proportionate increase. The recommendations we have made in relation to income and revenue should go some way in addressing the cost pressures local councils face in delivering community services and assets and infrastructure. However, it is also important to note that the responsibility to provide services that communities need must be balanced with fiscal discipline and reflect a community's highest priorities.

Natural disasters were raised as having a considerable impact on council expenditure and financial sustainability, given the critical role local councils play in the community in disaster response and mitigation. While natural disaster assistance funding is available from other tiers of government, councils often still need to divert funds and resources towards the reconstruction of council-owned assets. The committee therefore recommended that the NSW Government continue to improve the timeliness of

disaster recovery assistance funding to local councils by utilising funding agreements such as tripartite arrangements, and advocate to the Commonwealth Government to incorporate betterment funding into disaster recovery funding arrangements.

A consistent theme of the evidence received by the committee was that the accounting standards used by local governments are not fit for purpose. The committee heard that the budgeting processes in local governments are opaque and that the depreciation of non-realisable assets artificially weakens the finances of councils. As a result, the committee has made a number of other recommendations that seek to address the impact of cost shifting, depreciation and financial reporting on local governments.

On behalf of the committee, I would like to thank all participants for their contribution to this important inquiry, including the local councils, organisations and individuals. Finally, I extend my thanks to my fellow committee members for their cooperation and commitment to this inquiry, as well as to the committee secretariat for their assistance.

Hon Emily Suvaal MLC

Committee Chair

Recommendations

Recommendation 1 **40**

That the NSW Government conduct a comprehensive review of the rate exemptions and concessions under the *Local Government Act 1993* to:

- better target the eligibility criteria for rate exemptions and concessions
- achieve a better balance between local council financial sustainability, community benefits and principles of equity.

Recommendation 2 **41**

That the NSW Government redesign the local government rating system, including reassessing council base rates, and seek to:

- implement measures, such as greater use of the Integrated Planning and Reporting framework and rates benchmarking, to provide local government greater flexibility and latitude to set their own rates
- emphasise the importance of continual evaluation and service delivery
- keep rates affordable and maintain safeguards to ensure rates meet community needs
- examine the use of capital improved value, rather than unimproved land value, to set the variable component of rates.

Recommendation 3 **42**

That the NSW Government seek to improve the special variation process, should the rate peg be retained in its current form, to:

- make it less resource and time-intensive for local councils
- streamline the process for the assessment of special variation applications
- consider alternatives to special variations that allow councils to raise additional rates to maintain existing service levels.

Recommendation 4 **57**

That the NSW Government conduct an audit of, and seek to update, the statutory fees and limits that apply to local government annual charges and user fees and charges to better reflect and account for increases in market costs and pressures, including inflation.

Recommendation 5 **57**

That the NSW Government advocate to the Australian Government to increase the federal taxation revenue distributed via Federal Financial Assistance Grants from 0.5 per cent to 1 per cent, and amend the current commonwealth grant guidelines per capita distribution method, that disproportionately benefits inner city councils.

Recommendation 6 **58**

That the NSW Government consider grant models that:

- provide a more secure and sustainable source of funding to local councils to achieve more equitable distribution of grants funding and provide councils with greater discretion in relation to how funding is spent

- undertake greater consultation with local government prior to making decisions that may result in cost shifting
- review the practice of discounting infrastructure and other funding applications by border councils due to use by interstate residents
- use its waste levy review to examine how the Waste Levy can better support infrastructure and services that support the transition to a circular economy.

Conduct of inquiry

The terms of reference for the inquiry were referred to the committee by the Hon Ron Hoenig MP, Minister for Local Government on 8 March 2024.

The committee received 129 submissions and two supplementary submissions.

The committee held 10 public hearings: five at Parliament House in Sydney and one each in Goonellabah, Tamworth, Dubbo, Albury and Nowra.

Inquiry related documents are available on the committee's website, including submissions, hearing transcripts, tabled documents, answers to questions on notice and supplementary questions.

Chapter 1 Background: Local government sector in New South Wales

The system of local government in New South Wales is established in the NSW Constitution.[2] As the third tier of government, the local government sector, composed of local councils, is responsible for ensuring local communities run as smoothly and efficiently as possible.[3]

This chapter provides an overview of the local government sector in New South Wales, including the relevant legislative and regulatory framework, key regulatory agencies, the functions and responsibilities of local government, sources of income and previous notable reviews relevant to this inquiry.

Relevant legislative and regulatory framework

1.1 Local councils are guided by a range of laws, regulations and policies to support them in making decisions that will create positive outcomes for their local communities. The key components of the legislative framework underpinning the local government sector in New South Wales are the *Local Government Act 1993* (the LG Act) and Local Government (General) Regulation 2021. In addition, a number of other Acts also confer functions and responsibilities on local councils, including:

- *Community Land Development Act 2021*
- *Companion Animals Act 1998*
- *Environmental Planning and Assessment Act 1979*
- *Roads Act 1993*
- *Impounding Act 1993*
- *Library Act 1939*
- *Protection of the Environment Operations Act 1997*
- *Strata Schemes Development Act 2015*
- *Swimming Pools Act 1992.*[4]

1.2 Local councils must comply with laws and mandatory policies or guidelines and should comply, or take into consideration, many other policies and guidelines to conform to best practice when making decisions on behalf of their communities.[5] Local councils are also guided by principles within the LG Act, discussed further below.

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2 *Constitution Act 1902*, s 51.

3 Local Government NSW (LGNSW), Benefits of Councils, https://lgnsw.org.au/Public/Public/NSW-Councils/Benefits-of-Councils.aspx#:~:text=As%20the%20third%20tier%20of,live%20safe%20and%20healthy%20lives

4 *Local Government Act 1993,* Chapter 5, s 22.

5 Office of Local Government NSW, Acts and Regulations, https://www.olg.nsw.gov.au/councils/policy-and-legislation/

Guiding principles for local government

1.3 Chapter 3 of the *Local Government Act 1993* (the LG Act) was amended in 2016 to introduce new 'guiding principles' for local government, intended to inform all council activities.[6] These principles provide guidance to councils to enable them to carry out their functions in a way that facilitates local communities that are strong, healthy and prosperous.[7] Chapter 3 of the LG Act also outlines the principles of 'sound financial management' and the 'integrated planning and reporting (IP&R)' principles that apply to local councils.

1.4 Under the **guiding principles**, councils should:

- provide strong and effective representation, leadership, planning and decision-making
- carry out functions in a way that provides the best possible value for residents and ratepayers
- plan strategically, using the integrated planning and reporting framework, for the provision of effective and efficient services and regulation to meet the diverse needs of the local community
- apply the integrated planning and reporting framework in carrying out their functions so as to achieve desired outcomes and continuous improvements
- work co-operatively with other councils and the State Government to achieve desired outcomes for the local community
- manage lands and other assets so that current and future local community needs can be met in an affordable way
- work with others to secure appropriate services for local community needs
- act fairly, ethically and without bias in the interests of the local community
- be responsible employers and provide a consultative and supportive working environment for staff
- recognise diverse local community needs and interests
- consider social justice principles
- consider the long term and cumulative effects of actions on future generations
- consider the principles of ecologically sustainable development
- ensure decision-making is transparent and decision-makers are accountable for decisions and omissions
- actively engage with their local communities, through the use of the integrated planning and reporting framework and other measures.[8]

1.5 Section 8B of the LG Act sets out the **principles of sound financial management**, including that:

6 Submission 32, Office of Local Government NSW, p 16.

7 *Local Government Act 1993,* Chapter 3

8 *Local Government Act 1993,* s 8A.

- council spending should be responsible and sustainable, aligning general revenue and expenses
- councils should invest in responsible and sustainable infrastructure for the benefit of the local community
- councils should have effective financial and asset management, including sound policies and processes for the following:
  - performance management and reporting
  - asset maintenance and enhancement
  - funding decisions
  - risk management practices
- councils should have regard to achieving intergenerational equity, including ensuring the following:
  - policy decisions are made after considering their financial effects on future generations
  - the current generation funds the cost of its services.[9]

Integrated Planning and Reporting (IP&R) framework

1.6 The Integrated Planning and Reporting (IP&R) framework, which was introduced in 2009, is another regulatory framework that allows councils to bring plans and strategies together in a way that supports a clear vision for the future and provides an agreed roadmap for delivering community priorities and aspirations. According to the IP&R handbook, 'while councils lead the IP&R process, it is a journey that they undertake in close consultation with communities and elected representatives'.[10]

1.7 Once strategic objectives have been set under the IP&R framework, it is each council's responsibility to deliver and report against these objectives, undertake resource planning, and ensure the community's big picture ambitions become operational realities.[11]

1.8 Section 8C of the LG Act sets out the following principles for strategic planning that apply to the development of the integrated planning and reporting framework by councils. Councils should:

- identify and prioritise key local community needs and aspirations and consider regional priorities
- identify strategic goals to meet those needs and aspirations
- develop activities, and prioritise actions, to work towards strategic goals

9 *Local Government Act 1993,* s 8B.

10 Office of Local Government NSW, *Integrated Planning and Reporting Handbook* (September 2021), p 3, https://www.olg.nsw.gov.au/wp-content/uploads/2021/11/Integrated-Planning-Reporting-Handbook-for-Local-Councils-in-NSW.pdf.

11 Office of Local Government NSW, *Integrated Planning and Reporting Handbook* (September 2021), p 3, https://www.olg.nsw.gov.au/wp-content/uploads/2021/11/Integrated-Planning-Reporting-Handbook-for-Local-Councils-in-NSW.pdf.

- ensure that the strategic goals and activities to work towards may be achieved within council resources
- regularly review and evaluate progress towards achieving strategic goals
- maintain an integrated approach to planning, delivering, monitoring and reporting on strategic goals
- collaborate with others to maximise achievement of strategic goals
- manage risks to the local community or area or to the council effectively and proactively
- make appropriate evidence-based adaptations to meet changing needs and circumstances.[12]

1.9 Councils operate in a complex environment, with responsibilities under 67 different Acts, and direct relationships with more than 20 state and commonwealth agencies. According to the Office of Local Government NSW (OLG), the IP&R framework allows local councils to navigate these complexities in a meaningful and purposeful way and provides a mechanism for councils and the community to have important discussions about service levels and funding priorities and to plan in partnership for a sustainable future.[13]

1.10 Most local councils were supportive of the IP&R framework, including its use in setting service levels and priorities in consultation with their local communities. For example, Northern Beaches Council described the IP&R as a 'robust framework' which provides a pathway for councils to work directly with the community to identify priorities, understand what services they want and the infrastructure required, have meaningful conversations about the cost of meeting community expectations and set appropriate rates, fees and charges.[14]

1.11 However, some councils, such as Burwood Council, highlighted the costly nature of IP&R, arguing that it does not provide effective visibility and decision-making information to elected officials and the community. Burwood Council suggested that the New South Wales Government should review the framework 'to make it more agile and effective, focusing on key aspects that aid decision-making by councillors and the community regarding council's direction and service portfolio'.[15]

1.12 Mr Troy Green, General Manager, Tweed Shire Council, asserted that whilst the IP&R framework 'provides a vehicle for councils to determine the required mix and levels of service and infrastructure that the community requires and is willing to pay for… expenditures are more determined by available income rather than community needs' given that council income sources are constrained by rate pegging or require a special variation.[16]

12 *Local Government Act 1993,* s 8C

13 Submission 32, Office of Local Government NSW, p 18. See also Office of Local Government NSW, *Integrated Planning and Reporting – Handbook for Local Councils in NSW* (September 2021), p 8, https://www.olg.nsw.gov.au/wp-content/uploads/2021/11/Integrated-Planning-Reporting-Handbook-for-Local-Councils-in-NSW.pdf

14 Submission 58, Northern Beaches Council, pp 1-2. See also, Submission 62, Leeton Shire Council, p 1; Submission 67, Campbelltown City Council, p 2; Submission 81, Mid-Western Regional Council, 2.

15 Submission 74, Burwood Council, p 3.

16 Evidence, Mr Troy Green, General Manager, Tweed Shire Council, 26 June 2024, p 26.

1.13 Council expenditure is discussed in chapter 4.

Key regulatory agencies

1.14 The **Office of Local Government NSW (OLG)** is the New South Wales Government agency responsible for strengthening the sustainability, performance, integrity, transparency and accountability of the local government sector, regulating local councils, including county councils, and joint organisations in New South Wales. The OLG works with the local government sector to support local councils to deliver for their local communities, while also supporting them in their implementation of the Integrated Planning and Reporting (IP&R) framework.[17]

1.15 The **Independent Pricing and Regulatory Tribunal (IPART)**, established under the *Independent Pricing and Regulatory Tribunal Act 1992,* is an independent agency of the New South Wales Government. IPART's role in local government relates to:

- setting the rate peg for each financial year (the maximum percentage by which a council may increase its general income for each financial year)
- determining special rate variations to the rate peg from local councils, along with minimum rates, which will be considered against the guidelines set by the Office of Local Government.
- reviewing and assessing local infrastructure contribution plans, which set out the local infrastructure required to meet the demand from new development, and the contributions a council can levy on developers to fund the necessary land and works.
- other work and investigations on request, including the recent 2022-23 review of the rate peg methodology.[18]

1.16 In addition to the OLG and IPART, the **Audit Office of New South Wales** also plays a regulatory role in the local government sector, conducting financial and performance audits of the financial statements of local councils in New South Wales and assessing local councils' compliance with accounting standards and relevant laws, regulations and government directions.[19]

Local government in New South Wales

1.17 New South Wales is divided into 128 local government areas (LGAs), otherwise known as local councils. Each council is responsible for managing their own resources and balancing their own income, revenue and costs to ensure their ongoing financial sustainability.

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17 Office of Local Government NSW, Our Organisation, https://www.olg.nsw.gov.au/about-us/. See also Office of Local Government NSW, *Integrated Planning and Reporting Handbook* (September 2021), p 3, https://www.olg.nsw.gov.au/wp-content/uploads/2021/11/Integrated-Planning-Reporting-Handbook-for-Local-Councils-in-NSW.pdf.

18 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 1. See also Independent Pricing and Regulatory Tribunal (IPART), For Councils, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils.

19 Submission 115, Audit Office of New South Wales, p 1.

1.18 According to the OLG, while the New South Wales Government has some regulatory powers in relation to local councils, it does not play a major role in council operational decisions, indicating that local councils operate with a wide latitude of discretion within the established regulatory framework.[20]

Categorisation of local councils

1.19 Using the Australian Classification of Local Governments as determined by the Australian Bureau of Statistics, the OLG groups councils based on similarity of size and population density as well as by type into the following categories based on broad demographic variables:

- metropolitan
- metropolitan fringe
- regional town/city
- rural
- large rural.[21]

1.20 IPART has also separately classified councils into three council groups, following its review of the rate peg methodology between 2022-2023. These groups are metropolitan, regional and rural.[22] This change has been applied to the rate peg for the 2024-25 financial year. On this new classification, Mr Peter Tegart, Partner, Always Thinking Advisory, commented that whilst it was a 'terrific move of IPART to at least recognise there are at least three groups of councils', he suggested also recognising coastal and remote council groups because 'in reality they all have different characteristics. They all have different revenue-raising capacity'.[23]

1.21 Similarly, Mrs Julie Briggs, Chief Executive Officer, Riverina Eastern Regional Organisation of Councils (REROC), gave evidence that whilst IPART's classification of councils into three groups for the purposes of the rate peg methodology was a 'step in the right direction', there is scope and argument for further granulation to account for additional responsibilities and services councils are undertaking in their local communities.[24]

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20 Submission 32, Office of Local Government NSW, p 4.

21 Office of Local Government NSW, Your Council - Frequently Asked Questions, https://www.yourcouncil.nsw.gov.au/faq/. See also NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 5.

22 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 3. See also Independent Pricing and Regulatory Tribunal (IPART), *Rate peg for NSW councils for 2024-25* (21 November 2023), https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-Rate-peg-for-NSW-councils-for-2024-25-21-November-2023.PDF.

23 Evidence, Mr Peter Tegart, Partner, Always Thinking Advisory, 3 June 2024, p 4.

24 Evidence, Mrs Julie Briggs, Chief Executive Officer, Riverina Eastern Regional Organisation of Councils (REROC), 15 July 2024, p 6.

Functions and responsibilities of local government

1.22 As mentioned at paragraph 1.1, local councils in New South Wales have their main functions conferred or imposed on them by the LG Act, including:

- Revenue – raising revenue from rates, charges, fees, grants, borrowings and investments.
- Service – providing goods, services and facilities for the local community, such as community health, recreation and education facilities, information services, environmental protection, waste removal and disposal, as well as land, property, industry and tourism development & assistance.
- Regulatory – approving activities, such as development applications and filming, and issuing orders to do (or refrain from doing) certain activities, such as repairing or making structural changes to a building, as well as creating local environmental planning policies and development control plans.
- Enforcement – bringing proceedings for breaches of the LG Act, prosecution of offences and recovery of rates and charges.
- Ancillary – functions that assist the carrying out of a council's service and regulatory functions, including the acquisition of land, regulating access to certain land and establishing special entertainment precincts.
- Administrative – employing council staff and conducting tasks such as strategic planning, financial management, annual reporting, internal auditing, and performance management.[25]

1.23 With regard to the responsibilities and obligations conferred by other acts, the OLG observed that it has been estimated that councils have over 120 additional regulatory functions, involving over 300 separate regulatory roles, emanating from over 60 state acts. However, many of these regulatory functions are subject to the discretion of the individual local council and not all councils perform the same functions and services.[26]

1.24 The consequence of this discretion is that there is no common or minimum service delivery standard for councils in New South Wales. The clearest example of this is water and sewer services. While communities in metropolitan Sydney, the Illawarra and the Hunter regions (excluding the Central Coast) have water and sewer services provided by State Government entities, the rest of New South Wales (excluding parts of the Far West) have water and sewer services provided by local council water utilities.[27]

1.25 As the OLG explained, the services provided by an individual council are often a result of location, community demands and history. For example, while many councils run airports or air strips, some of these are run on a fully commercial basis generating significant revenue. Other airports are operated by the council, essentially as a community service obligation and generate small revenue streams.[28]

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25 *Local Government Act 1993,* Chapter 5, s 21

26 Submission 32, Office of Local Government NSW, p 16.

27 Submission 32, Office of Local Government NSW, p 16.

28 Submission 32, Office of Local Government NSW, p 16.

Service provider of last resort

1.26 The role and responsibilities of the local government sector have expanded considerably over the last 30 years, to include a growing range of services to both people and property.[29] This expansion of functions performed by local councils is primarily due to the delegation of responsibility or cost shifting by other levels of government, alongside rising community expectations. However, as Mr Will Barton, Vice President of the Institute of Public Works Engineering Australasia identified, when the state or federal government, or private sector, ceases to perform a function, or has not yet identified an issue, local councils will often have to provide the service.[30]

1.27 As a consequence, local government is described by many as being the service provider of 'last resort' in local communities, delivering essential services and infrastructure when the market fails.[31] The OLG noted that while these services are not mandatory for local governments to provide, many councils, in conjunction with their community, opt to provide these services – many of which are a significant expenditure source with only marginal external revenue attracted – to ensure they remain available.[32] Examples of services provided by councils in this space include medical practices, childcare and aged care facilities. According to Local Government NSW (LGNSW), this has steadily become the norm rather than the exception for many councils.[33]

1.28 IPART also observed that councils, particularly in regional and rural areas, are having to provide services as a last resort because they were previously provided by other levels of government or due to a lack of private providers.[34] This view was supported by multiple councils during the inquiry, including Murrumbidgee Council who highlighted that, as a rural council, they provide additional services such as childcare and medical services to their local community at a cost, where there is a gap in services that would otherwise be provided by the state or federal government.[35]

1.29 While this is particularly an issue in rural and regional councils, the OLG said that many councils in metropolitan and urban New South Wales also provide services to support weaknesses in the private market.[36]

29 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 4. The former includes community housing, health services (such as drug counselling and vaccinations) and education and childcare, while services to property include supplying and maintaining local infrastructure (such as local roads, footpaths and drainage), responsibility for waste disposal and recycling services, and regulation of building and planning.

30 Evidence, Mr Will Barton, Vice President, Institute of Public Works Engineering Australasia (NSW & ACT), 17 May 2024, p 23.

31 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 3. See also Evidence, Mr Will Barton, Vice President, Institute of Public Works Engineering Australasia (NSW & ACT), 17 May 2024, p 23; Submission 32, Office of Local Government NSW, p 17; Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 20; Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 34.

32 Submission 32, Office of Local Government NSW, p 17.

33 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 34.

34 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 20.

35 Submission 27, Murrumbidgee Council p 1.

36 Submission 32, Office of Local Government NSW, p 17.

Sources of income

1.30 Local councils in New South Wales source their income from a combination of revenue sources, including:

- ordinary and special rates, which includes residential, business, farming, and mining rates
- annual charges, which includes domestic waste, water, sewer and stormwater management, and user fees and charges, such as water usage, parking fees, leisure centres, child and aged care services, and building and regulatory services
- other sources of income, such as grants from the Australian Government and the New South Wales Government, and contributions from developers to fund local infrastructure necessary to serve the needs of the development.[37]

1.31 Each local council is required to determine the combination of rates, charges, fees and pricing policies needed to fund the services it provides to the community. This is called a revenue policy. The revenue policy contains a rating structure that determines the rates and charges and how they will be calculated.[38]

1.32 Rates, annual charges and user fees and charges are 'own source revenue' sources, whereas grants and contributions are external funding sources.[39] In general, local councils face several broad revenue raising pressures that can impact or limit their ability to raise their own revenue, including:

- legislative restrictions on a council's ability to raise revenue in certain areas, in particular in setting rates, annual charges and user fees/charges
- limited access to a sufficiently broad range of revenue, including the ability to access a growth tax
- reduced capacity for some residents to contribute further to own source revenue.[40]

1.33 Furthermore, the ability and capacity of individual councils to generate own source revenue differs greatly depending on the nature of the local government area. In turn, this can limit a council's overall capacity to be independently financially sustainable.[41] For example, some rural councils commented that they do not have the same opportunities as larger metropolitan or regional councils to generate revenue through sources such as parking fees or fines.[42]

1.34 Sources of income are discussed further in chapters 2 and 3.

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37 Submission 32, Office of Local Government NSW, pp 8-11. See also Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 16.

38 Office of Local Government NSW, Rates, Charges and Pensioner Concession, https://www.olg.nsw.gov.au/public/about-councils/laws-and-regulations/rates-charges-and-pensioner-concession/

39 Office of Local Government NSW, Your Council – Finances, Operating Performance Ratio (%), https://www.yourcouncil.nsw.gov.au/nsw-overview/finances/

40 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 8.

41 Submission 68, Southern Sydney Regional Organisation of Councils Inc (SSROC), p 3.

42 See Submission 66, Lockhart Shire Council, p 2; Submission 51, Narrandera Shire Council, p 1.

Level of income councils require

1.35 According to LGNSW, the level of income that local councils require to adequately meet community needs depends on the local context and what communities expect of councils. LGNSW explained that cost pressures differ by council type, due to regional differences in market depth, cost shifting, the ability to leverage economies of scale, and the types of services provided, with communities expecting continuity and improvements in services over time.[43]

1.36 Federation Council commented that the Integrated Planning and Reporting (IP&R) framework, which councils are required to implement, is designed to ensure councils have a sufficient level of income to adequately meet the needs of their communities. They expressed the view that 'one of the main factors as to why councils do not have the adequate funding' is the underutilisation, and ineffective use, of the IP&R framework'.[44]

1.37 The United Services Union argued that it is not possible to calculate a common adequate level of income for local councils, given that metropolitan, regional, rural and remote councils face different fiscal challenges in providing adequate services to their respective local communities.[45]

1.38 During their review of the rate peg methodology, IPART found that metropolitan councils receive less income per capita compared to regional and rural councils, though over half of their total income (53 per cent) is collected from rates and annual charges. In contrast, rural councils collect only 26 per cent of their total income from rates and annual charges and receive over half of their total income (55 per cent) from grants and contributions.[46]

Previous notable reviews of the local government sector

1.39 The sections below provide an overview of recent notable reviews of the local government sector, including reviews by IPART of the rate peg to include population growth and a review of the methodology used to calculate the rate peg each financial year. The rate peg, or the percentage specified in a special variation, is the maximum amount (in percentage terms) by which a council can increase their rates income in a year. The rate peg is discussed in more detail in chapter 2.

IPART 2020 review of the rate peg to include population growth

1.40 In 2020, the New South Wales Government asked IPART to recommend a rate peg methodology that allows the general income of councils to vary in a way that accounts for population growth. This was in recognition of the fact that as local communities grow, councils need to provide additional services to meet the demand of their residents and businesses. The review was tasked with examining whether allowing rates to keep pace with population growth

43 Submission 119, Local Government NSW (LGNSW), p 11.

44 Submission 69, Federation Council, p 1.

45 Submission 22, United Services Union, p 2.

46 Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, p 179, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023.

could enhance councils' ability to provide these services and improve their financial sustainability.[47] IPART released its final report for this review on 5 October 2021.

1.41 The review found that, for many councils, additional income from supplementary valuations did not keep pace with population growth with faster growing councils tending to be unable to recover additional revenue through general income in proportion to their growth.[48] As a result of the review, IPART introduced a population factor from the 2022-23 financial year, which means the calculated rate peg for each council, in part, depends on how fast the population is growing in the relevant council area.[49]

IPART 2022-2023 review of the rate peg methodology

1.42 The rate peg set for the 2022-23 financial year was lower than many councils expected during what was a period of relatively high inflation. This was largely because the previous rate peg methodology used the Local Government Cost Index (LGCI) and was based on changes in costs experienced by councils between 2019-20 and 2020-21 when inflation was relatively low. After the local government sector raised concerns, IPART resolved to undertake a review of the rate peg methodology.[50]

1.43 During the review, IPART consulted with key stakeholders and received feedback from both local councils and ratepayers. Local councils told IPART that their primary concern is achieving and maintaining financial sustainability and using their rates income effectively and efficiently to maximise what can be achieved. The feedback from ratepayers included:

- support for the rate peg to encourage financial restraint, noting it could reduce the democratic accountability of councils to their communities on rates
- that councils are not held accountable for large rates increases and that the rate peg provides limited protection due to special variation approvals
- that improved productivity, efficiency and financial management rather than higher rates should address increased council spending and that other options for income be explored.[51]

1.44 On 9 November 2023, IPART released its final report on its review of the rate peg methodology. This report sets out the methodology that will apply to the rate peg for the 2024-25 financial year and how the changes to the methodology will be implemented.

1.45 According to IPART, the changes are intended to produce rate pegs that are a timelier measure of changes in councils' base costs, by referring to forward-looking measures of anticipated cost

47 Independent Pricing and Regulatory Tribunal (IPART), *Review of the rate peg to include population growth - Final Report* (September 2021), p 1, https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Report-Review-of-the-rate-peg-to-include-population-growth-September-2021.PDF

48 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 11.

49 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 12.

50 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 4.

51 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), pp 5-6.

changes. They will also better account for the diversity among New South Wales local councils and help ensure ratepayers contribute only to costs relevant to their local government area.[52]

1.46 The changes to the rate peg methodology include:

- Replacing the Local Government Cost Index (LGCI) with the simpler Base Cost Change (or BCC) model to measure the annual change in New South Wales councils' base costs.
- Measuring the annual change in New South Wales councils' base costs for 3 groups of councils (instead of one that includes all New South Wales councils).
- Moving away from using the average annual change in Emergency Services Levy contributions (or ESL contributions) across all New South Wales councils, to a separate council-specific ESL factor that reflects the annual change in ESL contributions for each council.
- Adjusting the population factor to more accurately measure the change in councils' residential populations by excluding prison populations.[53]

1.47 The rate peg methodology is discussed in detail in chapter 2.

1.48 As IPART explains, whilst the BCC model will help to reduce the impact of the lag inherent in the previous LGCI model, as it uses forecasts instead of lagged data, they noted the BCC model cannot fully eliminate any lag, especially when inflation is volatile. While forecasts two years into the future are informed by current events and recent previous events, they can seldom anticipate volatility. IPART also noted that they set and publish the rate peg to apply from 1 July to 30 June in around September of the previous year, resulting in a nine-month lag between when the decision on the rate peg is made and when it is applied.[54]

1.49 Stakeholders made it clear to IPART during the review that there are broader concerns around how local government services are funded, including concerns around councils' performance and financial sustainability, and the affordability of rates in the current cost of living climate. According to IPART whilst the changes to the rate peg methodology may address some of these concerns, many of the issues raised cannot be fixed by the rate peg or the special variation process. For that reason, IPART's final report included the recommendation that the New South Wales Government consider commissioning an independent review of the financial model for councils in NSW including the broader issues raised during the review.

Federal inquiry into local government sustainability

1.50 The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport adopted an inquiry into local government sustainability on 21 March 2024. The

52 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 6.

53 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 7. See also Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, pp 11-12, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023.

54 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 7.

committee is seeking to understand the challenges faced by local governments in servicing infrastructure requirements across Australia's regional, rural, and remote locations.[55]

1.51 The committee is inquiring into and will report on local government matters, with a particular focus on:

- the financial sustainability and funding of local government
- the changing infrastructure and service delivery obligations of local government
- any structural impediments to security for local government workers and infrastructure and service delivery
- trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices
- the role of the Australian Government in addressing issues raised in relation to the above
- other relevant issues.[56]

1.52 At the time of writing, this inquiry is ongoing and yet to report.

55 Parliament of Australia, *New inquiry - Australia's local government sustainability* (21 March 2024), https://www.aph.gov.au/About_Parliament/House_of_Representatives/About_the_House_News/Media_Releases/New_inquiry_-_Australias_local_government_sustainability.

56 Parliament of Australia, *Inquiry into local government sustainability – Terms of Reference*, https://www.aph.gov.au/Parliamentary_Business/Committees/House/Regional_Development_Infrastructure_and_Transport/Localgovernmentsustaina/Terms_of_Reference.

Chapter 2 Rates, the rate peg and special variations

The local government rating system in New South Wales is established under the *Local Government Act 1993* (the LG Act). Rates are a major funding source for local councils and have a significant impact on the level of income councils require to adequately meet the needs of their communities.

This chapter outlines how rates are set and levied by local councils under the LG Act, including the impact of rate exemptions on councils' revenue. It then explains the current methodology used by the Independent Pricing and Regulatory Tribunal (IPART) to set the rate peg, a legislated cap used to regulate rates income in NSW, before discussing the impact of the rate peg on the financial sustainability of councils. Finally, the chapter discusses concerns with the special variations process and its effectiveness in providing councils an avenue for varying their general income by an amount greater than the rate peg.

Rates

2.1 Rates are property-based taxes levied by local councils on property owners. In New South Wales, local councils set and levy rates in accordance with the rating system established by the *Local Government Act* 1993 (the LG Act). Within this system, councils set the rating structure and determine the rate levels for each rating category.[57]

2.2 Under the LG Act, a rate may consist of an ad valorem amount (i.e. a percentage which may be subject to a minimum amount), or a base amount to which an ad valorem amount is added.

- An ad valorem amount is a variable charge set as a proportion of the unimproved land value of the property – that is, the value of the property without any buildings, houses or other capital investments.
- A minimum amount, where applied, is a flat charge which applies instead of the ad valorem amount, when it is greater than the ad valorem amount.
- A base amount, where applied, is a fixed charge that is levied equally against all rateable properties within a given rate category, or subcategory of land use.[58]

2.3 Rates are a major source of income for local councils and are used to fund, deliver and maintain essential services, assets and infrastructure in the community. According to the Independent Pricing and Regulatory Tribunal (IPART), the importance of this funding source varies across councils, however, on average, rates income represents around one third of NSW councils' combined total income.[59]

2.4 The level of income from rates can vary based on the size of the local government area. The Office of Local Government NSW (OLG) advised that councils in metropolitan and urban

57 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 2. Section 493 of the *Local Government Act 1993* states there are 4 categories of an ordinary rate and 4 categories of rateable land, these being farmland, residential, and mining.

58 Submission 32, Office of Local Government NSW, p 9.

59 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 16.

areas tend to have a relatively larger rating base and therefore higher proportions of income from rates than those in regional and rural areas.[60]

2.5 Metropolitan cities, and some regional centres, have access to a relatively higher revenue base, reflecting the high density of primarily commercial property owners who tend to have a stronger capacity to pay rates. However, these councils must service the needs of a highly transient, non-rate paying population (such as tourists, workers and shoppers). On the other hand, due to their smaller population base, rural and remote councils have a limited rating base to finance vast road networks and higher than average staffing costs needed to attract and retain skilled staff. These councils may also have to undertake a range of services that would typically be undertaken by other levels of government or the private sector.[61]

2.6 Under the LG Act, councils are generally required to exempt government and other organisations from paying rates in the local government area,[62] which impacts metropolitan and regional, rural and remote councils differently. Rate exemptions and subsidies are provided for Crown land, and land owned by public transport and water corporations, religious bodies, schools, public hospitals and other landowners and occupiers.[63] Similarly, councils are required to provide rebates to pensioners. The impact of these rate exemptions and rebates on councils' income and revenue was a key issue raised by stakeholders during the inquiry as outlined in the next section.

Impact of rate exemptions, concessions and other rebates on council revenue

2.7 Turning first to rate exemptions, stakeholders expressed concern that many rate exemptions place financial pressure on local councils and are no longer justifiable from an equity point of view. For example, Mr Graham Sansom, Adjunct Professor, commented on the 'excessive rating exemptions and concessions' in the local government sector. While he acknowledged that some of the exemptions and concessions are justified, Mr Sansom argued that 'there's good evidence that the [financial] consequences are quite serious'.[64]

2.8 Local Government NSW (LGNSW) suggested that many current exemptions serve to provide financial benefits to numerous organisations that are 'no longer justified in terms of principles of optimal taxation, particularly principles of equity and efficiency':

> … the distinction between charitable and social activity and commercial activity has blurred progressively over time with community orientated enterprises increasingly engaging in more commercially focused activity. Often it is no longer appropriate for local ratepayers to subsidise activities of exempt institutions where institutions act commercially, benefit from council services, and have capacity to pay.[65]

60 Submission 32, Office of Local Government NSW, p 9.

61 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 5.

62 Submission 119, Local Government NSW (LGNSW), p 27.

63 *Local Government Act* 1993, ss 555 and 556; See also Answers to supplementary questions, Mr Brett Whitworth, Deputy Secretary, Office of Local Government, 23 August 2024, p 2.

64 Evidence, Mr Graham Sansom, Adjunct Professor, 29 May 2024, p 28.

65 Submission 119, Local Government NSW (LGNSW), p 28.

2.9 Several inquiry participants commented on the general financial impact of rate exemptions on councils. For example, Mr Andrew Butcher, Senior Revenue Accountant, Campbelltown City Council and President of the NSW Revenue Professionals, highlighted that an exemption is 'not necessarily foreseeable by a local council' and councils can 'miss out on income' due to rates exemptions.[66] Similarly, the Riverina Eastern Regional Organisation of Councils (REROC) stated that in areas 'where vast amounts of land are exempt from rates… councils miss out on rate income, despite the need to provide services such as local roads and infrastructure to the land'.[67]

2.10 Wollongong City Council noted that the cost of rate exemptions is absorbed by the 'broader rating base', which further impacts rate increases over time. While the council was supportive of rate exemptions, particularly to those within the community who are vulnerable, it held the view that the exemptions should be funded by other levels of government accountable for the relevant function.[68]

2.11 Both the City of Ryde Council and the Northern Sydney Regional Organisation of Councils (NSROC) observed that when a significant proportion of land is rating-exempt, a council's rate base may be too narrow to raise enough income to cover the costs of services its community needs. Furthermore, existing ratepayers may have to pay higher rates to cover the cost of services for exempt properties or accept lower service levels.[69]

2.12 Specifically, the impact of exemptions for land and property used for residential purposes was a common issue for several councils.

- Mr Andrew Butcher, Senior Revenue Accountant, Campbelltown City Council and President of the NSW Revenue Professionals, highlighted that charities or public benevolent institutions have the capacity to buy or fund significant infrastructure in the community. However, councils do not receive any income from the infrastructure in this scenario, even though it may 'involve up to 1,000 or more apartments' to house people who will use council resources and services.[70]
- Mr Ian Clayton, Manager of Property and Revenue, Mid-Western Regional Council, discussed how a change in community housing from government providers to community housing providers resulted in a loss of rates income for the council. Mr Clayton explained that while the Department of Housing is rateable under the legislation, other community housing providers are not, even though the land or property is being used for the same purpose and the residents are using the council's facilities and services.[71]

66 Evidence, Mr Andrew Butcher, Senior Revenue Accountant, Campbelltown City Council and President of the NSW Revenue Professionals, 29 May 2024, pp 10-11.

67 Submission 102, Riverina Eastern Regional Organisation of Councils (REROC), p 11.

68 Submission 106, Wollongong City Council, p 5.

69 Submission 28, City of Ryde Council, p 2; Submission 111, Northern Sydney Regional Organisation of Councils, p 2.

70 Evidence, Mr Butcher, 29 May 2024, pp 10-11. See also, Evidence, Mr Adrian Panuccio, General Manager, MidCoast Council, 27 June 2024, p 24.

71 Evidence, Mr Ian Clayton, Manager of Property and Revenue, Mid-Western Regional Council, 28 June 2024, p 16.

2.13 In addition, several councils commented on the impact of exemptions for other types of exempt land and institutions, such as national parks, the Forestry Corporation of NSW and educational institutions.

- Mr David Walsh, Chief Financial Officer, Northern Beaches Council, proposed that consideration should be given to lifting exemptions for businesses that may sit on a national park but still draw on council resources while competing against other businesses in the area.[72]
- Mr Anthony McMahon, Chief Executive Officer, Bega Valley Shire Council, gave evidence that the council does not receive 'adequate revenue to cover the cost impacts associated' with the use of council assets as a result of national parks and state forests in the local area.[73]
- Councillor Mark Kellam, Mayor of Oberon Council and Deputy Chair, Central NSW Joint Organisation, commented that 'one of the great disadvantages' in his local government area is that half of it is state forest, which is Crown land and therefore unrateable, foregoing 'over a million dollars a year in rates'.[74]
- According to Snowy Valleys Council, Forestry Corporation activities impact on, and utilise, council facilities and services just like any other enterprise and should be either rateable or required to make a similar ex gratia payment.[75]
- Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council noted the 'significant number of educational institutions' in his local government area. Whilst these institutions use council infrastructure and open spaces, the council is unable to recoup any of the maintenance costs, leaving other ratepayers in the community to cover the costs.[76]

2.14 To address these concerns, several councils, such as Ku-ring-gai Council, expressed the view that the current rate exemptions under the LG Act should be reviewed to achieve 'a better balance between community benefit, fairness, and revenue generation'.[77] Ku-ring-gai Council noted that while delivering community benefits, many of the institutions that fall under a rate exemption benefit from services provided by local government and/or are undertaking commercial activities.[78]

2.15 LGNSW argued that 'all land used for commercial or residential purposes should be subject to rates regardless of tenure'.[79] LGNSW suggested that in some cases, rate exemptions should

72 Evidence, Mr David Walsh, Chief Financial Officer, Northern Beaches Council, 3 June 2024, p 30.

73 Evidence, Mr Anthony McMahon, Chief Executive Officer, Bega Valley Shire Council, 23 July 2024, p 26.

74 Evidence, Councillor Mark Kellam, Mayor of Oberon Council and Deputy Chair, Central NSW Joint Organisation, 28 June 2024, p 4.

75 Submission 103, Snowy Valleys Council, p 8.

76 Evidence, Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council, 5 July 2024, p 3.

77 Submission 86, Ku-ring-gai Council, p 5.

78 Submission 86, Ku-ring-gai Council, p 5. See also, Evidence, Mr Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, 29 May 2024, p 17.

79 Submission 119, Local Government NSW (LGNSW), p 27. See also, Submission 81, Mid-Western Regional Council, p 5.

'simply be abolished' and in other instances, the eligibility criteria for exemptions should be tightened through legislation.[80]

2.16 Furthermore, some stakeholders reflected on the adverse impact of the housing strategy Build to Rent on rates income.[81] Build to Rent housing is large-scale, purpose-built rental housing that is held in single ownership and professionally managed. The consequence of single ownership is a single rate assessment rather than separate rate assessments for each residential apartment/dwelling.[82]

2.17 Burwood Council argued that the 'arrangement is inherently unfair' because:

> … the burden of the additional dwelling population is absorbed by council and indirectly charged to the rest of the community. The increased population density resulting from build-to-rent developments places additional strain on Council's services and infrastructure, such as parks, roads, waste management, and community facilities. However, without the ability to levy rates fairly on these developments, Council is forced to spread the cost across the entire community, leading to a disproportionate burden on other ratepayers.[83]

2.18 Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council, called for an amendment of the rating framework to address Build to Rent developments and noted that the council is seeing an increase in applications for build to rent properties in the area.[84]

2.19 When asked about potential changes to the rating system to address the issues arising from Build to Rent developments, Mr Andrew Butcher, Senior Revenue Accountant, Campbelltown City Council and President of the NSW Revenue Professionals, put forward the view that using the business rating category would 'fairer represent the use of the land' and 'would go a long way to fixing the problem'.[85]

2.20 Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW, gave evidence that there are opportunities for rating changes where newer forms of development are being encouraged. In relation to Build to Rent specifically, Mr Whitworth suggested that there may be an opportunity to change the rating category to commercial for these types of developments but cautioned that consideration needs to be given to the potential complexities for such a change, such as people confusing planning uses with rating uses.[86]

2.21 In addition to rate exemptions and concessions, councils are also required to provide pensioner rebates on rates and other charges. The New South Wales Government subsidises 55 per cent of the cost, with the remaining 45 per cent funded by councils and other ratepayers. According

80 Submission 119, Local Government NSW (LGNSW), p 27.

81 See Submission 28, City of Ryde Council p 2; Submission 74, Burwood Council, p 5; Submission 86, Ku-ring-gai Council, p 5; Submission 111, Northern Sydney Regional Organisation of Councils, p 2.

82 Submission 20, NSW Revenue Professionals, p 4.

83 Submission 74, Burwood Council, p 5.

84 Evidence, Mr Parsons, 5 July 2024, pp 2-3; See also Evidence, Mr Thirimanne, 29 May 2024, p 17.

85 Evidence, Mr Butcher, 29 May 2024, p 15.

86 Evidence, Mr Brett Whitworth, Deputy Secretary, Office of Local Government, 30 July 2024, p 38.

to LGNSW, this cost was estimated to amount to $55.2 million for councils in 2021-2022, even before the additional costs of administering this rebate are considered.[87]

2.22 Stakeholders raised a number of concerns with pensioner rebates. For example, Campbelltown City Council commented that 'social welfare is the responsibility of state and federal governments and full funding of the rebate scheme should not be a responsibility of local governments'. The council suggested that indexation should be applied to the current rebate scheme in order to keep pace with the cost of services and not diminish the pensioners' capacity to pay.[88]

2.23 Other stakeholders, such as Clarence Valley Council, highlighted the disproportionate impact of pensioner rebates on smaller regional and rural local councils which have ageing populations and the greatest proportion of pensioners.[89]

2.24 During their review of the rate peg methodology in 2022-23, IPART identified a range of measures that may improve the equity of the rating system and local government revenue framework, and better support councils to serve their communities and maintain financial sustainability in the longer term. Two of the measures in the final report included:

- better targeting eligibility criteria for rate exemptions to help ensure ratepayers do not subsidise the cost of council services to properties where it is not justified on efficiency and equity grounds
- a comprehensive state-wide evaluation of existing pensioner concessions.[90]

2.25 Ms Carmel Donnelly, Chair, Independent Pricing and Regulatory Tribunal (IPART), noted a recommendation made by IPART in 2016, as part of its review into the local government rating system, that proposed targeting general rate exemptions based on land use, not land ownership.[91] In its submission, the Riverina Eastern Regional Organisation of Councils (REROC) supported this recommendation, commenting that '… members agree that rating should be based on the use of the land, not its ownership'. The organisation proposed that this approach would support the 'principle of competitive neutrality by ensuring that the same land uses were rated the same way regardless of the ownership of the property'.[92]

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87 Submission 119, Local Government NSW (LGNSW), p 28.

88 Submission 67, Campbelltown City Council, p 8. See also, Submission 103, Snowy Valleys Council, p 8; Evidence, Mr Steven Pinnuck, Interim General Manager, Snowy Valleys Council, 15 July 2024, p 38.

89 See Evidence, Professor Brian Dollery, University of New England, 17 May 2024, p 40; Evidence, Councillor Peter Johnstone, Mayor, Clarence Valley Council, 26 June 2024, p 39.

90 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), pp 28-29. See also Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, p 124, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023.

91 Evidence, Ms Carmel Donnelly, Chair, Independent Pricing and Regulatory Tribunal (IPART), 17 May 2024, p 3. See also Independent Pricing and Regulatory Tribunal (IPART), *Review of the Local Government Rating System – Final Report* (December 2016), p 97, https://www.ipart.nsw.gov.au/sites/default/files/documents/final-report-review-of-the-local-government-rating-system-december-2016_0.pdf.

92 Submission 102, Riverina Eastern Regional Organisation of Councils, p 11.

The rate peg

2.26 The total income local councils can raise through rates under the LG Act is regulated in several ways, one of which is the local government rate peg (rate peg). IPART sets the rate peg as the delegate of the Minister for Local Government and has done so since 2010.[93]

2.27 The rate peg represents the maximum amount, as a percentage, by which councils may increase their rates income in a year. It is the maximum percentage increase permitted, and applies to a council's total rates income, not individual rates.[94]

2.28 Councils can choose to increase their rates income by this percentage, by a lower percentage, or reduce or maintain its rates income. If a council increases its rates income by less than the rate peg in a given year, it has up to 10 years to catch up this shortfall.[95] According to the OLG, this discretion provides councils with the flexibility to ensure their rate collection is reflective of local and statewide circumstances, and to manage the fluctuations that occur, such as economic downturns or the effect of natural disasters.[96]

2.29 Furthermore, councils have discretion when setting rates as to how the impact of rate changes are distributed among ratepayers. For example, they can choose to increase rates for some rating categories by more than the rate peg, and others by less than the rate peg, as long as the overall increase in their total rates income does not exceed the rate peg percentage.[97]

2.30 IPART described the purpose of the rate peg as twofold:

1. It allows all councils to automatically increase their rates income each year to keep pace with the estimated change in the base costs of providing their current services and service levels to households, businesses, and the broader community. This helps ensure that councils can maintain the scope, quantity and quality of these services over time without undermining their financial sustainability.
2. It limits the impact of these automatic increases on ratepayers, by ensuring that councils cannot increase their rates income by more than the estimated change in their base

93 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 2. See also Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, p 10, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023.

94 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 2. According to the Office of Local Government NSW, the rate peg does not apply to stormwater, waste collection or water and sewerage charges, which are collected on a fee-for-service or cost recovery basis (see Submission 32, p 12).

95 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 2. See also Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, pp 25-26, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023.

96 Submission 32, Office of Local Government NSW, p 15.

97 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 2. See also Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, pp 25-26, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023.

costs, and that they engage with their communities if they propose a step change in their rates income to fund improvements in the scope, quantity or quality of their services.[98]

2.31 The following sections provide an overview of the rate peg methodology and the impact of the rate peg on the financial sustainability of councils.

Rate peg methodology

2.32 As discussed in chapter 1, notable reviews undertaken by IPART include the review to include population growth into the rate peg in 2022-23 and a review of the rate peg methodology for the 2024-25 financial year.

2.33 In relation to population growth, IPART noted that as local communities grow, councils need to provide additional services to meet the demand of their residents and businesses. As explained by IPART, accounting for population growth in the rate peg allows councils to recover increases in their costs due to servicing an increased population, keeping revenue per capita before inflation consistent, as populations grow. It is calculated as the change in residential population less any increase in general revenue from supplementary valuations.[99]

2.34 The 2022-2023 IPART review of the rate peg methodology sets out the rate peg methodology for the 2024-25 financial year. According to IPART, this methodology is intended to produce rate pegs that more accurately reflect changes in councils' base costs by using forward-looking indicators to measure cost changes. It is also intended to better account for council diversity through the inclusion of council-specific factors and adjustments to help ensure ratepayers contribute only to costs relevant to their local government area.[100]

2.35 The rate peg methodology includes:

- a Base Cost Change (BCC) model that measures the annual change in councils' base costs:
  - in three cost components: employee costs, asset costs and other operating costs
  - for three groups of councils (instead of one that includes all councils) to better account for, and capture, the diversity of councils by reflecting differences in spending patterns. These groups are metropolitan, regional, and rural councils
- a separate council-specific Emergency Services Levy (ESL) factor to account for changes in councils' ESL contributions without needing to reduce other council services or erode their financial sustainability
- a productivity factor that is intended to capture savings councils may be able to make, which is currently set at zero by default, unless there is evidence to depart from that approach

98 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 2.

99 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), pp 11-12. Councils are able to increase general income up to a maximum amount (called councils' notional general income) that is adjusted for supplementary valuations issued by the Valuer General. The Valuer General issues supplementary valuations in certain circumstances, including when there are changes in land value (for example, where land has been rezoned or subdivided) outside the usual 3 to 4-year general valuation cycle.

100 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 3 and p 6.

- a population factor to maintain the amount of rates collected per person in areas that have a growing population to provide councils with the increase in income required to fund services to a larger population
- other additional adjustments as needed for costs driven by external factors outside councils' control, where ratepayers will benefit from the activities generating the costs, such as managing climate change impacts and cyber security threats.[101]

2.36 Despite the recent changes to the rate peg methodology, some stakeholders argued the changes did not go far enough to take into account the individual needs of councils.[102] For example, the Country Mayors Association of NSW (CMA) commented that the system is still 'inherently flawed' as the calculations behind the new BCC model and the ESL imposed on councils do not account for 'obvious variables'. The CMA argued that the methodology includes an underlying assumption that all rural and regional councils are the same, whereas 'the reality is local councils in country NSW can vary much more than metropolitan councils in terms of changes to financial challenges'.[103]

2.37 The City of Newcastle Chief Executive Officer, Mr Jeremy Bath, argued that even after 'numerous independent reviews', the rate peg creates increasing financial hardship for councils and their communities as it does not permit councils to meet the risings costs of serving their communities'.[104]

Impact of the rate peg on the financial sustainability of councils

2.38 The impact of the rate peg on financial sustainability in the local government sector was a key issue during the inquiry.

2.39 The Country Mayors Association of NSW (CMA) argued that rate pegging 'has failed' because it has been based on historical data, rather than considering current, emerging and future circumstances on an individual basis.[105]

2.40 MidCoast Council advised that rate pegging has not worked for them, with the council and many other regional and rural councils still dealing with 'the historical impacts of rate pegging on asset renewals and the provision of services'. Councillor Claire Pontin, Mayor, MidCoast Council, contended that the evidence of this is seen in the high rate of special variations in recent years. Cr Pontin gave evidence that whilst the rate peg is designed to protect ratepayers,

101 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 3. See also Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, pp 11-12, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023.

102 Evidence, Mrs Julie Briggs, Chief Executive Officer, Riverina Eastern Regional Organisation of Councils, 15 July 2024, p 3; Submission 68, Southern Sydney Regional Organisation of Councils, p 10-11.

103 Submission 83, Country Mayors of NSW, p 13.

104 Submission 17, City of Newcastle, p 2.

105 Submission 83, Country Mayors of NSW, p 13.

it has an 'accumulating adverse effect on asset maintenance which eventually must be addressed through SVs'.[106]

2.41 Mr Paul Bennett, General Manager, Tamworth Regional Council, gave evidence that the underlying issue of the rate peg is that it is set based on councils providing the same services year to year, without accounting for a growth and increase in services to the community. Mr Bennett commented that rate pegging is a 'good thing' if the intention is to say 'if you do exactly the same next year as you've done this year, this is the increase you could apply to your rates'. However, he argued that communities change every year and if a council can demonstrate an 'uplift in service delivery' through the IP&R process then an additional amount should be added on top of the rate peg.[107]

2.42 In their submission, the Riverina Eastern Regional Organisation of Councils (REROC) commented that whilst the rate peg is supposed to be set at a level that allows councils to deliver business as usual services, REROC member councils agree that 'the rate peg has completely failed to deliver on this aim'. According to REROC, this has resulted in councils being 'forced to make decisions to push liabilities further down the line, delay the maintenance of community infrastructure, cutback on services or a combination of all three'.[108]

2.43 Mr Graham Sansom, Adjunct Professor, was also critical of rate pegs, stating that such caps lead to 'unrealistic expectations in the community' that leave councils unable to sustain the services the community demand.[109] Mr Sansom argued that rate pegging has 'exacerbated concerns about local government's revenue base and sustainability, with adverse consequences for ratepayers, councils and staff'.[110]

2.44 The United Services Union referred to a 2022 report by Professor Brian Dollery entitled *Rate-pegging in NSW Local Government: An Analysis of the Empirical Evidence*. In this report, Professor Dollery expressed the view that the 'the existing rate-capping regime in NSW local government has had deleterious effects on municipal performance'. He specifically highlighted the 'continuing inadequacy of revenue from rates, related ongoing problems with the financial sustainability of NSW local government and associated insufficient infrastructure maintenance and renewal'.[111]

2.45 Professor Dollery proposed two alternative approaches to improving the NSW local government rating system, the 'first best approach' being 'to simply abolish rate-pegging and thereby give local authorities the latitude to strike their own rates and be held accountable by their own local residents'. However, in recognising the political difficulty to removing rate capping in NSW, he also suggested a 'second best approach' that would instead focus on removing 'the worst features of the rate-pegging regime' and redesigning the rate peg system. This would contain three main elements:

106 Evidence, Councillor Claire Pontin, Mayor, MidCoast Council, 27 June 2024, p 20.

107 Evidence, Mr Paul Bennett, General Manager, Tamworth Regional Council, 27 June 2024, pp 16-17.

108 Submission 102, Riverina Eastern Regional Organisation of Councils, p 3.

109 Submission 104, Mr Graham Sansom, Adjunct Professor, p 14.

110 Submission 104, Mr Graham Sansom, Adjunct Professor, p 8.

111 Submission 22, United Services Union, pp 31-32.

> (a) a rate-peg would be set for a minimum of three years in advance to facilitate financial planning by local councils; (b) the process of determining the rate-cap would be modified to include input from a panel of local government experts as well as a more accurate method of determining cost escalations in NSW local government than the current misconceived IPART methodology; and (c) the process of applying for SRVs should be eased further to automatically grant SRVs unless there are compelling grounds to the contrary.[112]

2.46 During the inquiry, the committee heard a range of perspectives on the rate peg as it currently exists, including alternative approaches should it be removed, or adjustments that could be made to improve financial sustainability should the system remain.

2.47 According to IPART, apart from Victoria, other Australian states and territories do not regulate rates income. Rather, councils are permitted to adjust the level of their rates income to align with their prepared budget for each financial year. However, these councils need to meet specified requirements before raising rates.[113]

2.48 LGNSW was 'firmly of the view that rate pegging should be abolished'.[114] LGNSW argued that by removing the rate peg in its entirety, councils would be provided with more autonomy in financing community needs and 'shift the needle in addressing the mismatches in income and costs' in the local government sector.[115] According to LGNSW, removing the rate peg would also encourage councils to ensure both short and long term service and asset management planning was robust and evidence-based.[116]

2.49 In calling on the New South Wales Government to remove the rate peg, Councillor Darriea Turley, President of Local Government NSW (LGNSW), gave evidence that the rate peg is one of the major factors 'threatening the financial sustainability of councils', alongside cost shifting and state and federal government funding arrangements that are no longer fit for purpose. Cr Turley noted that in most other states and territories, councils have more autonomy in setting their rates and charges and argued that rate pegging 'has constrained local government rate revenue rises' in New South Wales.[117]

2.50 Below are examples of other stakeholders who advocated for the removal of the rate peg:

- Both Mid North Coast Joint Organisation and Bellingen Shire Council commented that a 'more practical approach would be to abolish rate pegging in its entirety and allow councils to control its primary income source'.[118] In support of this view, Bellingen Shire Council asserted that 'the current process of providing a rate peg that sufficiently supports the ability of the council to fund infrastructure and services is an impossible task'.[119]

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112 Submission 22, United Services Union, p 32

113 Submission 88, Independent Pricing Regulatory Tribunal (IPART), p 23.

114 Submission 119, Local Government NSW (LGNSW), p 18.

115 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 3.

116 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 45.

117 Evidence, Councillor Darriea Turley, President, Local Government NSW, 3 June 2024, pp 53-54.

118 Submission 33, Mid North Coast Joint Organisation, pp 3-4; Submission 70, Bellingen Shire Council, p 3.

119 Submission 70, Bellingen Shire Council, p 3.

- Narrabri Shire Council stated the rate peg 'needs to be urgently abolished' to provide councils with greater flexibility and autonomy over their rating structure.[120]
- Mid-Western Council and MidCoast Council advocated for the removal of the rate peg, suggesting that the IP&R process be used to set the required revenue needed to provide the services agreed.[121]
- Bathurst Regional Council stated that the current system is 'broken' and that 'despite best attempts' from IPART and the New South Wales Government such a system does not work due to the diversity of councils across the sector.[122]
- Councillor Patrick Bourke, Mayor, Federation Council, highlighted that local government is the 'only level of government that does not have the ability to adjust its own taxes – our rates…' and asked that councils be entrusted to work with communities through the IP&R framework to deliver services.[123]
- City of Parramatta Council stated that discontinuing rate pegging would enable councils 'to adjust rates based on local economic conditions, population growth, and service demands, crucial for addressing financial sustainability challenges'.[124]

2.51 If the rate peg were removed, some stakeholders suggested alternative approaches that could be considered in its place. Mr Graham Sansom, Adjunct Professor, put forward four alternative approaches:

> There are at least four options for better approaches to rate pegging that can achieve its political objectives – being seen to apply downward pressure on rates increases – without undermining sound financial management in local government and damaging local democracy'. Those options are:
> - Plan plus Approval (based on Integrated Planning and Reporting, as implemented by IPART in the period after 2013)
> - Rates Benchmarking (proposed in 2013 by the ILGRP)
> - Ministerial Reserve Power to intervene in cases of unwarranted rate increases (as included in the Victorian Local Government Act before the introduction of 'universal' rate capping in 2016)
> - Strategic Oversight of councils' financial planning and rating provisions (as applied/proposed in South Australia and Tasmania).[125]

2.52 Several stakeholders, such as Mid-Western Council and MidCoast Council, indicated strong support for greater use of the Integrated Planning and Reporting (IP&R) framework, in place of the rate peg to allow councils to set the revenue required to provide agreed services.[126] Albury

120 Submission 97, Narrabri Shire Council, p 5.

121 Submission 81, Mid-Western Council, p 3; Submission 41, MidCoast Council, p 12. See also Evidence, Mr Adrian Panuccio, General Manager, MidCoast Council, 27 June 2024, p 23.

122 Submission 78, Bathurst Regional Council, p 1. See also Evidence, Mr David Sherley, General Manager, Bathurst Regional Council, 28 June 2024, pp 19-20.

123 Evidence, Councillor Patrick Bourke, Mayor, Federation Council, 15 July 2024, p 27.

124 Submission 116, City of Parramatta Council, p 1.

125 Submission 104, Mr Graham Sansom, Adjunct Professor, p 8.

126 See Submission 81, Mid-Western Council, p 3; Submission 41, MidCoast Council, p 12; Submission 78, Bathurst Regional Council, p 2.

City Council contended that a 'better approach' would be to utilise the existing IP&R framework to better effect, noting that the rate peg:

- is limited in its purpose and adds to the financial sustainability challenges of rural councils and regional cities
- does not allow councils to adjust their rates to reflect changes in their costs
- does not take into account demand for changes in service levels, the impacts of extreme weather events and other sustainability challenges
- does not cover cost increases when inflation is on the rise, as it ignores actual inflation for operating costs.
- relies on a special variation process to gain IPART approval to increase rates above the rate peg to fund changes in service provision, rather than establishing a sustainable rate methodology from the outset.[127]

2.53 Mr George Cowan, Chair of Riverina and Murray Joint Organisation (RAMJO) Energy Security Sub-committee and General Manager, Narrandera Shire Council, characterised the IP&R framework as a 'valuable tool' and one that his community understands and actively participates in.[128] Likewise, Kempsey Shire Council raised that the long-term financial planning requirements of the IP&R framework, and the accountability of elected councillors to residents and ratepayers through local government elections could be sufficient measures when managing rates as opposed to having a statewide legislated cap.[129]

2.54 Another alternative to rate pegging is rate benchmarking. This would involve IPART calculating and publishing an annual local government cost index with comparative data on rates increases and associated expenditure increase. While there would be no official rate peg, LGNSW commented that benchmarking would 'still enable and encourage public scrutiny of council's revenue and expenditure decisions'. In addition, benchmarking could also be reinforced by a reserve power for the minister to intervene when necessary.[130] LGNSW noted that this form of rate monitoring is similar to 'the strategic oversight' adopted by Tasmania and South Australia.[131]

2.55 Mr Peter Tegart, Partner, Always Thinking Advisory, noted that it would 'take a brave government to remove rate pegging' and explained what benchmarking could potentially look like should it be introduced:

> … if there was a change to the thinking around a rate peg, a benchmark cost percentage could be announced per year, per cohort of council, against which the IP&R process could argue, "We will apply that particular benchmark, or go above or below." That way there is greater authority in the council making the decision on behalf of the community, and a greater accountability to the community: "We have increased our benchmark cost, and therefore our benchmark rates, by this amount, for these purposes, as the community had asked for, through the comprehensive IP&R process in the preceding

127 Submission 60, Albury City Council, p 1.

128 Evidence, Mr George Cowan, Chair, Riverina and Murray Joint Organisation (RAMJO) Energy Security Sub-committee and General Manager, Narrandera Shire Council, 30 July 2024, p 16.

129 Submission 105, Kempsey Shire Council, p 2.

130 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, pp 44-45.

131 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, pp 44-45.

> year or two." I think that would be a fairer mechanism, rather than a blunt instrument such as a rate peg.[132]

2.56 At a hearing, Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW, responded to the evidence from stakeholders suggesting the rate peg should be removed. Mr Whitworth raised questions about removing the rate peg and what would be introduced in its place:

> … if you remove a rate cap, what do you have in its place? Do you have an underlying rate, like, this is what we expect the rate would be? Do you go down the model of the South Australians where you have the Essential Services Commission, ESCOSA, to do an evaluation of the way in which councils are setting their rates? Or do you actually go down the path of where IPART may set a rate path determination, if the council wants to do that—so, similar to how Sydney Water or the transport agencies get their approval to charge rates, where they do a submission to IPART and say, "We want you to give us an approval to levy these charges for our services"? It's based on a four- or a five-year determination, expecting what the likely costs will be, what the likely revenue will be, what the likely service demand will be…[133]

2.57 Should the New South Wales Government choose not to remove the rate peg, several stakeholders, such as LGNSW, shared potential adjustments that could be made to the rate peg system to improve financial sustainability outcomes for local councils.[134]

2.58 LGNSW proposed a number of measures to improve the rate pegging methodology and the operation of the rating system. These include:

- Changing the binding rate peg into a non-binding reference peg, which would continue to be a published indicator that would influence public and political expectations and, in doing so, guide councils' actual rate determination. Councils would have the discretion of exceeding the reference peg but would be subject to informed ratepayer scrutiny and would need to justify increases above the reference peg.
- Allowing councils to exceed the rate peg by a determined margin without a special variation (SV), which would remove the burden of making a SV application for small and moderate variations. (The SV process is discussed later in this chapter).
- Streamlining the special variation process to simplify and expedite the process.
- Introducing a minimum rate peg or floor.[135]

2.59 Several stakeholders, such as Northern Beaches Council and City of Parramatta Council, suggested that there's a need for greater flexibility and customisation in the rate peg to allow councils to adjust rates to reflect actual changes in costs and economic conditions and

132 Evidence, Mr Peter Tegart, Partner, Always Thinking Advisory, 3 June 2024, p 7.

133 Evidence, Mr Whitworth, 30 July 2024, p 40.

134 See Submission 119, Local Government NSW (LGNSW), pp 19-20; Submission XX, Sutherland Council, p 2; Submission 41, MidCoast Council, pp 9-10; Submission 52, Riverina and Murray Joint Organisation, p 4.

135 Submission 119, Local Government NSW (LGNSW), pp 19-20.

accommodate for the diversity between councils, including council types.[136] Northern Beaches Council expressed support for both the rate peg and IP&R framework, however noted that the 'missing mark' is 'the inflexibility of the rate peg'.[137]

2.60 The Hills Shire Council gave evidence that the rate peg 'in many ways, has made the sector fairly competitive' because it requires councils to be 'very innovative' with how they might provide services.[138] However, Mr Michael Edgar, General Manager, The Hills Shire Council, also acknowledged that the rate peg does not reflect 'true change in costs, nor does it reflect the true change in service expectations of the community'.[139]

2.61 Likewise, the Riverina and Murray Joint Organisation (RAMJO) commented that a 'more dynamic rate pegging system that allows local governments to adjust rates based on real-time economic conditions and cost pressures is crucial' to the financial sustainability of local councils.[140]

2.62 At a hearing, Mrs Julie Briggs, Chief Executive Officer, Riverina Eastern Regional Organisation of Councils, advocated for a 'more customised approach' to the rate peg that recognises 'a finer grading around rural and regional councils' to reflect the services councils need to provide in these communities. Whilst Mrs Briggs acknowledged that the steps taken by IPART in granulating the rate peg more in the new methodology is a 'great step in the right direction', she argued that more granulation is required to get a more effective result.[141]

2.63 Having the flexibility to manage rates specific to the local government area was particularly important to councils that are typically tourist destinations. Chief Executive Officer of Kiama Municipal Council, Ms Jane Stroud, said that although tourism is significant for a town such as Kiama, particularly in terms of employment, the increase of population places 'stress [on] the existing infrastructure because it's built to service the population capacity, not the tourist capacity'. Ms Stroud encouraged the committee to look to examples of differential rating systems of tourist-rich city councils in other jurisdictions, such as the Gold Coast in Queensland, where taxes are varied to capture the influx of tourism.[142]

2.64 Similarly, Mayor of Bega Shire Valley Council, Councillor Russell Fitzpatrick, reported that the population doubles in his local government areas during peak tourist season and that their rate payer base could not provide the revenue to support the infrastructure required to maintain this seasonal demand.[143]

136 Submission 28, Northern Beaches Council, p 2; Submission 116, City of Parramatta Council, p 2. See also Submission 111, Northern Sydney Regional Organisation of Councils, p 1; Submission 60, Albury City Council, p 1.

137 Evidence, Ms Caroline Foley, Executive Manager, Financial Planning and Systems, Northern Beaches Council, 3 June 2024, p 26.

138 Evidence, Mr Michael Edgar, General Manager, The Hills Shire Council, 5 July 2024, p 6.

139 Evidence, Mr Edgar, 5 July 2024, p 6.

140 Submission 52, Riverina and Murray Joint Organisation, p 4.

141 Evidence, Mrs Briggs, 15 July 2024, p 3.

142 Evidence, Ms Jane Stroud, Chief Executive Officer, Kiama Municipal Council, 23 July 2024, p 26.

143 Evidence, Cr Russell Fitzpatrick, Mayor, Bega Valley Shire Council, 23 July 2024, p 26.

2.65 Some stakeholders, including Sutherland Shire Council and IPART, suggested that another adjustment to consider is reassessing council rates to better align the level of rates being collected by councils against their community's ability to pay and the services that the community requires. Sutherland Shire Council argued that 'a correction is needed to re-base the years of deficient pegged increases, and base rates need to be reassessed to check the appropriateness of the value today'.[144] When asked whether councils need a rebasing at a hearing, Ms Carmel Donnelly, Chair, Independent Pricing and Regulatory Tribunal (IPART), commented that:

> … There is that tremendous diversity amongst councils, and some councils may have begun with a higher rate base when the rate peg was introduced, and that has been increased with a level of reflection of inflation. Those that didn't, start with a low rate base, the rate peg doesn't allow that gap to be bridged, and one of the remarks that I think I made in the past was that potentially it may even widen. Certainly, some councils have had particular shocks or challenges that might require them to have re-basing. Even when the legislation was changed and IPART was then able to introduce the population growth factor, that was at the time. It wasn't looking back to years of population growth that may not have been reflected in that revenue cap from rates.[145]

2.66 Another rate peg adjustment suggested by stakeholders is the use of the capital improved value (CIV) method to set the variable component of rates to ensure that rates are equitable and efficient for all residential and business ratepayers, regardless of their property type. This measure was identified by IPART for the New South Wales Government's consideration as part of their 2022-23 review of the rate peg methodology.[146] Councils currently use unimproved land values determined by the Valuer General for levying rates.[147]

2.67 Strathfield Council commented that this adjustment would 'align with population growth, allowing council revenue to increase alongside the communities they serve'. According to the council, CIV may be a better mechanism for 'capturing growth in rate yield and achieving equity in the rating system based on user pays rather than unimproved land value (ULV)'.[148] Likewise, Mid-Western Regional Council expressed support for the CIV method, arguing that if rate pegging is to continue, CIV is better understood by the community and would allow for a fairer distribution of the rate levy.[149]

2.68 LGNSW raised that although capital improved value (CIV) may disincentivise investments and 'discourage capital improvements', it is more likely to be more equitable and approachable for taxpayers to understand.[150] They also recommended focusing the implementation of CIV for metropolitan areas and leaving it up to individual councils in regional and rural areas to choose

144 Submission 48, Sutherland Shire Council, p 2.

145 Evidence, Ms Carmel Donnelly, Chair, Independent Pricing and Regulatory Tribunal (IPART), 30 July 2024, p 26. See also Ms Donnelly, 17 May 2024, p 6.

146 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 28.

147 Submission 19, Valuer General NSW, p 1.

148 Submission 75, Strathfield Council, p 10.

149 Submission, 81, Mid-Western Regional Council, p 5.

150 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 46.

which method of ad valorem valuation should be conducted, as was recommended in IPART's 2016 review.[151]

2.69 While the Valuer General NSW did not prefer either the use of unimproved capital values or CIV for levying rates, they cautioned that 'any recommendation or decision to change the basis of valuation in NSW should carefully weigh up any advantages against potential or known disadvantages, including implementation costs'.[152]

2.70 At a hearing, the Valuer General of NSW, Ms Sally Dale, offered insight into the resourcing required to move to the CIV system. Ms Dale indicated that the cost could be 'up to $500 million at the high end' and approximated a five-year timeline, including the centralisation of the information required, recruitment of staff and the redesign of work processes to support the change.[153] Mr Stewart Mclachlan, Chief Executive Officer, Valuation NSW, also advised that the properties within the purview of the Valuer General would increase from 2.7 million to 3.6 million.[154]

2.71 Ms Sally Dale stated that 'there are benefits to both', noting that CIV is more easily understood by rate payers than unimproved value:

> … [CIV is] probably easier for people to understand because it's based on sales evidence of the whole property; and land values, there are instances, and we do get objections where people don't understand how we've gone back to a land value. That being said, we are running an education program to try and assist and help people understand that.[155]

2.72 During the inquiry, some stakeholders reflected on the role of the rate peg in keeping rates reasonable to protect ratepayers from undue rate rises. In undertaking the 2022-23 review of the rate peg methodology, IPART heard that the main concern of ratepayers was the affordability of their rates, and the impact the methodology changes would have on their cost of living.[156]

2.73 As part of the review, IPART undertook ratepayer surveys and focus groups that showed there was generally a high level of support for oversight and regulation of council rates, including support for the rate peg to encourage financial restraint.[157] Overall ratepayers wanted the rate-setting framework to reflect the principles of transparency, accountability, efficiency, and fairness.[158] Ratepayer feedback also noted that, rather than higher rates, improved productivity,

151 Submission 119, Local Government NSW (LGNSW), p 20; See also Evidence, Ms Donnelly, 17 May 2024, p 4; Submission 34, Queanbeyan-Palerang Regional Council, p 5.

152 Submission 19, Valuer General NSW, p 1.

153 Evidence, Ms Sally Dale, Valuer General NSW, 17 May 2024, pp 11-12.

154 Evidence, Mr Stewart Mclachlan, Chief Executive Officer, Valuation NSW, 17 May 2024, p 12.

155 Evidence, Ms Dale, 17 May 2024, p 12.

156 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 5.

157 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 22 and p 5.

158 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 6.

efficiency and financial management could help to address increased council spending and that other income options could also be explored.[159]

2.74 Ms Nina Dillon stated that the impact of the rate peg has 'always provided ratepayers with a degree of financial certainty and a perception of fairness'. Ms Dillon argued that ratepayers generally have limited funds and resources so limiting land rate increases to the rate peg has 'resulted in residents believing any rise is in line with a fair benchmark'.[160]

2.75 When asked what assurances could be put in place to ensure councils charge reasonable rates should the rate peg change, Ms Carmel Donnelly, Chair, Independent Pricing and Regulatory Tribunal (IPART), noted that the tribunal has not undertaken work on this, however commented that ratepayers don't want 'bill shock':

> One thing I would say is that we certainly hear from ratepayers that they don't want bill shock. Something that is a pact with ratepayers about more manageable increases could be something to be considered. Ultimately, the councillors are elected councillors and they have a job to do and they're accountable to their population. It's possible that good transparency of information would help their community to hold them accountable. We haven't looked at the alternatives. We've really got to the point of calling out that the problem is bigger than the rate peg and it's bigger than special variations…[161]

2.76 Looking forward at the next rate peg, IPART representatives commented on the work they are doing, within the rating framework, to achieve a model that better reflects council costs, whilst maintaining a reasonable level of rates for ratepayers. Ms Donnelly remarked that the tribunal has established a council reference group, who will work with IPART to look at where adjustments might be made to 'keep improving the validity of that rate peg, [and] to fairly reflect the increases in costs' for councils.[162] In addition, IPART will meet with ratepayers to get their input on what needs to happen to the rate peg given current cost of living pressures.[163] In this context, Mr Andrew Nicholls, Chief Executive Officer, Independent Pricing and Regulatory Tribunal NSW (IPART), highlighted that IPART is only looking at the rates component and it's important to look at the broader financial framework, and 'holistically, how councils were operating'.[164]

2.77 Whilst recognising that councils have been dealing with a decline in their financial position, Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW, suggested that there needs to be consideration of the impact of rate rises:

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159 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 5. See also Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, pp 19-20, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023

160 Submission 47, Ms Nina Dillon, Individual, p 1.

161 Evidence, Ms Donnelly, 17 May 2024, p 8.

162 Evidence, Ms Donnelly, 30 July 2024, p 29.

163 Evidence, Ms Fiona Towers, Executive Director, Pricing and Policy, Independent Pricing and Regulatory Tribunal NSW (IPART), 30 July 2024, p 29.

164 Evidence, Mr Andrew Nicholls, Chief Executive Officer, Independent Pricing and Regulatory Tribunal NSW (IPART), 30 July 2024, p 29.

> The easy answer would be to effectively raise more tax, be that rates or be that fees, which sounds simple and practical, but I also think that there are concerns that we have seen from the community about the impact of more taxation without that consideration of the guarantee of efficiencies in service delivery. Simply charging more rates also ignores that for many communities there is not the additional capacity to pay those additional rates, whether that's because of socio-economic factors or whether that's about geography or other factors.[165]

2.78 In expressing support for the rate peg, Mr David Walsh, Chief Financial Officer, Northern Beaches Council, stated that the rate peg 'adds a certain amount of discipline for councils', however noted that there is a need for an 'element' on top of the rate peg for costs that are not covered by the rate peg to provide councils with a small percentage and avoid the need for large special rate variations.[166]

Special variations

2.79 Under the LG Act, local councils can seek approval to increase their general income above the rate peg by applying to IPART for a special variation (SV). The special variation application must be supported by a resolution of the elected councillors.[167]

2.80 There are two special variation options under the LG Act:

- a single year increase under section 508(2), or
- a multi-year increase (of between 2 and 7 years) under section 508A.[168]

2.81 While IPART has delegated responsibility for assessing and determining special variation increases, the OLG sets the guidelines and criteria embedded in the IP&R framework, under which applications will be assessed.[169]

2.82 When IPART assesses applications for a special variation, it will examine the extent to which councils have fulfilled their obligations under the IP&R framework, in accordance with the criteria set out in the guidelines issued by the OLG. As part of any SV application, councils are required to:

- demonstrate a financial need for additional income
- provide evidence the community is aware of the need for and extent of a rate rise
- establish the impact on affected ratepayers is reasonable

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165 Evidence, Mr Whitworth, 30 July 2024, p 37.

166 Evidence, Mr Walsh, 3 June 2024, p 32.

167 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 13.

168 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 12. See also, Independent Pricing and Regulatory Tribunal (IPART), Apply for a special variation or minimum rate increase, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-special-variation-or-minimum-rate-increase

169 Submission 32, Office of Local Government NSW, p 18. See also Office of Local Government NSW, *Guidelines for the preparation of an application for a special variation to general income* (2020), https://www.olg.nsw.gov.au/wp-content/uploads/2020/11/SVG-Attachment-1.pdf

- exhibit, where required, relevant council documents to the public
- explain and quantify a history of well-documented council productivity improvements and cost containment strategies
- address any other matter IPART considers relevant.[170]

2.83 According to IPART, each SV application is assessed on its merits and factors such as the size and resources of the council, the size of the increase requested, current and previous rate levels, the purpose of the special variation, and compliance with applicable guidelines may be considered.[171]

2.84 If a SV is approved, IPART will issue an 'instrument' setting out the maximum percentage by which a council can increase its general income in a given year, including the conditions of the approval. The percentage increase specified in a special variation replaces the rate peg – it is not an incremental increase on top of the rate peg. However, if the rate peg for a given year exceeds the approved special variation amount for that year, the council can use the rate peg instead of the approved special variation as the upper limit for increasing its general income.[172]

2.85 The committee heard evidence on special variations under three key themes:

- special variations as a way to secure financial sustainability
- the impact of the special variation process on council resources
- community perceptions around councils seeking special variations.

Special variations as a way to secure financial sustainability

2.86 Special variations can be used for a range of reasons. A council may need a special variation on their rates to either maintain current service levels or to increase service levels where the community has clearly indicated a desire to do so. A special variation does not have to be tied to a particular project or series of projects.[173]

2.87 According to IPART, the number of special variation applications in a given year changes from year to year. From 2011-12 to 2023-24 (inclusive) there were an average of 14 SV applications per year.[174] Since being delegated the role in 2010, IPART has processed 186 SVs, not including additional special variations. Of these:

- 138 were approved
- 38 partly approved

170 Submission 32, Office of Local Government NSW, p 20; Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 13.

171 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 26.

172 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 26.

173 Office of Local Government NSW, *Guidelines for the preparation of an application for a special variation to general income* (2020), p 11, https://www.olg.nsw.gov.au/wp-content/uploads/2020/11/SVG-Attachment-1.pdf.

174 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 26.

- 10 declined.[175]

2.88 In 2022 there was a one-off additional SV process for the 2022-23 financial year. This was in response to the rate peg being set at 0.7 per cent (excluding population growth factors), a determination made during a low inflation environment at the beginning of the pandemic, before a period of high inflation and global uncertainty increased councils' costs. The additional SV process gave councils an opportunity to apply to increase their rates above the 2022-23 rate peg (to a maximum of 2.5 per cent) to allow them to deliver projects they had already consulted on and included in their budgets. A separate process and criteria for assessing these additional SV applications was developed by the OLG, with IPART approving 86 council applications during the process.[176]

2.89 The Hills Shire Council argued that although a special variation can be used to fund a particular need and its recurrent costs, 'councils should not have to undergo this onerous process and resource-intensive task to raise sufficient funds to manage day-to-day operations'.[177] Similarly, the Riverina Eastern Regional Organisation of Councils (REROC) put forward the view that special variations should not be used to 'meet shortfalls in core funding for councils', stating a special variation should be a request for 'additional funding in order to deliver a service or facility that is outside business as usual'.[178]

2.90 However, some councils indicated that in some circumstances there is a need to rely on the SV process to fund existing services to the community. In their submission, Bellingen Shire Council commented that the multiple special variation applications they have submitted in recent years were all aimed 'at sustaining existing service standards rather than introducing new or enhanced services'.[179]

2.91 Shoalhaven City Council remarked that special variations are 'typically applied for at a point of criticality for councils where years of rate peg application have not been sufficient and left ongoing deficits across core service delivery areas'. According to the council, SVs have become a process for councils to follow 'when a sharp and large increase in rates is required, due to the shortfalls created over a long time period and loss of associated compounding that would have been achieved through lesser overall rate increases'.[180]

2.92 The Southern Sydney Regional Organisation of Councils Inc (SSROC) expressed the view that SVs are 'becoming a fundamental tool to secure financial sustainability' and a mechanism for councils 'to fund population growth, developer contributions infrastructure, community services and other services expected by a well governed organisation and diverse local community'.[181]

175 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 26.

176 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 27.

177 Submission 63, The Hills Shire Council, p 5.

178 Submission 102, Riverina Eastern Regional Organisation of Councils, p 9.

179 Submission 70, Bellingen Shire Council, p 3.

180 Submission 107, Shoalhaven City Council, p 2.

181 Submission 68, Southern Sydney Regional Organisation of Councils Inc (SSROC), pp 11-12.

The impact of the special variation process on council resources

2.93 Several local councils addressed the perceived shortfalls of the SV process and its impact on council resources, including the cost and level of detail required by the process.[182] Having recently been through the process, Mr Paul Bennett, General Manager, Tamworth Regional Council, described the process as 'onerous' and 'stressful'.[183] In its submission, Tamworth Regional Council elaborated on their experience:

> The whole process was demanding and took its toll on Councillors and Council staff. Council has to procure the services of a specialised consultant to assist in addressing the stringent and complex criteria of IPART before applying. This is an unavoidable extra cost just to ensure that Council complies with IPART's requirements. Staff was also heavily involved with Councillors and rate payers in many workshops, pop ups, online and in-person meetings which was often proven emotionally challenging in these times when members of community are doing it tough with increases in cost of living and now faced with the potential of a "jump' in their rate payment.[184]

2.94 Similarly, Tenterfield Shire Council referred to the SV process as 'draining'. The council highlighted that the process left the organisation in a 'state of exhaustion', noting that it required the council to engage external consultants, which increased the cost of preparing the SV application.[185]

2.95 A number of regional organisations of councils also expressed a similar view. The Northern Sydney Regional Organisation of Councils commented that the SV process is 'onerous… resource intensive, costly and can be politically contentious', noting the process can take between 18 to 24 months 'due to extensive planning, community consultation, detailed justification to IPART, and support from council even prior [to] an application being submitted'. They argued that this long lead time deters councils from applying for a SV, and councils often need to reduce existing services or service levels to attempt to fund these shortfalls.[186] Similarly, the Southern Sydney Regional Organisation of Councils Inc (SSROC) stated that 'although [SVs] have become a critical tool, the political and costly nature of an [SV] can act as a deterrent for councils'. The SSROC also remarked that the 'relative frequency of [SV] applications and approvals shows that the funding model is flawed'.[187]

2.96 LGNSW commented that councils have advised the regulatory burden of the SV process, coupled with political complexities, can act as a deterrent to applying for an SV. According to LGNSW, this can be financially damaging where there are legitimate needs for increased rates

182 See Evidence, Mr Parsons, 5 July 2024, p 2.

183 Evidence, Mr Paul Bennett, General Manager, Tamworth Regional Council, 27 June 2024, p 13. See also Evidence, Councillor Russell Webb, Executive Member, Country Mayors Association of NSW, and Mayor, Tamworth Regional Council, 27 June 2024, p 3.

184 Submission 55, Tamworth Regional Council, 8. See also Submission 78, Bathurst Regional Council, p 3.

185 Submission 124, Tenterfield Shire Council, p 8.

186 Submission 111, Northern Sydney Regional Organisation of Councils, p 2. See also Submission 28 City of Ryde Council, p 3.

187 Submission 68, Southern Sydney Regional Organisation of Councils Inc (SSROC), p 12.

to strengthen financial sustainability and address infrastructure backlogs, indicating that failures to act will worsen the current situation and create larger deficiencies in future years.[188]

2.97 In the United Services Union submission, Professor Brian Dollery referred to the SV process in New South Wales as having several positive characteristics, including employing sound criteria in its assessments of the financial viability of local councils, as well as providing a 'reality check' for councillors and council staff on their current financial situation.[189] Professor Dollery also put forward several suggestions for improving the SV process, including:

- a faster turnaround timeframe for the assessment of SV applications, allowing councils to be notified of outcomes sooner
- establishing a 'sensible' timeline for SV nomination dates and applications as the current timelines have the potential to add stress to council staff and communities given their proximity to the holiday period.
- the use of 'automatic triggers' to make SVs mandatory when certain criteria are met, potentially signalling to the community in question that the SV is 'required by fiscal prudence rather than by political choice'.[190]

2.98 Federation Council commented that whilst there have been some improvements to the SV process, there needs to be a 'far greater link' to the IP&R framework, to provide councils with flexibility to determine and set their own increases each year through the IP&R framework.[191]

2.99 While acknowledging there were onerous elements to the process, representatives from councils such as North Sydney Council, said that the SV process had improved and was easier to use.[192]

2.100 Ms Carmel Donnelly, Chair of the Independent Pricing and Regulatory Tribunal (IPART), acknowledged that there are a range of views about the special variations process and that IPART is aware that councils need to invest a fair bit of effort into the process. Ms Donnelly remarked that the process can be time consuming so there is 'a burden for councils in demonstrating that they've met the criteria set by the Office of Local Government'.[193]

Community perceptions about councils seeking special variations

2.101 The committee heard that one of the key challenges of the SV process for local councils is responding to, and managing, community perceptions around special variations.

2.102 While acknowledging that IPART has provided considerable support to councils in preparing and considering special variations, Federation Council argued that a 'big factor' behind why councils do not apply for special variations is 'the unwillingness of councils to have the hard conversations with the community'.[194]

188 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 50.

189 Submission 22, United Services Union, p 33.

190 Submission 22, United Services Union, pp 34-35.

191 Submission 69, Federation Council, p 5.

192 Evidence, Mr Parsons, 5 July 2024, p 2.

193 Evidence, Ms Donnelly, 30 July 2024, p 24.

194 Submission 69, Federation Council, p 2.

2.103 As mentioned earlier, when applying for a SV, councils are required to demonstrate evidence that the community is aware of the need for, and extent of, a rate rise. At a hearing, Ms Carmel Donnelly, Chair of the Independent Pricing and Regulatory Tribunal (IPART), noted that IPART sees a range of situations in this part of the process. Ms Donnelly explained that sometimes the council will have quite a high level of support for a very focused request for additional rates. Other situations can be contentious where councils have a community that does not have the capacity or willingness to pay and has broader questions about financial management.[195]

2.104 The Southern Sydney Regional Organisation of Councils Inc (SSROC) commented that special variations are 'generally perceived as bad and unnecessary', explaining that the perception in the community is that 'councils are doing something out of the ordinary' by applying for an SV.[196] Likewise, Shoalhaven City Council highlighted that applying for a SV can create 'contention and division in communities unnecessarily, where ratepayers have already been struggling with cost-of-living issues post COVID-19'.[197]

2.105 According to LGNSW, there have been instances in which councils have initiated the SV process but faced significant community opposition, leading to withdrawals.[198] Bathurst Regional Council, for example, resolved to cease its SV application process early, before the community consultation period concluded, due to an 'unanticipated effect of the process', including attacks on councillors and council staff.[199]

2.106 In their submission, Goulburn Mulwaree Council commented that there should be strong consideration for how IPART or higher levels of government can support councils applying for a SV. Having recently undertaken the application process, one of the biggest issues faced by the council was community backlash and misinformation being shared within the community, which had a significant impact on the health and wellbeing of elected members and staff.[200]

2.107 The Riverina and Murray Joint Organisation noted that the SV process can, at times, be a health and safety risk due to an increase in stress on council staff and councillors as a result of community opposition to a potential rate increase.[201]

2.108 In general, ratepayers did not describe SVs in a positive way. Leeton Shire Residents and Ratepayers Association Inc referred to SVs as 'a compensatory mechanism to recoup the money that Council has wantonly disposed of with no public accountability or willingness to be accountable'.[202] Similarly, Ms Nina Dillon commented that the SV process is 'unrealistic, unfair and totally flawed', arguing that the large number of SV applications over the last few years is testament to this.[203]

195 Evidence, Ms Donnelly, 30 July 2024, p 24.

196 Submission 68, Southern Sydney Regional Organisation of Councils Inc (SSROC), pp 11-12.

197 Submission 107, Shoalhaven City Council, p 2.

198 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 42.

199 Submission 78, Bathurst Regional Council, p 3. See also, Evidence, Mr Sherley, 28 June 2024, p 17.

200 Submission 23, Goulburn Mulwaree Council, p 3.

201 Submission 52, Riverina and Murray Joint Organisation, p 2.

202 Submission 10, Leeton Shire Residents and Ratepayers Association Inc, p 1.

203 Submission 47, Ms Nina Dillon, p 2.

2.109 In some circumstances a council may delay or hesitate to apply for a SV due to community opposition. Ballina Shire Council commented that it is 'almost impossible to obtain majority community support' for a SV and councillors are often reluctant to pursue SVs, due to the negative political response.[204] The council proposed that a 'lack of political support can result in the long-term deterioration of infrastructure due to underfunding, which ultimately results in higher costs to the community when infrastructure fails'. In this case, councils often then have to go for far higher percentage increases to address the infrastructure backlog.[205]

2.110 On a similar point, MidCoast Council commented that the 'artificially low' rate peg can force councils into large SV's to compensate for the 'large variance in income raising capacity across various councils'. The council noted that this can create a 'community impression that the council has been mismanaged when the reality is it is addressing issues relating to an inadequate rate peg being applied over many years'.[206]

Committee comment

2.111 As the level of government closest to local communities, it is important that local councils are able to deliver services in an efficient and financially sustainable way. A key theme that emerged in this inquiry is the significant financial challenges that local councils have been experiencing. This inquiry provided an opportunity to examine whether the level of income councils receive adequately meets the needs of their communities.

2.112 A major source of revenue for local councils is rates. The level of income from rates varies based on the size of the local government area. The committee heard that in some local government areas a council's rate base may be too narrow to raise enough income to cover the costs of services, assets and infrastructure in the community.

2.113 Local councils face different revenue raising and cost pressures, depending on whether they are a metropolitan, regional or rural council. Due to their smaller population size, rural and remote councils have a limited rate base to finance vast road networks, higher than average staffing costs and deliver additional services to fill gaps in the market. Whilst metropolitan councils are seen to have a relatively larger rating base, they generally must service the needs of a highly transient and non-ratepaying population, such as tourists, workers and shoppers.

2.114 The committee acknowledges that within the current system, some councils are facing financial challenges that cannot be overcome through fiscal discipline alone. It is also prudent to balance the need for councils to raise more income, with effective and efficient spending, so as not to add unnecessary pressure to ratepayer budgets during a cost of living crisis.

2.115 It is clear from the evidence that the rates system as it currently stands has a significant impact on the long-term financial sustainability of the sector. The rates system restricts local councils' ability to raise and adjust rates in line with actual cost increases and community service demands and expectations. It is also clear that the system fails to recognise the unique and diverse cost pressures faced by different council types, such as rural and regional councils, and individual councils in providing a growing range of infrastructure and services.

204 Submission 26, Ballina Shire Council, p 2.

205 Submission 26, Ballina Shire Council, p 2.

206 Submission 41, MidCoast Council, p 2.

2.116 The committee heard that there are three key issues with the rates system, including rate exemptions and concessions, the rate peg and special variations.

2.117 The committee acknowledges the financial impact of expansive rate exemptions and concessions on the local government sector. In particular, the committee notes that the impact of rate exemptions for land and property used for residential purposes and national parks, and exempt institutions, such as the Forestry Corporation and educational institutions, were of particular concern for some participants during the inquiry. In addition, it is clear from the evidence that some housing strategies, such as Build to Rent, can result in a loss of rates income for local councils and impacts their ability to fund and provide services to growing local communities.

2.118 The committee is generally supportive of rate exemptions and concessions given the public policy benefits in providing financial support to select, and in some cases vulnerable, groups in the community. However, we also recognise that the exemptions result in reduced rates revenue for local councils, despite the fact that councils are still providing services, such as roads and infrastructure, to exempt landowners, institutions and other groups such as pensioners. In turn, this impacts local ratepayers who must either pay higher rates or accept lower service levels. Overall, the evidence indicates that some of the current exemptions no longer support the principles of optimal taxation and equity. Therefore, the committee recommends that the NSW Government conduct a comprehensive review of the rate exemptions and concessions under the *Local Government Act 1993* to better target the eligibility criteria for rate exemptions and concessions, and achieve a better balance between local council financial sustainability, community benefits and principles of equity.

Recommendation 1

That the NSW Government conduct a comprehensive review of the rate exemptions and concessions under the *Local Government Act 1993* to:

- better target the eligibility criteria for rate exemptions and concessions
- achieve a better balance between local council financial sustainability, community benefits and principles of equity.

2.119 In addition to rate exemptions and concessions, the committee also recognises that the rate peg has had a significant impact on the financial sustainability of local councils.

2.120 The committee understands that there are two key intended purposes for the rate peg. First, it allows all councils to automatically increase their rates income each year to keep pace with the estimated change in the base costs of providing their current services and service levels. Second, it limits the impact of these automatic increases on ratepayers, by ensuring that councils cannot increase their rates income by more than the estimated change in their base costs, and that they engage with their communities if they propose a steep change in their rates income.

2.121 The committee notes the changes made by IPART to the rate peg methodology introduced for 2024-2025 were intended to produce rate pegs that more accurately reflect changes in councils' base costs by using forward-looking indicators to measure cost changes. While some stakeholders welcomed the changes as significant, we acknowledge that several stakeholders still have concerns. In particular, for councils that already have a low-rate base, the new methodology will not dramatically alter their long-term financial sustainability, as it simply indexes their low

rate base. Some councils suggested a re-assessing of their base rates to improve their financial sustainability.

2.122 Whilst we acknowledge the rate peg's role in protecting ratepayers from unwarranted rate increases, it is evident to the committee that the rate peg has largely failed to match the cost increases borne by local government. The rate peg is clearly having a significant impact on the financial sustainability of the sector by not keeping pace with the level of income local councils require to adequately meet the needs of their communities.

2.123 Therefore, many inquiry participants strongly argued that the rate peg should be removed and alternatives be considered in its place, such as greater use of the Integrated Planning and Reporting (IP&R) framework and rates benchmarking. Other stakeholders recommended redesigning the rate peg system to provide councils with greater flexibility and autonomy over their rating structure and revenue. These include, for example, changing the binding rate peg into a non-binding reference peg, allowing councils to exceed the peg by a determined margin without a special variation, and introducing greater flexibility and customisation in the rate peg to allow councils to adjust and manage rates to reflect actual changes in costs and diversity between councils.

2.124 Based on the evidence, the committee is of the view that the current rating system does not support the financial sustainability of local government. Therefore, the committee recommends that the NSW Government redesign the local government rating system, including reassessing council base rates. In doing so, the government should seek to implement measures, such as greater use of the Integrated Planning and Reporting framework and rates benchmarking, to provide local government greater flexibility and latitude to set their own rates; emphasise the importance of continual evaluation and service delivery; keep rates affordable and maintain safeguards to ensure rates meet community needs; and examine the use of capital improved value, rather than unimproved land value, to set the variable component of rates.

Recommendation 2

That the NSW Government redesign the local government rating system, including reassessing council base rates, and seek to:

- implement measures, such as greater use of the Integrated Planning and Reporting framework and rates benchmarking, to provide local government greater flexibility and latitude to set their own rates
- emphasise the importance of continual evaluation and service delivery
- keep rates affordable and maintain safeguards to ensure rates meet community needs
- examine the use of capital improved value, rather than unimproved land value, to set the variable component of rates.

2.125 Finally, stakeholders shared concerns with the committee on special variations. We note that special variations are used for a range of reasons to secure financial sustainability, including maintaining service levels or increasing service levels where the community has indicated a desire to do so. However, the committee agrees with stakeholders that local councils should not have to rely on special variations to fund or maintain existing service levels.

2.126 It was evident during the inquiry that the special variations process is onerous and resource intensive on local councils. The committee recognises that the cost, extensive planning,

community consultation and support required for the process can often deter councils from applying for a special variation. In some cases, this can lead to a reduction in existing services or service levels to attempt to fund these shortfalls. We also appreciate that some stakeholders have been left exhausted and drained by the process.

2.127 In addition, the committee heard that one of the key challenges of the special variation process for local councils is responding to, and managing, community perceptions about special variations. Ratepayers often have a different perspective on what they are able to pay in terms of rates, which can create a challenge for councils who are seeking to increase their base rate via the special variation process.

2.128 It is clear from the evidence before us that the operation of the special variation process, and community perceptions around the use of special variations, is having a significant impact on local government financial sustainability, and the level of income local councils require to adequately meet the needs of their community. Therefore, the committee recommends that, should the rate peg be retained in its current form, the NSW Government seek to improve the special variation process to make it less resource and time-intensive for local councils, provide a more streamlined process for the assessment of special variation applications, and consider alternatives to special variations that allow councils to raise additional rates to maintain existing service levels.

Recommendation 3

That the NSW Government seek to improve the special variation process, should the rate peg be retained in its current form, to:

- make it less resource and time-intensive for local councils
- streamline the process for the assessment of special variation applications
- consider alternatives to special variations that allow councils to raise additional rates to maintain existing service levels.

Chapter 3 Other income and revenue

In addition to rates, local councils in New South Wales receive revenue from other sources of income. These include annual charges and user fees and charges, grants funding, and developer contributions. This chapter discusses each of these sources of income, including any impact they have on the financial sustainability of local government.

Annual charges and user fees and charges

3.1 Annual charges and user fees and charges are significant sources of income for local councils. Annual charges include domestic waste, other waste, water and sewer and stormwater management. User charges and fees include activities such as water usage, drainage, parking fees, caravan parks, leisure centres, child and aged care services, building and regulatory services and private works.[207]

3.2 Some charges and fees are subject to statutory limits and fees. For example, many of the services delivered by councils, such as development application fees and stormwater charges, are funded, in part, by regulated and statutory fees.[208] In addition, according to the Office of Local Government NSW (OLG) it is important to note that major types of council user fees and charges, including waste, sewer and water, are charged by council on a cost recovery basis.[209]

Impact of statutory fees and limits on local councils

3.3 Several stakeholders gave evidence on the impact of statutory fees and limits, and in particular how they do not meet the cost incurred by council for providing required services. To this end, a number of councils made the following observations:

- statutory limits result in fees and charges generally being set below the cost of the full service, such as development applications, animals, fines and health inspections [210]
- statutory limits have not kept pace with increased market costs and pressures, meaning they are not reflective of the actual costs being incurred by councils[211]
- the gap between statutory limits and service delivery costs increases year on year as costs increase, while many statutory fees remain static for years[212]
- councils have limited influence over statutory fees[213]

207 Submission 32, Office of Local Government NSW, p 8.

208 Submission 48, Sutherland Shire Council, p 1.

209 Submission 32, Office of Local Government NSW, p 8

210 Submission 58, Northern Beaches Council, p 2; Submission 48, Sutherland Shire Council, p 1; Evidence, Mr Brian Jenkins, Chief Financial Officer, Wollongong City Council, 30 July 2024, p 3. See also Submission 111, Northern Sydney Regional Organisation of Councils, p 2;

211 Submission 58, Northern Beaches Council, p 2; Submission 48, Sutherland Shire Council, p 1. See also Submission 111, Northern Sydney Regional Organisation of Councils, p 2.

212 Submission 48, Sutherland Shire Council, p 1.

213 Submission 86, Ku-ring-gai Council, p 2.

- statutory limits, including the rate peg and non-indexation of fees and charges, can result in infrastructure and services being reduced[214]
- rates may be diverted to help subsidise services that are normally subject to fees and charges.[215]

3.4 Several participants commented on the stormwater management charge (also known as the stormwater levy) to demonstrate the impact of statutory fees and charges on councils' income. The New South Wales Government introduced the charge in 2006 as a means by which local councils could more sustainably fund stormwater management. It is currently capped at $25 per residential lot, or up to a maximum of $12.50 for residential strata lots, or at $25 per 350 m^2 for commercial properties.[216]

3.5 Councils, such as Northern Beaches Council and Ballina Shire Council, advised that the stormwater charge has not been updated since the legislation was enacted in 2006 and no longer covers the cost of providing stormwater management services in the community.[217]

3.6 The Sydney Coastal Councils Group noted that a 'key limitation' for councils is that there is no mechanism to increase the stormwater charge to reflect either inflation or rising community expectations for improved services.[218] Mr Erin Seller, Principal Project Officer, Sydney Coastal Councils Group, gave evidence that the charge is 'not sufficient'. He added that based on a survey of councils, the organisation found that most councils are spending the money collected through the charge on addressing their existing stormwater infrastructure so there is little money left to fund upgrades. In his evidence, Mr Sellers argued that the State Government should look at 'increasing that stormwater levy at least in line with inflation', a view that was supported by other participants during the inquiry.[219]

3.7 In relation to cost recovery for user fees and charges, where council is providing a service to the community, Mr Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, commented that whilst council tries to achieve cost recovery at a minimum, consideration is also given to market comparisons and fees and charges in neighbouring councils.[220] On the same issue, Mr Paul Rofe, Chief Financial Officer, Camden Council, explained how the council will work out the cost for the year and then look at the fees and charges that would be applied, identifying those that are subject to statute and those that can be determined by council.[221]

214 Evidence, Mr Troy Green, General Manager, Tweed Shire Council, 26 June 2024, p 26.

215 Evidence, Mr Green, 26 June 2024, p 26.

216 Submission 99, Sydney Coastal Councils Group, p 3.

217 Submission 58, Northern Beaches Council, p 2; Submission 26, Ballina Shire Council, p 4; See also Submission 68; Southern Sydney Regional Organisation of Councils, p 4; Submission 99, Sydney Coastal Councils Group, p 3.

218 Submission, Sydney Coastal Councils Group, p 3.

219 Evidence, Mr Erin Seller, Principal Project Officer, Sydney Coastal Councils Group, 17 May 2024, p 26. See also Evidence, Mr Vaughan MacDonald, General Manager, Richmond Valley Council, 26 June 2024, p 11; Submission 40, Nambucca Valley Council, p 1; Submission 26, Ballina Shire Council, p 4.

220 Evidence, Mr Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, 29 May 2024, p 22.

221 Evidence, Mr Paul Rofe, Chief Financial Officer, Camden Council, 29 May 2024, p 35.

3.8 Local Government NSW (LGNSW) advocated for councils to have 'greater autonomy in determining fees and charges', noting that research has shown that in most other states and territories, councils have more autonomy in setting rates and charges.[222]

3.9 To ensure that statutory fees and limits better reflect the costs councils actually incur providing services, several inquiry participants argued for a regular review of statutory fees and charges. The Northern Sydney Regional Organisation of Councils (NSROC) commented that a regular review of statutory fees can ensure 'they operate on an effective cost recovery basis' and keep up with cost increases.[223] In support of this view, Mr Troy Green, General Manager, Tweed Shire Council, gave evidence that 'all fees limited by statute should be reviewed and indexed annually to ensure they maintain a reasonable level of cost recovery, particularly in the development assessment function'.[224]

3.10 The Independent Pricing and Regulatory Tribunal's (IPART) final report for the 2022-23 review of the rate peg methodology supported the view that there is a need to review statutory fees and charges. The report identified several measures which may benefit the local government revenue framework, one of which was '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'.[225]

3.11 When questioned whether IPART could assess statutory fees and charges, and other charges that councils might raise, to determine whether they are being appropriately set, Ms Carmel Donnelly, Chair of the Independent Pricing and Regulatory Tribunal (IPART), advised that this is work IPART could undertake if asked.[226]

Grants funding

3.12 Local councils also receive, and rely on, grants funding from the federal and state governments. Regional, rural and remote councils are particularly dependent on grants funding, given the limited capacity in these local government areas to raise own-source revenue.[227] These councils typically have sparse populations, resulting in a significantly smaller rate base, while covering a large geographical area. This means higher cost per capita in the provision of essential services like roads, sewerage and water, with this issue compounded by population decline in many

222 Submission 119, Local Government NSW (LGNSW), p 9 and p 16.

223 Submission 111, Northern Sydney Regional Organisation of Councils, p 2. See also Submission 28, City of Ryde Council, p 2; Submission 68, Southern Sydney Regional Organisation of Councils Inc (SSROC), p 2.

224 Evidence, Mr Green, 26 June 2024, p 26.

225 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 28. See also Independent Pricing and Regulatory Tribunal (IPART), *Final Report - Review of the rate peg methodology - August 2023*, p 124, https://www.ipart.nsw.gov.au/documents/final-report/final-report-review-rate-peg-methodology-august-2023.

226 Evidence, Ms Carmel Donnelly, Chair, Independent Pricing and Regulatory Tribunal (IPART), 30 July 2024, p 28.

227 Submission 83, Country Mayors Association of NSW, p 4.

remote councils.[228] In these areas, grants can account for more than 50 per cent of council revenue.[229]

3.13 This section outlines stakeholders' concerns with grants funding, in particular Federal Financial Assistance Grants (FA grants) and grants provided by the State Government. The section then provides an overview of stakeholder views on the unpredictable nature of grants more generally.

Federal Financial Assistance Grants

3.14 Next to rates revenue, a significant source of income for local councils is untied funding provided by the federal government through Financial Assistance Grants (FA grants).[230] These grants are comprised of two components, one for general purpose needs, and one specifically for roads. The grants are distributed to individual councils through the NSW Grants Commission using 'fiscal equalisation principles', with the aim of providing funding based on relative need.[231]

3.15 At a hearing, Professor Brian Dollery, University of New England, who appeared with the United Services Union, explained the significance of FA grants for local government, noting the latitude they can provide in terms of local autonomy:

> In Australian government, the most significant form of grants to local government are Federal Government FAGs, financial assistance grants. They've been determined by the Federal Grants Commission, and they use a specific formula. It's actually held up in the public finance literature as the best example of intergovernmental funding, more or less, worldwide because it's outside the political process. There's a formula, and various new governments have come and gone, and they haven't fiddled around with it. What one needs is some system like that, that each council, in accordance with an agreed specific formula, gets what it's due, but then it's got latitude in terms of local autonomy.[232]

3.16 In their submission, the OLG noted that FA grants are a particularly significant revenue source for rural and regional councils, where there is a lower population and economic base from which to draw rates and other income.[233] The Canberra Region Joint Organisation highlighted this point in their submission arguing that the NSW state formula for the allocation of FA grants 'has inherent fairness concerns' between regional and metropolitan councils given the:

> … demonstrated need to recognise both the significant reliance of rural and regional councils on grants for funding of community services and council operations compared with metropolitan counterparts… and clear differences between regional and metropolitan councils with respect to both operational revenue and expenses.[234]

228 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, pp 5-6; Submission 103, Snowy Valleys Councils, p 3.

229 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 26.

230 Submission 119, Local Government NSW, p 22.

231 Submission 32, Office of Local Government NSW, p 10. See also Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 12.

232 Evidence, Professor Brian Dollery, University of New England, 17 May 2024, p 43.

233 Submission 32, Office of Local Government NSW, p 10.

234 Submission 90, Canberra Region Joint Organisation, p 2.

3.17 Other stakeholders also identified smaller councils as being particularly reliant on these grants, due to their smaller rate base.[235] Ms Gail Connolly, Chief Executive Officer, City of Parramatta, observed that FA grants 'probably do a lot of propping up the entire operational costs of the organisation, plus probably pay for their capital program'.[236]

3.18 At a hearing, the proposition that grants are going to larger councils, with some regional councils not getting the same access, was put to Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW (OLG). Mr Whitworth did not agree with the proposition, commenting that:

> I actually don't think I agree with that proposition. There has been a period where there has been quite a lot of money going into regional New South Wales and that probably is changing. But in terms of things like the financial assistance grants, the identification and the formula for the financial assistance grants is set by the grants commission…. We are working on the basis that we have a particular formula about trying to create no disadvantage to councils in terms of the allocation of the grant funding. We have a situation where there is probably an inequality in terms of the need for the access to those grants that exist—so metropolitan councils have far greater capacity to raise their own revenue than regional and rural councils—but we also have limitations set within both the New South Wales legislation and the Commonwealth legislation that sets out how grants commission funds are to occur, so we have to meet those.[237]

3.19 Noting this reliance, nearly all stakeholders expressed concern that the amount provided under these grants has failed to keep pace with inflation and growth, and had declined in real terms in recent years, from 1 per cent to 0.5 per cent of Commonwealth taxation reduction revenue.[238] Wollongong City Council commented that the current arrangement 'does not provide for the expanding responsibility of local government or the growing level of expectation from a local community'.[239]

3.20 Explaining the practical effects of this decline, Mr Kerry Robinson, Chief Executive Officer, Blacktown City Council, told the committee that 'the reduction on a per capita basis of financial assistance grants provided to Blacktown Council since its peak in 2013 is about $23 million' – a reduction he described as 'very, very substantial'.[240]

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235 Submission 119, Local Government NSW (LGNSW), p 22; See also Evidence, Ms Gail Connolly, Chief Executive Officer, City of Parramatta, 3 June 2024, p 23.

236 Evidence, Ms Connolly, 3 June 2024, p 23.

237 Evidence, Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW, 17 May 2024, p 58.

238 See Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 14; Submission 39, Yass Valley Council, p 1; Submission 52, Riverina and Murray Joint Organisation, p 2; Submission 55, Tamworth Regional Council, p 5; Submission 90, Canberra Region Joint Organisation, p 2; Evidence, Ms Caroline Foley, Executive Manager Financial Planning & Systems, Northern Beaches Council, 3 June 2024, p 27; Evidence, Ms Darriea Turley, President, Local Government NSW (LGNSW), 3 June 2024, p 53.

239 Submission 106, Wollongong City Council, p 2.

240 Evidence, Mr Kerry Robinson OAM, Chief Executive Officer, Blacktown City Council, 3 June 2024, p 15.

3.21 Other stakeholders, such as LGNSW, asserted that the effect of the downward trend of FA grants has been exacerbated by the fact that 'Federal and State Governments are consistently requiring councils to deliver additional services with no commensurate increase in funding'.[241]

3.22 Mr Steven Pinnuck, Interim General Manager, Snowy Valleys Council, disputed the idea that the decrease in funding provided under FA grants had been offset by other federal funding programs, such as the Roads to Recovery and the Local Roads and Community Infrastructure Program, as only FA grants are untied:

> The Federal Government will argue that other programs such as Roads to Recovery and the Local Roads and Community Infrastructure Program have been introduced to offset the reducing FAGs in real terms. The challenge for local government is that FAGs are untied whereas other programs are tied predominantly to asset construction or renewal. For local government, this is the crux of the problem. Through the reduction of untied FAGs and cost-shifting from both the State and Federal governments and rate exemptions, local government is dying a death of a thousand cuts.[242]

3.23 To remedy this negative effect of this reduction, the majority of stakeholders called for the percentage amount of federal taxation revenue distributed via these grants to be increased from the current level of 0.5 per cent back to the previous 1.0 per cent.[243] Whilst noting that FA grants play 'a crucial role' in providing councils with ongoing revenue assistance, Tenterfield Shire Council commented that it is important to 'urgently revisit' the funding model for FA grants.[244]

3.24 Mr Peter Tegart, Partner, Always Thinking Advisory, was one of the few stakeholders who did not agree that an increase was a necessity for all local councils, particularly those who were already able to raise significant revenue through other streams:

> If all of the council categories were created into that five—if there were benchmarks that were established for financial, asset, workforce around those five categories, and the rate peg, if it were to continue, be differentiated around that, and grants be allocated around those five categories—that would go a great way to building the financial base of those groups of councils going forward. There is no doubt, and I am sure you have heard from previous witnesses, that some of the councils do not need that level of rate increase, nor do they need that level of financial assistance grants each year, because they have significant council-controlled revenues that they raise.[245]

241 Submission 119, Local Government NSW (LGNSW), p 22.

242 Evidence, Mr Steven Pinnuck, Interim General Manager, Snowy Valleys Council, 15 July 2024, p 38.

243 See Submission 87, Central Coast Council, p 5; Submission 110, Lismore City Council, p 4; Submission 119, Local Government NSW (LGNSW), p 24; Evidence, Ms Darriea Turley, President, Local Government NSW, 3 June 2024, p 54; Evidence, Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council, 5 July 2024, p 2; Evidence, Ms Tracey Squire, Acting Chief Executive Officer, Albury City Council, 15 July 2024, p 20.

244 Submission 124, Tenterfield Shire Council, p 7.

245 Evidence, Mr Peter Tegart, Partner, Always Thinking Advisory, 3 June 2024, p 4.

State grants

3.25 In addition to FA grants, local councils are also funded increasingly through grants from the state government, which are provided for both operational and capital purposes. These grants tend to be tied grants for particular services, programs, infrastructure or projects, and may stipulate clear prescriptions on how a council can spend money.[246]

3.26 The OLG commented that the State Government has provided capital investment for a range of programs and purposes to improve services and infrastructure available to communities. However, the OLG also acknowledged that these grants can impact councils in terms of increased asset maintenance costs, depreciation expense and operating expenses.[247]

3.27 LGNSW commented that reporting on these grants is inconsistent in New South Wales and is not separately detailed in financial statements, which makes an analysis of different grant components difficult.[248] However, based on their review of state grants to local governments, LGNSW made the following observations on the limited scope and flexibility of these grants.

- There are limited grants available that can be used at the discretion of council. Rather, they are tied to specific outcomes and requirements that may not align with community or council directions.
- Some grants, such as for libraries, are substantial in volume, whilst others are smaller and more limited in nature, which can lead to councils delivering a service but unable to continue after the short timeframe unless additional sources of funding are identified.
- Grants are available for a range of different infrastructure such as roads, water, open space, sport and recreation, arts and culture, and disaster readiness. However, most of this infrastructure has to be in addition to the council's existing capital works program.
- The majority of infrastructure grants require a council contribution. This can result in councils inadvertently bringing infrastructure projects forward in order to access grants, meaning other equally or more meaningful projects are delayed or disrupted.
- Infrastructure grants can also result in councils having to increase the scope of the infrastructure project to align with grant requirements. This can lead to a more expensive infrastructure to build, operate and maintain.
- Increased use of indemnity grants, which require councils to engage contractors and spend funds upfront before claiming reimbursement, often result in disputes over work performed and significant delays in funding delivery. This style of grant funding also reduces participation of councils which do not have the capital to fund service delivery up front.[249]

3.28 Several participants commented on different elements of the state grants funding system. The Institute of Public Works Engineering Australasia (NSW) (IPWEA) proposed that the combination of 'highly competitive' grant funding practices and focus areas that have 'no

246 Submission 32, Office of Local Government NSW, p 11. See also Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 18.

247 Submission 32, Office of Local Government NSW, p 11.

248 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 12.

249 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, pp 19-20.

strategic alignment' can lead to an inefficient delivery of funding. According to the IPWEA, the 'sugar hit' nature of grants does not facilitate the long-term development of staffing capacity and capability within councils, noting the example of pothole grants where a high proportion of funding flowed through to contractors.[250] The IPWEA observed:

> … we have seen grant funding lead to hyper-inflated capital programs (compounded by natural disaster funding), in the order of two to three times the underlying average annual capital spend. This places an enormous strain on councils and significantly raises their risk profiles in respect of governance, reporting and capability to deliver upon outcomes.
>
> Lastly, and most importantly, the current approach to grant funding results in an inequitable distribution of funds across NSW communities. Larger, better resourced councils are in a much stronger position to compete for, and win, funds via competitive grants. This disproportionately disadvantages smaller, more remote councils, who are arguably in greater need of the funds that these grants represent.[251]

3.29 The IPWEA advocated support for reducing 'the burdensome governance requirements attached to current funding streams', which can become a resourcing challenge for councils as it creates a need for additional staff.[252] To demonstrate this point, Mr Will Barton, Vice President, Institute of Public Works Engineering Australasia, NSW and ACT, gave evidence on one specific member who had '65 separate funding sources with 250-odd touchpoints from a reporting perspective'.[253] The IPWEA also asserted that funding provided by federal sources is typically much less onerous from a governance perspective.[254]

3.30 The Southern Sydney Regional Organisation of Councils (SSROC) also commented that grants are often allocated for specific projects and can sometimes be funded by councils first before the cost is reimbursed at specified milestones. In some cases, funding programs require councils to match State Government funding, which can present challenges for councils, especially if the process means that budgets for the required time period have already been set.[255] According to SSROC, this funding mechanism can also be beyond the reach of councils with smaller budgets, or whose priorities, driven by the Integrated Planning and Reporting (IP&R) framework, simply lie elsewhere.[256]

3.31 The City of Newcastle Council and Wollongong City Council highlighted that in some cases they are ineligible for grants funding because they are considered to be neither a metropolitan nor regional council. Lord Mayor Nuatali Nelmes, City of Newcastle, explained that:

> One of the greatest challenges of providing regional level infrastructure is often being declared ineligible for grant funds and the inconsistent approach that all levels of

250 Submission 29, Institute of Public Works Engineering Australasia (NSW), p 1.

251 Submission 29, Institute of Public Works Engineering Australasia (NSW), pp 1-2.

252 Submission 29, Institute of Public Works Engineering Australasia (NSW), p 4.

253 Evidence, Mr Will Barton, Vice President, Institute of Public Works Engineering Australasia, NSW and ACT, 17 May 2024, p 19.

254 Submission 29, Institute of Public Works Engineering Australasia (NSW), p 4.

255 Submission 68, Southern Sydney Regional Organisation of Councils, p 7.

256 Submission 68, Southern Sydney Regional Organisation of Councils, p 7.

> government have to defining Newcastle. We're either regional if there is a metropolitan grant available or we're metropolitan if there is a regional grant available.[257]

3.32 During the inquiry, regional road funding programs were an example raised in relation to state grants. Specifically, the committee heard evidence on whether road funding should be based on the size of the road network and allow councils to spend the funds based on their priorities of roads that they want to repair in their local government area.

3.33 Several witnesses commented on the unpredictable nature of grants funding in this area. Councillor Russell Fitzpatrick, Chair, Canberra Region Joint Organisation and Mayor, Bega Valley Shire Council, stated that with each change of government, funding programs change, both at a federal and state level, which gives no certainty to councils around what funding will be available. Cr Fitzpatrick remarked that councils 'need certainty of funding' so they can plan road works and upgrades:

> … responsibility starts with the council—having a plan as to what you're going to do, what you can afford to do, then the income stream over a period of time to do that. But the income stream needs to be guaranteed to council. It can't be a competitive grant process right through the board. It needs to be a funding stream that maintains those roads on the road network. [258]

3.34 Similarly, Mr Anthony Mahon, Chief Executive Officer, Bega Valley Shire Council, discussed the challenge for councils in comparing how much can be received when different programs are introduced and other programs are taken away because 'there are changing pots of money' that need to be accessed in changing ways.[259]

3.35 In relation to road funding, Ms Sharon Houlihan, Executive Officer, Canberra Region Joint Organisation, claimed that 'the State's formula for distribution of the grants disadvantages regional, rural and remote councils in that they have substantial road networks'.[260] Likewise, Mr Peter Thompson, General Manager, Wagga Wagga City Council, gave evidence that road funding at the moment in the regions is 'dramatically under what it should be to maintain the quality of that asset', advocating for an acknowledgement that the funding that goes to regional roads is not maintaining the current rate of deterioration.[261]

3.36 In their submission, LGNSW proposed that the funding process for state grants be reformed to simplify the grant application and administration processes, increase flexibility and ensure better alignment with community plans.[262]

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257 Evidence, Lord Mayor Nuatali Nelmes, Mayor, City of Newcastle, 3 June 2024, p 33. See also Evidence, Mr Greg Doyle, General Manager, Wollongong City Council, 30 July 2024, p 3.

258 Evidence, Councillor Russell Fitzpatrick, Chair, Canberra Region Joint Organisation and Mayor, Bega Valley Shire Council, 23 July 2024, p 6.

259 Evidence, Mr Anthony Mahon, Chief Executive Officer, Bega Valley Shire Council, 23 July 2024, pp 27-28.

260 Evidence, Ms Sharon Houlihan, Executive Officer, Canberra Region Joint Organisation, 23 July 2024, p 2.

261 Evidence, Mr Peter Thompson, General Manager, Wagga Wagga City Council, 15 July 2024, p 10.

262 Submission 119, Local Government NSW (LGNSW), p 37.

The unpredictable nature of grants funding

3.37 The unpredictable nature of grants funding more generally was a key issue for several councils. Whilst many councils rely considerably on grants, they were overall critical of grants funding as a means of providing councils with a sustainable and secure source of funding. Views on this form of funding include:

- Grants are often distributed in response to election promises and the short-term cycle of state and federal government priorities. Competitive grants are also hard to access for resource-constrained councils who may not have the staffing capacity or expertise to submit applications for additional funding.[263]
- The extent to which grants funding is variable and unpredictable from year to year can render council plans, financial or otherwise, redundant.[264]
- The design of grants programs, especially capital grants, can drive up council operational costs. While grants can result in new or upgraded infrastructure and assets, which are often valued by the community, they can add to the maintenance, renewal and depreciation costs that council must fund using other revenue sources.[265] These future costs are often not taken into account by the funding body at time of application, or adequately accounted for in future council budgets, impacting financial sustainability.[266]
- Capital grants can be hard to project and plan for, and usually require co-funding and extensive work where the outcome is not guaranteed'.[267]
- The processes for accessing and managing grants, and delivering grant-funded projects, takes resources away from community services and programs.[268]
- Grants can be 'a double-edged sword' given the maintenance burden they can impose on a council, both financial and from a resources perspective.[269]
- Grants can take an 'unpredictably long time' to assess so there is a notable lag between applying and receiving grants funding.[270]
- Councils can be held 'at the mercy of other tiers of government', especially in relation to grants, given that they have limited resources and growing demands in the community.[271]

263 Submission 119, Local Government NSW (LGNSW), p 25.

264 Submission 83, Country Mayors Association of NSW, p 4.

265 Submission 103, Snowy Valleys Councils, pp 6-7; Submission 90, Canberra Region Joint Organisation, p 4; See also Submission 44, Lake Macquarie City Council, p 5.

266 Submission 126, Forbes Shire Council, p 8. See also Evidence, Mr Tegart, 3 June 2024, p 3 and p 6; Submission 18, Byron Shire Council, p 1.

267 Submission 55, Tamworth Regional Council, p5.

268 Submission 103, Snowy Valleys Councils.

269 Evidence, Mr Craig Swift-McNair, General Manager, Woollahra Council and Vice President, Local Government Professionals Australia NSW, 29 May 2024, p 6.

270 Submission 83, Country Mayors Association of NSW, p 4. See also Evidence, Mr Michael Edgar, General Manager, The Hills Shire Council, 5 July 2024, p 9.

271 Evidence, Dr Clare Allen, Chief Executive Officer, Port Macquarie Hastings Council, 5 July 2024, p 12.

- Grants do not take into consideration the needs of specific local government areas, reflecting instead 'the policy priorities of the Federal or NSW Governments and not the priorities of the community'.[272]
- The grants process can be complex, resource intensive and time-consuming to administer, requiring the provision of data and reports, sometimes to a level that is well in excess of the need for prudent management of public funds, often resulting in grants being allocated to councils with strong grant application capability.[273]
- The mechanism does not deliver a reliable funding source and can be counter-productive, forcing councils to devote resources to application processes without any guarantee of funding, no matter how good their business case might be.[274]

Developer contributions

3.38 In addition, councils receive income and revenue from local infrastructure contributions, also known as developer contributions. This is where a council can impose conditions on the grant of development consent to developers, requiring them to pay contributions towards the cost of providing local infrastructure associated with the development, such as parks, community facilities, local roads, footpaths, stormwater drainage and traffic management. Councils may only do this in accordance with a contributions plan, which sets out the local infrastructure required to meet the demand from new development, and the contributions a council can levy on developers to fund the necessary land and works.[275]

3.39 Councils can also negotiate voluntary planning agreements that can be used to fund infrastructure associated with development.[276]

3.40 According to the OLG, while developer contributions are determined at a local level, there is legislation, regulation and ministerial directions which oversee the framework.[277] In New South Wales, the *Environmental Planning and Assessment Act 1979* provides the legislative framework for developer contributions.

3.41 There are two types of developer contributions under the framework:

- Section 7.11 contributions, which are charged where there is a demonstrated link between the development and the infrastructure to be funded. Councils prepare contributions plans that specify what infrastructure will be provided and approximately how much it will cost. This is used to calculate a contribution rate, usually charged per dwelling or per square metre.

272 Submission 119, Local Government NSW (LGNSW), p 24.

273 Submission 68, Southern Sydney Regional Organisation of Councils, p 7.

274 Submission 68, Southern Sydney Regional Organisation of Councils, p 7.

275 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 13. See also, Submission 32, Office of Local Government NSW (OLG), p 11.

276 Submission 32, Office of Local Government NSW (OLG), p 11. See also NSW Planning, Local infrastructure contributions policy, https://www.planning.nsw.gov.au/policy-and-legislation/infrastructure/infrastructure-funding/local-infrastructure-contributions-policy

277 Submission 32, Office of Local Government NSW (OLG), p 11.

- Section 7.12 levies, which are an alternative to s 7.11 contributions, are charged as a percentage of the estimated cost of the development. The maximum percentage that can be charged in most areas is 1 per cent.

3.42 For section 7.11 contributions, councils that want to charge a contribution rate above the threshold set by the Minister must submit their plans to IPART for independent review. IPART assesses whether the contributions plan meets the criteria set out in the Department of Planning, Housing and Infrastructure's Infrastructure Contributions Practice Note (2019 Practice Note).[278]

3.43 During the inquiry, some stakeholders commented on the role of developer contributions and acknowledged their value as a revenue source. The Southern Sydney Regional Organisation of Councils (SSROC) advised that many SSROC members rely heavily on developer contributions to support population growth and new development in their local government area.[279] Likewise, Burwood Council noted the 'instrumental' value of developer contributions in delivering necessary infrastructure and the help they provide to council to manage the immediate effects of development.[280]

3.44 However, similar to grants funding, many participants, including Southern Sydney Regional Organisation of Councils (SSROC) and Burwood Council, commented on the perceived shortfalls of the developer contributions framework, including the variable and unpredictable nature of this source of income for local councils. Notwithstanding the value of and reliance on this source of income, the SSROC argued that developer contributions are a 'highly variable and unpredictable' funding source, impacting the long-term cash flow for councils.

3.45 In addition, several councils contended that developer contributions fail to cover the increase in maintenance or depreciation costs associated with the funded infrastructure asset or work. The SSROC stated that shortfalls can 'only be covered by a special rate variation, which seems neither appropriate nor logical'.[281] Similarly, councils like Burwood Council and Central Coast Council highlighted that while contributions help councils manage the immediate effects of development and infrastructure, they fall short in covering long-term and ongoing costs, particularly as higher-density living leads to increased asset use and wear and tear.[282]

3.46 Along similar lines, Sutherland Shire Council commented that existing developer contributions fail 'to provide councils with sufficient revenue to meet the lifecycle costs of infrastructure'. The council argued that restrictions on the use of funds and caps on developer contributions can limit councils' ability to accommodate growth of development and populations.[283]

3.47 Northern Beaches Council asserted that funding gaps in this area need to be funded by another income source, however there is no allowance in the rate peg or ability to increase fees and

278 NSW Planning, Local infrastructure contributions policy, https://www.planning.nsw.gov.au/policy-and-legislation/infrastructure/infrastructure-funding/local-infrastructure-contributions-policy; Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 14.

279 Submission 68, Southern Sydney Regional Organisation, pp 2-3.

280 Submission 74, Burwood Council, p 2.

281 Submission 68, Southern Sydney Regional Organisation, pp 2-3.

282 Submission 74, Burwood Council, p 2. See also Submission no 87, Central Coast Council, p 3.

283 Submission 48, Sutherland Shire Council, p 2.

charges to address the issue. The council also suggested that developer contributions are not sufficient for councils to acquire land and invest in open space, sporting fields and community facilities to keep pace with community growth, noting that rates are also required to fund this shortfall. [284]

3.48 The Hills Shire Council highlighted the risks the developer contributions system can expose a council to, using the Box Hills Precinct development in their area as an example. The council noted the following challenges in relation to the delivery plan.

- Capping of contributions resulted in council only receiving contributions at the capped rate imposed by the state government, leading to a substantial funding deficit.
- Assessment and review timeframes of contributions plans resulted in significant amounts of development being approved at outdated, lower and insufficient contribution rates and limited council's ability to respond to quickly changing economic circumstances.[285]

3.49 At a hearing, representatives from Blacktown City Council gave evidence on how the developer contributions system fails to adequately fund growth in the city. Councillor Brad Bunting, Mayor, Blacktown City Council, stated that the developer contributions system is 'fundamentally flawed', emphasising that it:

> … fails to provide funding for libraries, aquatic facilities and community meeting spaces—a shortfall, in this case of Blacktown City, of more than $630 million and which, if funded from rates, would require newly created households and businesses to pay rates of more than 50 per cent above today's levels.[286]

3.50 Likewise, Mr Paul Hickey, General Manager, Ballina Shire Council, commented that councils have not been able to deliver infrastructure in high-growth areas because they have not had the necessary developer contributions coming in.[287]

3.51 During the inquiry, some witnesses also noted that developer contributions have not kept pace with cost increases, indexation and inflation. For example, Mr Troy Green, General Manager, Tweed Shire Council, highlighted that even with increased construction and land costs developer contributions have remained capped since August 2012.[288] Mr Ian Greenham, Director of Technical Services, Orange City Council, made a similar observation, specifically commenting on how this has resulted in a redirection of grants to support infrastructure for development works:

> The developer contribution cap of $20,000 per subdivision lot with no indexation was appropriate when it was brought in—and most councils recognise that when we've been talking to the Department of Planning— but it has not kept up with inflation. It has been capped at that ever since it was brought in back in the 2000s, prior to 2010, to such an extent that grants are now generally directed at supporting enabling

284 Submission 58, Northern Beaches Council, p 3 and p 5.

285 Submission 63, The Hills Shire Council, p 6. See also Evidence, Mr Edgar, 5 July 2024, pp 6-7.

286 Evidence, Mr Brad Bunting, Mayor, Blacktown City Council, 3 June 2024, p 11. See also Evidence, Mr Robinson, 3 June 2024, p 13.

287 Evidence, Mr Paul Hickey, General Manager, Ballina Shire Council, 26 June 2024, p 13

288 Evidence, Mr Green, 26 June 2024, p 26.

> infrastructure for development works, in our case. That means that those grants haven't been used to help address the infrastructure backlog that we've got.[289]

3.52 Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW (OLG), noted that developer contributions are a 'highly contested area of public policy' with 'no right or wrong answer', indicating reforms can be 'very challenging to achieve'.[290] Mr Whitworth also commented on the possible consequences of policy changes:

> I think it sounds simple to allow councils to charge for more development contributions, but we need to be prepared for the fact that the underlying development contribution in Blacktown, for example, in Schofields is probably north of $100,000 per lot … the purchaser is not paying that extra $100,000, but the developer is paying that in terms of the loss of their value uplift. If their value uplift is getting smaller, then they are not necessarily going to undertake that development. If they don't undertake that development, we are not getting land production. If we are not getting land production, we are not the meeting housing needs.
>
> That is where you get to with development contributions. You also have to think about what is the cost and what is the infrastructure it has been levied for? Is it the appropriate infrastructure? Is it the right infrastructure that facilitates that development, or is it infrastructure that is a population-based infrastructure? Is it right to levy on the first development for that infrastructure, is it better to think about rates over the longer term, or is it better to think about incentives to actually get the land to be developed in the first place and think about other systems like land tax and so on? I just think that the development contribution space has seen so much work and effort and noise, and words written over the years about how it needs to be reformed, but the reforms have been very challenging to achieve and I don't think it's the panacea that it's being presented as.[291]

Committee comment

3.53 In addition to concerns about rates, stakeholders also shared concerns about financial sustainability impacts from other sources of income for local councils, such as annual charges and user fees and charges, grants funding and developer contributions. It is clear from the evidence that the income received from these sources does not reflect the actual costs incurred by councils in providing the respective services, assets and infrastructure.

3.54 The committee notes that annual charges and user fees and charges are important sources of income for local councils. However, we heard that the statutory limits and fees that apply to some of these charges are having a significant impact on local government, and the level of income councils require to adequately meet the needs of their communities.

3.55 Stakeholders shared that income received from annual charges and user fees and charges does not meet or reflect the actual cost of providing required community services. The committee acknowledges that local councils have limited influence over statutory fees, and that in some

289 Evidence, Mr Ian Greenham, Director of Technical Services, Orange City Council, 28 June 2024, p 42.

290 Evidence, Mr Brett Whitworth, Deputy Secretary, Office of Local Government (NSW), 30 July 2024, p 40.

291 Evidence, Mr Whitworth, 30 July 2024, p 40.

local government areas the statutory limits are contributing to reduced services and infrastructure. Ultimately, many statutory fees and limits have remained static and have not kept pace with increased market costs and pressures. Therefore, the committee recommends that the NSW Government conduct an audit of, and seek to update, the statutory fees and limits that apply to local government annual charges and user fees and charges to better reflect and account for increases in market costs and pressures, including inflation.

Recommendation 4

That the NSW Government conduct an audit of, and seek to update, the statutory fees and limits that apply to local government annual charges and user fees and charges to better reflect and account for increases in market costs and pressures, including inflation.

3.56 Local councils also receive, and depend on, income from grants funding, both Federal Financial Assistance Grants (FA Grants) and NSW state grants, to deliver and maintain services, assets and infrastructure in their communities. We note that regional, remote and rural councils are particularly dependent on grants funding, given the lower population and economic base in these local government areas to raise own-source revenue.

3.57 Throughout this inquiry, nearly all stakeholders expressed concern that FA grants have failed to keep pace with inflation, market growth and increased service costs, which are being absorbed by the local government. The committee notes that the percentage amount of federal taxation revenue distributed via these grants has reduced from 1 per cent to 0.5 per cent in recent years, with the majority of stakeholders calling for the percentage to be increased back to 1 per cent of Commonwealth revenue. Therefore, the committee recommends that the NSW Government advocate to the Australian Government to increase the federal taxation revenue distributed via Federal Financial Assistance Grants from 0.5 per cent to 1 per cent, and amend the current commonwealth grant guidelines per capita distribution method, that disproportionately benefits inner city councils.

Recommendation 5

That the NSW Government advocate to the Australian Government to increase the federal taxation revenue distributed via Federal Financial Assistance Grants from 0.5 per cent to 1 per cent, and amend the current commonwealth grant guidelines per capita distribution method, that disproportionately benefits inner city councils.

3.58 In addition to FA grants, the committee recognises that local councils are also funded increasingly through grants from the state government, which are provided for both operational and capital purposes. These grants tend to be tied to particular services, programs, infrastructure or projects, and may prescribe how a council can spend the funding. It is clear from the evidence that the limited scope and flexibility of these grants, and the burdensome governance requirements attached to this source of funding, present challenges for many local councils.

3.59 Throughout the inquiry, regional road funding programs were specifically highlighted as an area of concern in relation to state grants. The committee heard that the current model for

distributing roads funding disadvantages regional, rural and remote councils given the large and substantial size of the road network in those areas. We note that several stakeholders have suggested road funding should be based on the size of the road network and allow councils to spend the funds based on their priorities and the roads they want to repair in their local government area.

3.60 Another key issue raised during this inquiry is the unpredictable nature of grants funding, and the need for more equitable distribution of this funding. Whilst it is clear to the committee that many councils rely considerably on grants funding, we note that stakeholders were overall critical of grants funding as a means of providing councils with a sustainable and secure source of funding.

3.61 Therefore, the committee recommends that the NSW Government consider grant models that provide a more secure and sustainable source of funding to local councils to achieve more equitable distribution of grants funding and provide councils with greater discretion in relation to how funding is spent. The committee also recommends that the NSW Government take into account the preference of local councils for predictable grants that are determined in a timely manner and assist councils to receive grants within appropriate timeframes to support the delivery of infrastructure programs.

Recommendation 6

That the NSW Government consider grant models that:

- provide a more secure and sustainable source of funding to local councils to achieve more equitable distribution of grants funding and provide councils with greater discretion in relation to how funding is spent
- take into account the preference of local councils for predictable grants that are determined in a timely manner and assist councils to receive grants within appropriate timeframes to support the delivery of infrastructure programs.

3.62 Finally, similar to grants funding, the committee heard evidence on the shortfalls of the developer contributions framework, including the variable and unpredictable nature of this source of income for local government and its impact on financial sustainability. In particular, we note the concern from some stakeholders that developer contributions often fail to cover the increase in maintenance or depreciation costs associated with the funded infrastructure asset or work, leaving local councils responsible for funding gaps in this area using another income source. Therefore, the committee recommends that the NSW Government implement changes to the developer contributions framework to better financially support local councils to fund the ongoing costs at the completion of new infrastructure and works deemed essential to support development including community facilities as determined by the council on behalf of the local community.

Recommendation 7

That the NSW Government implement changes to the developer contributions framework to better financially support local councils to fund the ongoing costs at the completion of new infrastructure and works deemed essential to support development including community facilities as determined by the council on behalf of the local community.

Chapter 4 Council expenditure

This chapter discusses the expenditure of local councils in delivering services and managing assets and infrastructure in New South Wales. It examines areas of expenditure, such as service delivery, assets and infrastructure, including the impact of natural disasters and depreciation, before considering infrastructure delivery and staffing. The chapter will then explore the impact of cost shifting on local government and outline the financial reporting guidelines and accounting standards local councils are required to meet, including the impact of these on council resources. Finally, it discusses the performance measurement ratios that apply to councils.

Overview of council expenditure

4.1 As previously discussed in the report, councils require sufficient revenue and income to fund capital and operational expenditure necessary to provide services and facilities to meet the needs and priorities of their local community. Therefore, council expenditure in relation to service delivery and assets and infrastructure has a significant impact on local government financial sustainability, and varies by council group, depending on whether the council is a metropolitan, regional or rural council.[292]

4.2 Regional and rural councils face different cost pressures to metropolitan councils. Their costs on a per capita basis are much higher as they generally provide a more diverse range of services, may hold and maintain significant asset bases, and, as discussed in chapter 2, in some areas have a smaller rate base over which to spread growth-related costs, and a lower population from which to recoup rates revenue. [293]

4.3 Local Government NSW (LGNSW) noted that operating expenditure has increased over the last decade for all council types. Rural councils experienced the largest proportionate increase in operational expenditure (148 per cent), followed by metropolitan councils (52 per cent), and metropolitan fringe councils (50 per cent).[294] As transportation and infrastructure maintenance costs rise with distance, councils situated further from urban areas face higher expenditures.[295]

4.4 LGNSW indicated that council expenditure costs will continue to increase as local government responsibilities continue to 'evolve and expand', driven by changes in the community, broader operating environments, and cost shifting from state and federal governments.[296] According to LGNSW, many of the additional responsibilities imposed on local government occur through legislation and regulation, with 'state and federal governments fail[ing] to take into account the costs to councils in meeting these responsibilities', which has a significant impact on financial sustainability. Whilst in many cases councils welcome these new functions in principle, given

292 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 20.

293 Independent Pricing and Regulatory Tribunal (IPART), *The impact of population growth on council costs and revenue* (29 June 2021), p 3 and p 6, https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-1-The-impact-of-population-growth-on-council-costs-and-revenue-June-2021.PDF; See also Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 7.

294 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 7.

295 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 33.

296 Submission 119, Local Government NSW (LGNSW), p 14.

the benefit they provide to the community, these transfers are often considered 'cost shifts' in the absence of commensurate funding or cost recovery mechanisms.[297] The impact of cost shifting is considered in more detail later in this chapter.

4.5 Local council expenditure can be characterised as service-based, with a significant proportion of expenditure spent on the delivery of human-based services to the community, and the requirement to maintain, renew, upgrade and construct assets and infrastructure.[298]

4.6 Service delivery, assets and infrastructure, including the impact of natural disasters and depreciation, and staffing expenditure are discussed further below.

Service delivery

4.7 Service delivery is an area of significant expenditure for local councils. Councils set their service level, including the scope, quantity and quality, in consultation with their community during the Integrated Planning and Reporting (IP&R) process.[299] However, within the local government regulatory framework, council services are wide ranging and can differ between council types and individual councils. According to LGNSW, councils need to be able to adapt their service delivery plans and respond to community needs and require adequate funding to be able to do this.[300]

4.8 As outlined in chapter 1, the main functions of local councils are conferred or imposed on them by the *Local Government Act 1993* (the LG Act). However, some stakeholders noted that the LG Act does not specify a definitive list of the services councils should provide, nor does it indicate priorities.[301]

4.9 Under the LG Act, local council functions can include a range of different service areas and responsibilities.[302] Whilst every council delivers services and programs unique to the needs of their community, common council services include:

- household and resource recovery services, such as waste management and recycling centres
- community services, such as childcare, aged care, disability, refuge, and welfare facilities
- engineering and public works management, including owning, investing in, and maintaining local infrastructure and assets, such as roads, bridges, footpaths, drainage, transport networks and other assets that underpin transport and economic distribution and development

297 Submission 119, Local Government NSW (LGNSW), p 15.

298 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 12.

299 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 20.

300 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 36.

301 Submission 119, Local Government NSW (LGNSW), p 11; Submission 104, Mr Graham Sansom, Adjunct Professor, p 3.

302 *Local Government Act 1993,* Chapter 5.

- recreation, education and cultural services, such as swimming pools, sporting facilities, recreation centres, playgrounds, halls, libraries, museums and galleries
- environmental management services, such as trees, stormwater, water sensitive urban infrastructure and weed control
- business services to support local firms with training, networking programs, tourism, and local economic development strategies
- emergency management services, including risk management, planning, and the provision of first responder capability in the face of natural disasters, and other emergency events
- building, planning and development services, such as approvals, inspection, licensing, certification and enforcement
- health services, such as water and food sampling, noise control, meat inspection and animal control
- water and sewerage services in all areas outside of those serviced by Sydney and Hunter Water
- other local administration and compliance services, such as quarries, cemeteries, parking, and the registration of pets and animals.[303]

4.10 A number of stakeholders raised concerns about the financial ability of councils to provide pound and companion animal services. For example, LGNSW gave evidence that rate pegging and cost shifting is impacting the ability of councils to provide the companion animal services that communities need:

> Rate pegging, cost shifting and state and federal funding arrangements that are no longer fit for purpose all conspire to restrict the ability of councils to provide the infrastructure and services that their communities need and deserve – and this extends to services for companion animals. For the 2021-22 financial year, $8,271,976 was paid to councils from the Companion Animals Fund, which equates to approximately 80% of total registration fees collected. However, this does not come close to covering the full cost of companion animals functions, such as the need for councils to provide appropriate care for animals including nutrition, veterinary care, enrichment activities, and shelter.[304]

4.11 Camden Council gave evidence that the amount they received from the Companion Animals Fund only covered 13.5% of their actual costs to deliver companion animal services[305], and explained further:

> The fees that we receive for animal registration would go nowhere near the cost of delivering that service. Unless we are to go back into general revenue for rates, which is competing against other service areas, we are not going to go near the actual costs of

303 Submission 119, Local Government NSW (LGNSW), pp 14-15; Submission 68, Southern Sydney Regional Organisation of Councils (SSROC), p 2.

304 Answers to questions on notice, Local Government NSW (LGNSW), 8 July 2024, p 3.

305 Answers to questions on notice, Mr Andrew Carfield, General Manager, Camden Council, 24 June 2024, p 1.

> the needs of that service. The needs are growing, certainly in a community like ours. With new homes and new residents, we also have new companion animals. [306]

4.12 Blacktown City Council similarly expressed concerns that its community desire to provide better companion animal services was being 'hamstrung' by the rate peg:

> The rate peg pays no credence to the community's desire for dealing with companion animals, just as it pays no attention to any of the community's aspirations. It is simply a percentage applied to whatever was spent last year… We have a big desire in Blacktown—you just spoke about our animal rehoming centre, and we're looking after other councils in Sydney because they can't afford to do that. We've been hamstrung in regards to the rate peg, as the CEO said, about moving forward and how we can do it better. We need to be independent and be able to look at what's best for our community.[307]

4.13 NSW Farmers shared that their members have raised concerns over the 'core and noncore priorities' of local government. Whilst noting that every council is different, they suggested that there needs to be a definition of essential services provided by councils and whether funding these core priorities is the aim of any proposed increase in a special variation application.[308] Ms Kathy Rankins, Head of Policy and Advocacy, NSW Farmers, explained that this view relates back to ensuring the provision of essential services, such as road and water maintenance, rather than delivering 'additional things that might be seen as positive, but not necessarily delivering the critical services that residents within a community are looking for'.[309]

4.14 The Southern Sydney Regional Organisation of Councils (SSROC) argued that local government is increasingly required to provide more services, and those services are becoming increasingly sophisticated and complex.[310] Given the broad range of responsibilities, several stakeholders commented on the financial impact of councils' growing role in service delivery.

- LGNSW expressed the view that local government is seen as the primary government body responsible for providing 'significant economic, social, and environmental services that enhance the liveability, productivity and economic success for their communities'.[311] According to LGNSW, there is a community expectation that these services will not only continue but adapt and improve over time in response to operational changes, such as technology, best practice methods, and environmental sustainable design, resulting in further costs.[312]
- Narromine Shire Council highlighted the geographical challenge and financial strain on rural councils, who provide services over a large area with a dispersed population and face additional environmental pressures like droughts and floods.[313]

306 Evidence, Mr Andrew Carfield, General Manager, Camden Council, 29 May 2024, p 33.

307 Evidence, Mr Kerry Robinson OAM, Chief Executive Officer, Blacktown City Council, 3 June 2024, p 13.

308 Submission 89, NSW Farmers, p 8.

309 Evidence, Ms Kathy Rankins, Head of Policy and Advocacy, NSW Farmers, 30 July 2024, p 35.

310 Submission 68, Southern Sydney Regional Organisation of Councils (SSROC), p 2.

311 Submission 119, Local Government NSW (LGNSW), p 15.

312 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 5.

313 Submission 16, Narromine Shire Council, p 1.

- Forbes Shire Council explained that the increase in costs borne by local government is a product of both the increase in the underlying cost of providing services, and the change in service scope. The council observed that:
  - the cost of services has increased significantly in recent years, with the rate peg and Consumer Price Index (CPI) numbers increasingly diverging
  - cost increases incurred by rural councils are even higher, as rural councils have in recent years faced additional costs to their metropolitan counterparts due to the inability to source staff/contractors and increased transport costs for materials
  - the level of services provided by council, especially rural councils, has also increased substantially over recent years as a result of cost shifting, council-initiated scope creep in operations, and the increasing lack of economies of scale impacting the profitability of services such as pools provided by rural councils.[314]

4.15 As noted in chapter 1, local councils are also described by many as being the service provider of 'last resort' in local communities, delivering essential services and infrastructure when the market fails, such as medical practices, childcare, and aged care facilities.[315] In regards to financing community needs, LGNSW supported the view that councils are often the provider of last resort, noting their 'limited economies of scale' and how these characteristics are further exacerbated in regional and rural areas.[316] Likewise, the Central NSW Joint Organisation highlighted that the 'more remote the council, the greater likelihood' they are offering services as the 'provider of last resort'.[317]

4.16 In regards to councils being able to effectively manage service delivery costs, Mr Craig Swift-McNair, General Manager, Woollahra Council and Vice President, Local Government Professionals Australia, NSW, highlighted the need for setting priorities given the disproportion between income revenue and service delivery:

> .. I think there's always this issue of priority… we can't just continue to ad[d] and add the service delivery that we do or add in new services without taking a really hard look and swallowing the bitter pill: We just don't have enough money to do it all. Ultimately, you then start to reduce services in other areas so that you can do the new things, because the rate peg may not be enough to cover it and you may not wish to apply for a special rate variation for all sorts of reasons. So you've still got this relatively limited income revenue pie, but we're being asked to do more and more with it, which is highly appropriate… for councillors to wish to do that, but you have got to have the priority conversation.[318]

4.17 Similarly, Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council, commented on the need of councils to adjust levels of service to fit the revenue available, noting his council is about to hold a community discussion around levels of service. In the case of North Sydney

314 Submission 126, Forbes Shire Council, pp 4-5.

315 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 3. See also Submission 32, Office of Local Government NSW, p 17; Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 20; Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 34.

316 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 5.

317 Submission 43, Central NSW Joint Organisation, p 3.

318 Evidence, Mr Craig Swift-McNair, General Manager, Woollahra Council and Vice President, Local Government Professionals Australia, NSW, 29 May 2024, p 2.

Council, Mr Parsons highlighted that as funds are moved around to meet other service needs, the backlog of infrastructure is starting to increase as a result.[319]

4.18 During the inquiry, stakeholders also discussed the challenge councils face in managing and meeting growing community expectations around service delivery.

- Mr David Sherley, General Manager, Bathurst Regional Council, discussed how some rural areas are seeing an increase in people from city areas, who may expect a higher level of service than what has traditionally been provided. He suggested that this 'desire for the same level of service to be provided in rural areas' is 'difficult to come to grips with' in terms of funding.[320]
- Mr Tony Farrell, Deputy Chief Executive Officer, City of Lake Macquarie Council, commented that the quality of services and facilities that the community expects has 'certainly grown', noting that the growth of the 'wealth of the community' can lead to an expectation of higher standard of services.[321]
- Mr John Hartley, Acting Chief Financial Officer, Lismore City Council, stressed the importance of engaging the community to determine the level of service the community wants. He commented that once this level of service is identified, a council can assess its funding, including the potential need to increase rates to a certain level. However, Mr Hartley noted the difficulty in putting in safeguards in this context given the disparity between individual councils.[322]
- Councillor Barry Hollman, Mayor, Bourke Shire Council, gave evidence that whilst community needs are 'always considered' they cannot always be met due to limited funding, specifically noting that in some cases the community may not be able to subsidise the services needed through a rates increase.[323]

4.19 Some stakeholders, such as Lockhart Shire Council, argued that the increasing range of services provided by local government, and in particular non-property-based services, justifies increased funding to local councils in order to fund this expanding role.[324] Albury City Council noted that past rate pegs have not matched service delivery cost increases borne by rural and regional local governments.[325] (see chapter 2 for more information on rate pegs.)

4.20 During their 2022-23 review of the rate peg methodology, the Independent Pricing and Regulatory Tribunal (IPART) heard from ratepayers about their views about levels of service delivery. According to IPART, responses to their ratepayer survey and focus groups showed some ratepayers value council services and would not necessarily like to pay less in rates if that meant services would be reduced.[326] Byron Shire Council put forward the view that ratepayers'

319 Evidence, Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council, 5 July 2024, p 4.

320 Evidence, Mr David Sherley, General Manager, Bathurst Regional Council, 28 June 2024, 16.

321 Evidence, Mr Tony Farrell, Deputy Chief Executive Officer, City of Lake Macquarie Council, 3 June 2024, p 43.

322 Evidence, Mr John Hartley, Acting Chief Financial Officer, Lismore City Council, 26 June 2024, p 5.

323 Evidence, Councillor Barry Hollman, Mayor, Bourke Shire Council, 28 June 2024, p 38.

324 Submission 66, Lockhart Shire Council, p 2.

325 Submission 60, Albury City Council, p 1.

326 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 20.

satisfaction depends on the quality of services provided, commenting that if rate pegs impede investment in infrastructure and service enhancements, it is likely to have adverse effects on wellbeing, safety, and other social outcomes.[327]

Assets and infrastructure

4.21 As stated in chapter 1, section 8B of the LG Act sets out the principles of sound financial management. Under the Act, councils should invest in responsible and sustainable infrastructure for the benefit of the local community and have effective financial and asset management.[328] This section outlines the impact of assets and infrastructure on council expenditure, including natural disasters and depreciation.

4.22 According to the Office of Local Government NSW (OLG), local councils own and control assets with a total value of over $198 billion. These assets include cash, investments, infrastructure, plant and equipment, receivables, inventory and intangible assets. The largest component of councils' assets base is infrastructure, with roads and related assets, such as bridges and footpaths, making up more than 39.74 per cent. However, according to the OLG often these assets cannot be realised.[329]

4.23 LGNSW stressed that the contribution of well-maintained and fit for purpose infrastructure to the prosperity, resilience, and productivity of communities cannot be understated.[330] By ensuring councils can maintain existing infrastructure to appropriate standards, they can get the greatest life out of their assets and ensure the community has good quality infrastructure, which meets all safety considerations. According to LGNSW, if councils are unable to keep up with actual asset maintenance costs, there is a risk that assets will fall into disrepair.[331]

4.24 According to the Southern Sydney Regional Organisation of Councils (SSROC), council assets are a key part of the overall provision of services to local communities and must be balanced with other council priorities. Each council's approach to the management of assets will vary slightly, as will the portfolio of assets that they manage. For example, not all councils have water or sewage assets, and some have extensive rural road networks or are impacted by coastal issues. Whilst it is generally expected that substantial infrastructure upgrades and services will be required to address increased community needs, councils often seek to balance their budgets by re-allocating funds from capital purposes to maintain recurrent service levels, impacting the quality and condition of vital community.[332]

4.25 Ms Claudio Migotto, Acting Deputy Auditor-General, Audit Office of New South Wales, commented that the IP&R framework requires councils to plan for and manage the future costs of infrastructure, including the costs of service delivery, to inform future planning around the financial sustainability of investment in particular projects. According to Ms Migotto, where that

327 Submission 19, Byron Shire Council, p 4.

328 *Local Government Act 1993*, s 8B (b) and s 8B (c)(ii).

329 Submission 32, Office of Local Government NSW (OLG), p 9. See also Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 37.

330 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 36.

331 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 30.

332 Submission 68, Southern Sydney Regional Organisation of Councils, pp 3-4.

is absent, it limits the ability of councils to predict and manage unexpected costs that might occur related to infrastructure and projects.[333]

4.26 Several stakeholders highlighted the challenges councils face in maintaining and improving assets and infrastructure, and how limited funding has led to a backlog in maintenance works.

- Strathfield Council remarked that the rate peg has limited councils' ability to invest in infrastructure renewal and new projects, leading to a backlog of maintenance works, deteriorating infrastructure quality and increased costs in the long run.[334]
- LGNSW asserted that the rate peg system hinders the ability and flexibility of councils in managing the high and irregular costs of infrastructure investment and delivery and can lead to deferred or sub-optimal maintenance in the short-term, which compounds over the longer-term resulting in more urgent or significant replacements.[335]
- Both the City of Parramatta Council and Hawkesbury City Council commented that delays in asset maintenance, renewals, and replacements lead to increased costs and diminished services over time. Deferred maintenance incurs higher costs due to inflation and escalates expenses as failed assets require more expensive restoration compared to timely renewal. These issues compound over time, exacerbating cost pressures on councils.[336]
- As a small rural community, Narromine Shire Council noted that it has a limited rate base, and argued that the rate cap, combined with labour and material cost increases, makes it difficult for the council to adequately fund the maintenance and expansion of essential infrastructure, including the extensive road network in the area which spans over 1600 kilometres and plays a crucial role in supporting the local agricultural industry.[337]

4.27 During the inquiry, stakeholders raised council expenditure in relation to roads maintenance as a key issue that impacts costs and financial sustainability. The OLG explained that for many local councils road expenditure is one of the main non-employee expenditure related expenses and one of the most significant asset classes.[338] LGNSW highlighted that local government is 'responsible for 90 per cent of roads in NSW, with cost components including the construction and maintenance of roads, footpaths, and cycleways'.[339]

4.28 Furthermore, regional and rural councils manage a significant proportion of the roads network in New South Wales, compared to metropolitan and metropolitan fringe councils, meaning they have greater expenditure costs in this area.[340] Forbes Shire Council highlighted that given the

333 Evidence, Ms Claudio Migotto, Acting Deputy Auditor-General, Audit Office of New South Wales, 30 July 2024, p 18.

334 Submission 75, Strathfield Council, p 8; See also Submission 110, Lismore City Council, p 2.

335 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 36.

336 Submission 116, City of Parramatta Council, p 3; Submission 61, Hawkesbury City Council, p 3. See also, Submission 69, Federation Council, p 3; Submission 52, Riverina and Murray Joint Organisation, p 3.

337 Submission 16, Narromine Shire Council, p 1.

338 Submission 32, Office of Local Government NSW, p 6.

339 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 30.

340 NSW Parliamentary Research Service, *Comparative analysis of NSW local council financial challenges and responsibilities*, 28 May 2024, p 17.

majority of expenditure for rural councils is on road construction and maintenance, the use of the Consumer Price Index (CPI) as a measure of cost increase is not representative, with the Producer Price Index (PPI) for roads and bridges tracking higher than CPI, and therefore significantly higher than the rate peg.[341]

4.29 Councillor Russell Fitzpatrick, Chair, Canberra Region Joint Organisation and Mayor, Bega Valley Shire Council, made several observations on the duty of council to consider their road service levels and budget allowances in relation to road expenditure, including the need for certainty around funding:

> … The duty is also on council to recognise what level they want their roads and level of service to be at as well. In our shire, we've still got 1,500 kilometres of dirt road. We'd love to have all that sealed, but it's not going to happen tomorrow and we have to have a plan of how we're going to do it. So it's how council plan their assets, and then that should come into the State Government budget as to what can be done and what can't be done.
>
> …
>
> [T]he income stream needs to be guaranteed to council. It can't be a competitive grant process right through the board. It needs to be a funding stream that maintains those roads on the road network.[342]

4.30 The importance of road funding is discussed in more detail in chapter 3.

Impact of natural disasters

4.31 The impact of natural disasters on council expenditure and financial sustainability in relation to assets and infrastructure was another key issue raised by inquiry participants. As the level of government closest to the community, local councils play a critical role in disaster response and mitigation, including coordinating local emergency management, providing immediate relief and recovery assistance, and restoring essential services and infrastructure, before, during and after a disaster event.[343]

4.32 The OLG highlighted that councils have needed to divert critical funds and resources towards recovery and rebuilding due to the COVID-19 pandemic and environmental disasters, including bushfires and floods. The OLG acknowledged that while some of this funding is reclaimable through natural disaster relief arrangements, there is a cashflow impact and councils have had to delay or postpone other works due to lack of skilled staff.[344]

4.33 LGNSW argued that financial constraints limit a council's capacity to prepare for and respond to natural disasters. This could result in reduced investment in disaster mitigation and adaptation measures, reduced support for affected residents and businesses, and challenges in rebuilding critical infrastructure. According to LGNSW, with an estimated 70 per cent of all Australians

341 Submission 126, Forbes Shire Council, p 4.

342 Evidence, Councillor Russell Fitzpatrick, Chair, Canberra Region Joint Organisation and Mayor, Bega Valley Shire Council, 23 July 2024, p 6.

343 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 38.

344 Submission 32, Office of Local Government NSW (OLG), p 7.

living in a flood or storm impacted council in 2022, there is a narrowing margin of financial flexibility for councils to respond to the impacts of these events.[345]

4.34 Upper Hunter Shire Council stated that when natural disaster events occur 'the community and local councils feel the brunt of the cleanup and restoration of infrastructure damage'. The council noted that the costs associated with this work is unplanned for many councils and 'financially draining to their already limited budget funds'.[346]

4.35 Riverina Eastern Regional Organisation of Councils (REROC) commented that the immediate costs that result during and following a natural disaster event are of significant concern to councils. REROC observed that there is no provision for these costs in the rate peg, despite their increasing impact on council finances. Accordingly, REROC members supported the addition of a resilience factor to the rate peg to allow councils to build a specific reserve to address the immediate financial resourcing required to deal with natural disasters and the implementation of resilience activities.[347]

4.36 REROC also highlighted that activities such as preparing and implementing adaptation and pre-disaster recovery plans require resources that some councils do not have. These expenses come at the cost of other service delivery outcomes.[348]

4.37 Whilst funding for natural disasters is made available from other tiers of government, some participants advised that the lack of clarity around this funding and the time lag between a disaster and funding distribution to meet the costs that arise is a key challenge for councils. Councils are expected to start repairs and clean-ups immediately after an event and in many cases will need to initially cover the cost of this work until additional funding is secured.[349] The Country Mayors Association of NSW (CMA) commented that the system of partnering with NSW Government departments (as funding bodies) has been effective but not efficient. In addition, delays in processing claims from country councils has had compounding impacts, financially and in terms of the recovery process.[350]

4.38 Shoalhaven City Council called for greater clarity around 'any ongoing role from councils in the community recovery sector' given that some local government areas experience repeated natural disasters. The council observed that funding is provided on an event by event basis and does not give certainty for councils who may have government funded roles embedded within their operations, noting that the present short term funding for such roles is unsustainable to meet ongoing community needs.[351] Other councils, such as Hornsby Shire Council and Ku-ring-gai Council, argued that due to the increasing intensity and frequency of natural disasters funding for natural disasters is critical and should be more clearly defined, including the extent of the funding.[352]

345 Submission 119, Local Government NSW (LGNSW), Attachment 1 – Appendix A, p 38.

346 Submission 24, Upper Hunter Shire Council, pp 2-3.

347 Submission 102, Riverina Eastern Regional Organisation of Councils (REROC), p 10.

348 Submission 102, Riverina Eastern Regional Organisation of Councils (REROC), p 10.

349 Submission 102, Riverina Eastern Regional Organisation of Councils (REROC), p 10.

350 Submission 83, Country Mayors Association of NSW, p 22.

351 Submission 107, Shoalhaven City Council, p 3.

352 Submission 79, Hornsby Shire Council, p 1; Submission 86, Ku-ring-gai Council, p 3.

4.39 The timeliness of securing funding following a natural disaster event was highlighted by several participants.[353] For example, Tenterfield Shire Council is still awaiting the outcome of some of their claims more than a year after the disaster event, having 'to totally deplete its internal reserves' to fund natural disaster work given that the current funding model requires councils to initially cover the costs. Along similar lines, Upper Hunter Shire Council argued that 'the reimbursement of funds required to make safe the initial event damage is extremely onerous… and very bureaucratically red tape driven', which has a detrimental effect on the delivery of the replacement infrastructure.[354]

4.40 The committee also heard evidence from some stakeholders acknowledging the 'good developments' around tripartite funding agreements in relation to natural disaster funding. For example, Mr David Reynolds, Chief Executive, Local Government NSW (LGNSW), noted that parts of government, such as the NSW Reconstruction Authority, Transport for NSW and local councils, are coming together to try and work positively to get funding 'to the ground' quickly following a natural disaster event.[355]

Betterment funding

4.41 Several stakeholders suggested that there is a need to review funding arrangements to include betterment funding which would build in infrastructure resilience to better withstand natural disaster events.

4.42 Dr Clare Allen, Chief Executive Officer, Port Macquarie Hastings Council, expressed support for betterment funding, commenting that 'if we're going to put in a road or we're going to put in a path, we have to think about whether it'll stand the test of time; otherwise, we're just throwing money away'.[356] Mr Vaughan Macdonald, General Manager, Richmond Valley Council, also argued for a funding model that takes into account 'the ongoing need for resilience funding'. Mr Macdonald explained that currently disaster recovery is about 'fixing the asset back to the state that it was in, but there is more of an appetite now to be able to do a better job, to improve the resilience, so that the next time there is a similar event the aim is that the asset holds up'.[357]

4.43 At a hearing, representatives from Lockhart Shire Council also advocated for betterment funding. Councillor Greg Verdon, Mayor, Lockhart Shire Council, commented on the importance of betterment funding in relation to road repairs. He noted that adding a betterment element to road funding will give councils the capacity to build improved roads that better

353 See Submission 102, Riverina Eastern Regional Organisation of Councils (REROC), p 10; Evidence, Ms Caroline Foley, Executive Manager, Financial Planning and Systems, Northern Beaches Council, 3 June 2024, p 28; Evidence, Mrs Kerrie Murphy, Director Infrastructure, Coonamble Shire Council, 28 June 2024, p 39.

354 Submission 24, Upper Hunter Shire Council, pp 2-3.

355 Evidence, Mr David Reynolds, Chief Executive, Local Government NSW, 3 June 2024, p 62. See also Evidence, Ms Katie Buckman, Chief Financial Officer, Shoalhaven City Council, 23 July 2024, pp 20-21.

356 Evidence, Dr Clair Allen, Chief Executive Officer, Port Macquarie Hastings Council, 5 July 2024, p 15; See also Evidence, Mr George Cowan, Chair, Riverina and Murray Joint Organisation, Energy Security Sub-committee, and General Manager, Narrandera Shire Council, 30 July 2024, p 12.

357 Evidence, Mr Vaughan Macdonald, General Manager, Richmond Valley Council, p 17. See also, Evidence, Mr Greg Doyle, General Manager, Wollongong City Council, 30 July 2024, p 7.

withstand larger vehicles and increased traffic weight.[358] Mr Peter Veneris, General Manager, Lockhart Shire Council, added that betterment funding 'is all about planning for the long term and so it should be supported'.[359]

4.44 Ms Sharon Houlihan, Executive Officer, Canberra Region Joint Organisation, put forward the view that one way to include betterment funding in disaster recovery funding arrangements is by having a 'pre-approved' model for betterment projects. This model would provide for betterment funding in a 'systematic way' through pre-approved arrangements rather than waiting until after a natural disaster event. Ms Houlihan explained:

> A very simple example is rather than waiting for a disaster to occur and a certain bridge is taken out, you could have a system with the recovery funding arrangements—nationally, with the States and into local government—where there are pre-approved betterment projects. For example, there's a bridge. You know at some point it is going to be taken out. It's only a matter of time before that river floods and takes out that bridge. If you just wait for the bridge to be taken out and then try your luck with applying for funds through the recovery arrangements, then you are likely to only get them as like for like. Whereas if you had a system of a pre-approved list of projects, you could say, "Okay, that's one of the bridges. That's on the pre-approved list for betterment." In other words, it's been agreed in advance between the levels of government that when that bridge is taken out in an emergency, it will be built back to this standard rather than a like-for-like standard.[360]

4.45 On the issue of roads betterment funding, Councillor Jamie Chaffey, Chairman, Country Mayors Association of NSW (CMA) and Mayor of Gunnedah Shire Council, gave evidence that CMA members were disappointed with natural disaster funding for roads and that there is no ability for betterment in particular areas of the effect from these events:

> We know that when the next natural disaster comes along, we're going to be fixing this same thing. We don't know whether that'll be next week, next month, next year or in 10 years' time, but it just seems crazy and not a good use of funds, taxpayer funding, that we're not just simply looking at those key areas. Councils all know where those key areas are because they're repeat locations where we can't treat them differently when we're building them back after recovery from natural disaster. Simply, local government doesn't have the money to be able to add that extra, but there needs to be some consideration in future designs of natural disaster funding that those key areas that were agreed to by the State, as well as the local government they're within, need to be eligible for further funding so that we're not just building the same thing back.[361]

4.46 The OLG acknowledged that the depreciation implications of natural disaster funding is a financial issue which has particularly caused concern for a number of councils.[362] Likewise,

358 Evidence, Councillor Greg Verdon, Mayor, Lockhart Shire Council, 15 July 2024, p 30.

359 Evidence, Mr Peter Veneris, General Manager, Lockhart Shire Council, 15 July 2024, p 32.

360 Evidence, Ms Sharon Houlihan, Executive Officer, Canberra Region Joint Organisation, 23 July 2024, p 5.

361 Evidence, Councillor Jamie Chaffey, Chairman, Country Mayors Association of NSW and Mayor of Gunnedah Shire Council, 27 June 2024, p 8.

362 Submission 32, Office of Local Government NSW, p 11.

IPART noted that increased costs due to climate change includes the accelerated depreciation and deterioration of assets due to the impacts of natural disasters and severe weather events.[363]

Depreciation

4.47 Another key issue raised during the inquiry in relation to assets is the impact of depreciation costs on local government financial sustainability. Depreciation is a non-cash expense that converts the capital cost of an asset into an operational expense, which reduces the value of assets as a result of wear and tear, age or obsolescence. Assets must be replaced or renewed at the end of their useful life.[364]

4.48 According to the OLG, depreciation expenditure indicates the amount of asset use that has occurred to the value of all council's assets during the year. The OLG noted that average depreciation expenditure was 24 per cent of total operating expenses in 2021-22, with the result for individual councils varying significantly, from a low of 13 per cent to a high of 38 per cent.[365]

4.49 Councillor Jamie Chaffey, Chairman, Country Mayors Association of NSW (CMA) and Mayor of Gunnedah Shire Council, asserted that depreciation 'is a major problem' and 'a really significant part of the financial stress' within the CMA's membership in local government.[366]

4.50 Mr Peter Tegart, Partner, Always Thinking Advisory, commented that 'without doubt, the greatest shift in local government expenditure has been the growth in depreciation, through the combination of acquisition of new assets (grants-gifted assets) and asset revaluation'.[367] Mr Tegart elaborated that, in some cases, whilst councils may agree to take on new assets 'there is no allowance for future operation, maintenance or depreciation of those new assets' in their long term financial and asset sustainability plans. To assist councils to address the issue, Mr Tegart suggested that 'it would be appropriate that grants allow for a portion of those grant funds to be received in later years to assist the future operations, maintenance and depreciation of those assets which, at the end of the day, support the State ambitions'.[368]

4.51 Several councils shared Mr Tegart's observations on the financial impacts of asset deprecation.[369] For example, Mr Doug Curran, Mayor of Griffith City Council, noted that whilst the state has invested strongly in new infrastructure in his local government area, the ongoing depreciation of these assets must be funded from the council's annual budget, which places 'a further strain on financial viability'.[370]

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363 Submission 88, Independent Pricing and Regulatory Tribunal (IPART), p 19.

364 Submission 32, Office of Local Government NSW, p 8. See also Submission 83, Country Mayors Association of NSW, p 24.

365 Submission 32, Office of Local Government NSW, p 8.

366 Evidence, Cr Chaffey, 27 June 2024, p 4.

367 Submission 14, Always Thinking Advisory, p 42.

368 Evidence, Mr Peter Tegart, Partner, Always Thinking Advisory, 3 June 2024, p 3.

369 See for example, Ms Trina Thomson, Deputy Mayor, Snowy Valleys Council, 15 July 2023, p 43; Evidence, Ms Tracey Squire, Acting Chief Executive Officer, Albury City Council, 15 July 2024, p 23.

370 Evidence, Mr Doug Curran, Mayor, Griffith City Council, 15 July 2024, p 10.

4.52 Several stakeholders, such as the CMA and Lake Macquarie City Council, specifically highlighted depreciation costs in relation to the Rural Fire Service (RFS) assets (also known as The Red Fleet) as a significant area of concern.[371] The CMA argued that councils have no control over these assets, no ownership and little to no involvement with the RFS overall, and are 'essentially given an asset value figure (by the NSW Government) and are required to incorporate that into their books, forced to accept the validity of that figure'.[372] Lake Macquarie City Council supported this view stating that the council has been 'adversely affected by the depreciation of Red Fleet assets by more than $400,000 per year, despite not operating or controlling the assets, nor having any involvement in purchasing decisions surrounding these vehicles'.[373]

4.53 When asked whether any work is being done to look at changing the benchmarks around deprecation accounting practices for Rural Fire Service (RFS) assets, Mr Aaron Green, Assistant Auditor-General, Audit Office, responded:

> This has definitely been a difficult issue for the last few years where we have been obtaining the views of the State's Treasury, the Rural Fire Service. We've formed a view and the local councils themselves have formed views around the recognition of rural firefighting equipment. I guess there's a perspective here that there's an element of inconsistency. We've got around 40-odd councils that recognise this equipment. We've then got another 60 or so that don't recognise this equipment, and for whatever reason they've got different views when they look at the legislation which vests these assets over to councils, and then the requirements of the accounting standards take us through a pathway to determine who controls them.[374]

4.54 During the inquiry, several stakeholders argued for the need to review how depreciation is managed at a local government level, including the methodology that applies to deprecation rates and practices.

- Ms Tracey Squire, Acting Chief Executive Officer, Albury City Council, advised that one of the things the council is looking at, under their 'financial sustainability improvement plan', is the methodology that is applied to depreciation. Ms Squire commented that rather than applying a 'straight line methodology', consideration could be given to 'the genuine asset life and the capacity of that asset to serve the community'.[375]
- Murrumbidgee Council also advocated for a different depreciation method and suggested a 'condition based' model based on the asset's ability to meet service standards. The council put forward the question: 'If an asset can meet the service delivery standards, has it depreciated?'.[376]

371 See Submission 83, Country Mayors NSW, p 11; Submission 44, Lake Macquarie City Council, p 3; Submission 57, Cessnock City Council, p 3; Submission 102, Riverina Eastern Regional Organisation of Councils, p 7; Submission 124, Tenterfield Shire Council, p 5.

372 Submission 83, Country Mayors Association of NSW, p 11.

373 Submission 44, Lake Macquarie City Council, p 3.

374 Evidence, Mr Aaron Green, Assistant Auditor-General, Audit Office, 17 May 2024, p 50.

375 Evidence, Ms Tracey Squire, Acting Chief Executive Officer, Albury City Council, 15 July 2024, p 23.

376 Submission 27, Murrumbidgee Council, p 4.

- Both City of Parramatta Council and Griffith City Council suggested that there is a need to standardise depreciation rates and practices.[377]

4.55 More specifically, Ms Gail Connolly, Chief Executive Officer, City of Parramatta Council, suggested there are 'two critical things' to do to address depreciation. The first is to have every council 'depreciate the same asset at the same rate at the same schedule' before turning to how that depreciation is treated on the books. According to Ms Connelly, one way may be allowing councils to show depreciation separately on their rates notice and have a separate levy for residents that is 'just hypothecated to depreciation in addition to the rate cap'. Ms Connelly argued that 'depreciation needs to be taken out of the mix and treated separately'. [378]

4.56 The impact of local government accounting standards in relation to depreciation was also raised by some participants. According to the Country Mayors Association of NSW (CMA), financial reporting requirements currently 'necessitate depreciation to be double counted in financials'. Councils are required to set aside funds for infrastructure maintenance/renewal, which contributes 'significantly to the expenses column in their financials', while also being required to include depreciation for road and plant assets as an expense. This means that costs associated with maintaining capital items are being counted twice, impacting on perceived performance and the borrowing capacity of a council[379], indicating it is not a useful tool for financial management. Likewise, Mr Peter Thompson, General Manager, Wagga Wagga City Council, noted that a proportion of the depreciation number recorded in their books is 'really just an entry on a page' and does not really inform on the council's financial capacity or vitality.[380]

4.57 Accordingly, the CMA advocated for the removal of all depreciation expenses from the calculation of the Operating Performance Ratio for local councils.[381]

4.58 When asked to respond to the evidence suggesting that depreciation is not a useful tool for financial management, the Auditor General of New South Wales, Mr Bola Oyetunji, responded saying 'there is a misconception' around depreciation and explained:

> The depreciation for the financial statement audit is to allow you, over a period of useful life, to estimate what is the wear and tear of the asset… I think from my visits to those councils what I've picked as being the main problem, really, is when we now have the performance ratio that talks about operating results after, which incorporates depreciation. As I said in my previous appearance, I feel what OLG could do is actually remove depreciation from that parameter and have earnings before depreciation and amortisation. What happens then is it allows councils to be comparable…[382]

4.59 Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW, also responded to the evidence around whether depreciation should be included in financial reports. Mr Whitworth stated that he does not have a concern about exploring the concept of excluding

377 See Evidence, Ms Gail Connolly, Chief Executive Officer, City of Parramatta, 3 June 2024, pp 20-21; Evidence, Mr Brett Stonestreet, General Manager, Griffith City Council, 15 July 2024, p 15.

378 Evidence, Ms Connolly, 3 June 2024, pp 20-21.

379 Submission 83, Country Mayors Association of NSW, p 19. See also Submission 27, Murrumbidgee Council, p 4.

380 Evidence, Mr Peter Thompson, General Manager, Wagga Wagga City Council, 15 July 2024, p 14.

381 Submission 83, Country Mayors Association of NSW, p 27.

382 Evidence, Mr Bola Oyetunji, Auditor-General, Audit Office of New South Wales, 30 July 2024, p 17.

depreciation from a performance ratio perspective, however noted that it is 'important to ask the question, how are councils valuing the use of infrastructure today that has a lifetime that's more than 20 years?:

> How are they [councils] valuing the use of that? How are they valuing for the eventuality that that infrastructure will need to be replaced and ensuring that there is a reserve? If we start not thinking about depreciation and ensuring that there are reserves put aside to renew infrastructure, then we're going to be even more dependent on grant funding for the renewal of that infrastructure in the future when it needs to be replaced.[383]

4.60 When asked whether changing how depreciation is reported will make local councils more financial sustainable, Mr Whitworth put forward the view that it 'will make some look more sustainable on paper', however councils still need to manage their assets and the life cycle of their assets. He commented:

> Does it make them more sustainable over time? If they're not ensuring that they can manage their assets and manage the life cycle of their assets because they haven't created an appropriate depreciation methodology or created a methodology where they're saying we're effectively reserving money for the renewal of that, then it won't make them more sustainable. Again, we've got budget versus accounting concepts coming in. You budget to ensure that you can provide services using infrastructure that has a lifetime that can be managed, versus an accounting process that says, "This is how much we paid for this piece of infrastructure, and this is how much we value our use of it over time. This is how we demonstrate to people that we have factored that into the accounts that show whether we're an appropriate ongoing organisation".[384]

4.61 Financial reporting and accounting standards is discussed in more detail later in this chapter.

Infrastructure delivery and staffing

4.62 Another key consideration in relation to council expenditure is the financial impact of infrastructure delivery, including councils' ability to manage and deliver large projects efficiently, and staffing challenges more generally.

4.63 In regards to infrastructure delivery, Professionals Australia, Local Government Engineers' Association (LGEA), explained that there are two key issues that hinder the ability of local government to deliver and maintain infrastructure for their communities:

> The first issue is the limitation on funding for infrastructure investment and maintenance. The second issue is the lack of adequate inhouse engineering capacity to deliver efficient, cost-effective, and innovative infrastructure. Both issues are preventing local governments from effectively managing community assets in an appropriate manner, paying due regard to whole of life cycle costs.[385]

383 Evidence, Mr Brett Whitworth, Deputy Secretary, Office of Local Government, 30 July 2024, p 45.

384 Evidence, Mr Whitworth, 30 July 2024, p 45.

385 Submission 114, Professionals Australia, Local Government Engineers' Association (LGEA), p 1. See also Evidence Mr Gordon Michael Brock, Director, Professionals Australia, Local Government Engineers Association, 17 May 2024, p 29.

4.64 According to the LGEA both infrastructure projects and the management of infrastructure assets are, by their nature, highly complex and require the involvement of skilled and experienced engineers from planning through to delivery.[386]

4.65 Ms Alycia Vasilangos, Principal Industrial Officer, Professionals Australia, Local Government Engineers Association (LGEA), gave evidence that there is research indicating that working on infrastructure projects without properly qualified engineers leads to 'significant amounts of waste and cost blowouts'. She explained the impact on council financial sustainability:

> So we have a situation currently where 60 per cent of the industry is saying we can't find engineers, 33 per cent of those are saying we're hiring people who aren't engineers just to fill the gaps and then we're hearing from our members that half of the existing workforce is intending to leave the industry within the next five years. Anecdotally, when we visit our members at councils we've heard stories of councils with up to 40 per cent vacancies in their engineering workforce, which is extraordinarily problematic when we're talking about an infrastructure backlog of $5 billion. If we don't have the engineers to do this work, we're not going to fix the funding issues and the financial sustainability of the industry.[387]

4.66 Mr Gordon Michael Brock, Director, Professionals Australia, Local Government Engineers Association (LGEA), also highlighted that where councils are unable to attract and retain a sufficient number of engineers they are put in a position where they need to contract out these services. Whilst noting that not every project can be delivered in-house by councils, Mr Brock commented that councils 'tend to pay two or three times the hourly rate for those contractors'. He added that often the level of the staff put on these projects 'is much less senior than what you would've had if you had additional resources in the council'.[388]

4.67 The Institute of Public Works Engineering Australasia (NSW & ACT) made similar observations around the shortage of skills in relation to assets and infrastructure within local government. Mr Will Barton, Vice President, Institute of Public Works Engineering Australasia (NSW & ACT), commented that 'it's quite well known that there's a shortage of skilled engineers and technicians that are related to the management of assets within New South Wales'.[389]

4.68 When asked whether a well-resourced council system will lighten the state's burden in terms of project management, Mr Josh Devitt, Chief Engineer, Institute of Public Works Engineering Australasia (NSW & ACT), commented in the affirmative. He indicated support for councils building capacity 'within themselves' to achieve greater efficiency gains through in-house staff rather than external contractors. Mr Devitt noted that it is challenging in the current environment for councils to attract high-quality engineers, with engineers gravitating towards

386 Submission 114, Professionals Australia, Local Government Engineers' Association (LGEA), pp 2-3.

387 Ms Alycia Vasilangos, Principal Industrial Officer, Professionals Australia, Local Government Engineers Association, 17 May 2024, p 29.

388 Evidence, Mr Brock, 17 May 2024, p 32.

389 Evidence, Mr Will Barton, Vice President, Institute of Public Works Engineering Australasia (NSW & ACT), 17 May 2024, p 18.

the private sector or state government and councils struggling to pay market rates to attract skilled staff.[390]

4.69 Whilst supporting the development of in-house skills, Mr David Tuxford, General Manager, Georges River Council, and President, Local Government Professionals Australia, NSW, contended that there are circumstances where outsourcing may still be required even if a council has skilled in-house staff. For example, a council may bring in an outside resource for a specific project if it has too many capital works programs at any one time. [391]

4.70 During the inquiry, some councils also commented on their ability to manage and deliver large projects efficiently.

- Richmond Valley Council observed that for some projects, such as those undertaken in relation to natural disasters, councils do not have the internal staff to be able to manage them, especially if there is a need for expertise.[392]
- With capital projects, Councillor Bronwyn Petrie, Mayor, Tenterfield Shire Council, commented that resources can 'command a premium price' and in some circumstances councils are 'forced into doing things such as selling community-use assets that we would otherwise have wanted to continue' to meet rising costs in this area.[393]
- Lord Mayor Nuatali Nelmes, Lord Mayor, City of Newcastle, gave evidence on how the council has 'done a lot of refinement' around how infrastructure is delivered in the area, commenting on the type of 'progressive management' needed to actually program and deliver infrastructure.[394]
- Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council, stated he would 'welcome the state's assistance' in delivering projects and noted in his view that he does not believe 'generally speaking, local governments have the resources and capability to deliver those larger infrastructure projects, because it's not something that local government does every day'.[395]

4.71 In relation to what can be done to better support local councils with infrastructure delivery, LGNSW gave evidence on the opportunity for resource sharing within the sector, specifically technical resources. Mr David Reynolds, Chief Executive, Local Government NSW (LGNSW), explained that resource sharing is a practice used by councils in some circumstances, such as a metropolitan council loaning out a type of engineer to a smaller rural council, under a shared costs arrangement. The arrangement may be facilitated either through joint organisations, regional organisation councils or in-house between individual councils. Mr Reynolds explained the potential benefits to such an arrangement:

390 Evidence, Mr Josh Devitt, Chief Engineer, Institute of Public Works Engineering Australasia (NSW & ACT), 17 May 2024, p 21.

391 Evidence, Mr David Tuxford, General Manager, Georges River Council, and President, Local Government Professionals Australia, NSW, 29 May 2024, pp 8-9.

392 Evidence, Councillor Robert Mustow, Mayor, Richmond Valley Council, 26 June 2024, p 17.

393 Evidence, Councillor Bronwyn Petrie, Mayor, Tenterfield Shire Council, 26 June 2024, p 34.

394 Evidence, Lord Mayor Nuatali Nelmes, Lord Mayor, City of Newcastle, 3 June 2024, p 38.

395 Evidence, Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council, 5 July 2024, p 2.

> It was great skill and experience gaining for both parties. They were able to contribute in a technical sense to the host council, but also they gained some leadership and management experience that they hadn't had access to in their home council. So certainly that happens in practical ways. Whether it's formalised—not necessarily. It often comes through need identification and networks and opportunity identification too.[396]

4.72 Mr Josh Devitt, Chief Engineer, Institute of Public Works Engineering Australasia (NSW & ACT) agreed that councils could better share technology or best practices to improve efficiency. He stated that part of the institute's role is working towards 'sharing best practice across organisations and looking for ways that councils can work more efficiently'.[397]

4.73 More generally, the committee heard evidence on other staffing challenges. Staffing costs are another local council expense, which can impact on their financial sustainability. According to the OLG these costs account for 34 per cent on average, and include wages, salaries, leave entitlements, superannuation, workers compensation, fringe benefits and payroll tax.[398]

4.74 Councillor Trina Thomson, Deputy Mayor, Snowy Valleys Council, told the committee that there is such 'a shortage of good quality staff' that the council is now advised to offer above-award wages to try to attract staff to rural areas. In addition, Cr Thomson argued that local government is wearing the burden of having to pay significant money to consultants, in a relatively small budget, due to not being able to attract staff.[399]

4.75 Central Darling Shire Council also shared that the councils own limited financial resources means staff remuneration is paid at minimum award rates, with very little incentives to attract and retain staff. The council further noted there is increasing difficulty in attracting and retaining qualified and experienced staff in their case given the remoteness of the area and the lack of services provided to support people who are not accustomed to working in remote environments. Whilst the council offers subsidised housing and unit accommodation to senior, professional, and technical staff, the council's level of staffing is the 'bare minimum to achieve legislative functions' and 'inhibits growth and community support to promote industry, employment, and essential services, expected by the community'.[400]

4.76 Some stakeholders commented specifically on the staffing financial impact resulting from increased infrastructure and services, including the operational costs of assets.

- Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW, gave evidence that increased infrastructure costs as a result of the COVID-19 pandemic, and the supply chain issues that flowed from that, and dealing with natural disasters can create a problem for some councils in terms of a rapid increase in staffing costs and materials costs to rebuild infrastructure or provide new infrastructure.[401]
- Ms Evelyn Arnold, General Manager, Greater Hume Shire Council, noted the specific challenge in attracting skilled staff in providing children's services and family day care,

396 Evidence, Mr Reynolds, 3 June 2024, p 57.

397 Evidence, Mr Devitt, 17 May 2024, p 23.

398 Submission 32, Office of Local Government NSW, p 8.

399 Evidence, Cr Thomson, 15 July 2024, p 48.

400 Submission 7, Central Darling Shire Council, p 3.

401 Evidence, Mr Brett Whitworth, Deputy Secretary, Office of Local Government, 17 May 2024, p 59.

> explaining that the council had to step in and take over these services when the community run model had started to fail. Whilst acknowledging that things are improving, Ms Arnold specifically highlighted that the change has proved to be 'very resource hungry' for the council.[402]

4.77 Mr Graeme Kelly, General Secretary, United Services Union, commented that councils are being 'starved of funds' and the councils who have a high privatised workforce are doing so because they cannot afford to maintain the staffing levels they've got, and 'it's cheaper to pay contractors, who, a lot of the time have inferior plant and equipment'.[403]

4.78 In addition to the staffing impacts from increased infrastructure and services, staffing in relation to securing grants funding was also considered during the inquiry given the highly competitive nature of grants funding. Ms Carolyn Rodney, Chief Financial Officer, Wagga Wagga City Council noted that in the past financial year the council hired a dedicated grants officer.[404] However, other councils, such as Lockhart Shire Council and Federation Council, advised that they do not have enough resources to hire a dedicated grants officer.[405]

4.79 Along similar lines, Berrigan Shire Council noted that the requirement for civil engineers at specific skill levels is usually a requirement of grant funding for infrastructure delivery such as roads, bridges, water, sewer and asset management. According to the council, 'without the sign off of a suitable qualified engineer, councils are unable to adequately acquit and finalise their grant applications'.[406] In addition, because rural and remote councils are constrained in their ability to recruit and retain skilled staff, they are often forced to hire people with lower or inadequate skills to perform the work required leading to less than satisfactory outcomes, particularly in regard to infrastructure delivery such as roads, bridges and other civil construction works that require highly qualified civil engineers.[407]

4.80 Unlike other councils, Mr Andrew Carfield, General Manager, Camden Council, shared that his council's workforce is growing. However, Mr Carfield noted that the council is 'having to prioritise:

> I would say, unlike other councils, we're growing in terms of our staff complement each year. Each year we would typically grow by 20 to 30 staff members. We are having to prioritise, "What are the areas of our service under greatest pressure?" But our growth in residents, our growth in rateable properties and our growth in revenue means we are growing as an organisation as well. Rather than going through the exercise of looking for cuts or rationalising staff each year, we are actually focusing on where we grow.[408]

402 Evidence, Ms Evelyn Arnold, General Manager, Greater Hume Shire Council, 15 July 2024, p 46.

403 Evidence, Mr Graeme Kelly, General Secretary, United Services Union, 17 May 2024, p 42.

404 Evidence, Ms Carolyn Rodney, Chief Financial Officer, Wagga Wagga City Council, 15 July 2024, p 12.

405 See Cr Verdon, 15 July 2024, p 32; Evidence, Mr Adrian Butler, General Manager, Federation Council, 15 July 2024, p 32.

406 Submission 25, Berrigan Shire Council, p 4.

407 Submission 25, Berrigan Shire Council, p 4.

408 Evidence, Mr Carfield, 29 May 2024, p 34.

Cost shifting

4.81 A significant number of stakeholders raised concerns that costs from state and Commonwealth governments are being shifted onto local councils.

4.82 Cost shifting is a term used to describe the cost impact on local government of decisions made at the state and federal level. LGNSW referred to cost shifting as when state and Commonwealth governments 'force councils to assume responsibility for infrastructure, services and regulatory functions without providing sufficient supporting funding'.[409]

4.83 According to LGNSW, New South Wales councils are absorbing shifted costs 'worth more than $1.36 billion' per year, with an 'estimated cumulative burden of more than $10.15 billion over the last decade'.[410] LGNSW also stated that cost shifting has added an average $460.67 to each New South Wales ratepayers' rates every year.[411]

Examples of cost shifting

4.84 Significant components of cost shifting in New South Wales currently include:

- local council contributions via the Emergency Services Levy
- statutory exemptions for various organisations including government organisations, public charities, private schools and universities
- pensioner rebates councils are required to provide
- Waste Levy
- library funding
- audit fees paid by local council
- developer contributions.[412]

4.85 Some of these costs are outlined in more detail below.

Emergency Services Levy

4.86 Currently, councils fund 11.7 per cent of emergency services operations in New South Wales via the Emergency Services Levy (ESL) as well as provide additional financial contributions totalling $10.7 million through depreciation expenses on RFS assets and $12.7 million through Rural Fire Service obligations.[413] Councils fund their ESL contributions from their general revenue, which primarily consists of income from rates, as they 'have no ability to raise revenue

409 Submission 119, Local Government NSW, p 26. See also Local Government NSW, Attachment 2, 'LGNSW Cost Shifting Report – How State Costs Eat Council Rates', p 3.

410 Submission 119, Local Government NSW, p 26.

411 Submission 119, Local Government NSW, p 26.

412 Submission 119, Local Government NSW, pp 27-33.

413 Submission 119, Local Government NSW, Attachment 2, 'LGNSW Cost Shifting Report – How State Costs Eat Council Rates', p 8.

to fund this in any other way'.[414] LGNSW also noted that despite their financial contributions to the operation of emergency services, councils 'have no influence on the costs or budget settings of these organisations'.[415]

4.87 Several councils said the costs of the emergency services levy had increased in recent years:

- Parramatta City Council: ESL costs increased from $3 million to $5 million over the past four years, the costs of which have not been captured by rate peg increases
- Northern Beaches Council: ESL costs increased by $3.1 million this year, forcing the council to 'cut back' on infrastructure projects to fund the ESL
- Bellingen Shire Council: ESL costs increased from approximately $388,000 in 2018-19 to $698,000 in 2023-24.[416]

4.88 Mr Will Barton, Vice President, Institute of Public Works Engineering Australasia (NSW & ACT), noted that he had seen the ESL increase over the past 'six or seven years' by '3 to 4 per cent over and above what's been allowed for through the rate peg'.[417]

4.89 Councillor Russell Webb, Executive Member of the NSW Country Mayors Association and Mayor of Tamworth Regional Council, told the committee that the emergency services levy has had a 'massive impact on local government' finances.[418]

4.90 In its submission, Southern Sydney Regional Organisation of Councils (SSROC) said eliminating the ESL would be a 'reasonable proposition since councils do not provide or have any influence over the cost or efficiency' of emergency services.[419] SSROC urged the committee to review all levies paid by councils and consider whether they can be justified or removed if they cannot be.[420] However, the SSROC added that 'if the NSW Government insists on councils paying this levy, councils should be able to recover the actual cost impost'.[421]

4.91 SSROC's view regarding the ESL was broadly supported by councils:

- Mr Adrian Panuccio, General Manager, MidCoast Council told the committee that while the State Emergency Service and ESL were 'worthwhile causes', they 'shouldn't be put onto local government'

414 Submission 119, Local Government NSW, Attachment 2, 'LGNSW Cost Shifting Report – How State Costs Eat Council Rates', p 10.

415 Submission 119, Local Government NSW, Attachment 2, 'LGNSW Cost Shifting Report – How State Costs Eat Council Rates', p 10.

416 Evidence, Mr John Angilley, Executive Director – Finance and Information, City of Parramatta Council, 3 June 2024, p 21; Evidence, Ms Foley, 3 June 2024, p 26; Submission 70, Bellingen Shire Council, pp 2-3.

417 Evidence, Mr Barton, 17 May 2024, p 22.

418 Evidence, Cr Russell Webb, Executive Member, NSW Country Mayors Association, Mayor, Tamworth Regional Council, 27 June 2024, p 3.

419 Submission 68, Southern Sydney Regional Organisation of Councils, p 10.

420 Submission 68, Southern Sydney Regional Organisation of Councils, p 10.

421 Submission 68, Southern Sydney Regional Organisation of Councils, p 10.

- Campbelltown City Council recommended the NSW Government 'remove the council contributions and instead manage collections through Revenue NSW'
- Newcastle City Council added that removing the ESL on councils would increase their financial sustainability.[422]

4.92 As previously mentioned in the report, the rate peg methodology for 2024-25 includes a separate council specific ESL factor that reflects the actual change in a local council's ESL contribution and moves away from using the average annual change in ESL contributions across all New South Wales councils.

4.93 At the time of writing, the New South Wales Government is reviewing the way the state's emergency services are funded by the Emergency Services Levy.

Waste Levy

4.94 Local councils are required to pay a waste levy of $163.2 per tonne of waste in metropolitan areas and $94 per tonne of waste on regional areas sent to landfill.[423] According to LGNSW, the waste levy is the 'largest single contributor' to cost shifting in New South Wales.[424]

4.95 In its submission, LGNSW noted that the New South Wales Government's stated goal of the waste levy is to 'reduce the amount of waste being landfilled and promote recycling and resource recovery'.[425] However, LGNSW questioned why only a third of the $4 billion collected from the levy in the past five years has been reinvested into waste and environmental programs, as highlighted by the former Auditor General in her 2020 report on the waste levy.[426]

4.96 LGNSW said that without corresponding increases in resource recovery, 'it is not sustainable, either financially or environmentally, for the waste levy to continue inching up higher'.[427] LGNSW recommended that the New South Wales Government therefore reinvest 'significantly more' of the waste levy than the current amount into the sector through grants for additional recovery facilities, non-contestable funding for councils, upgrades to existing waste infrastructure, funding for innovative waste solutions, and state-wide education campaigns.[428]

4.97 In evidence to the committee, Councillor Nuatali Nelmes, Mayor of Newcastle City Council said that her council will this year pay $43 million in waste levies but will 'be lucky to receive $500,000 back in waste avoidance'.[429] Cr Nelmes detailed the council's waste management costs in addition to paying the waste levy:

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422 Evidence, Mr Adrian Panuccio, General Manager, MidCoast Council, 27 June 2024, p 24; Submission 67, Campbelltown City Council, p 8; Submission 17, City of Newcastle Council, pp 2-3.

423 Submission 119, Local Government NSW, p 29.

424 Submission 119, Local Government NSW, Attachment 2, 'LGNSW Cost Shifting Report – How State Costs Eat Council Rates', p 1.

425 Submission 119, Local Government NSW, p 29.

426 Submission 119, Local Government NSW, p 26; Audit Office of New South Wales, *Waste levy and grants for waste infrastructure*, New South Wales Auditor-General's Report, 2020, p 1.

427 Submission 119, Local Government NSW, p 29.

428 Submission 119, Local Government NSW, p 30.

429 Evidence, Cr Nelmes, 3 June 2024, p 39.

> But at the same time, out of our rate base, we'll be paying for recycling—how we deal with food and organics … potentially building our own materials recycling facility to remove waste from landfill. And that cost is borne by ratepayers. So we'll pay $43 million to consolidated revenue, to the New South Wales Government in that levy, but in the meantime we'll still use our funding to build waste avoidance technologies in the City of Newcastle.
>
> They're some of the mismatches in how the levies are working in a different way to their intention and how they affect councils that do run waste facilities. For us, it would be fantastic if we had access to capital, like the private sector. We have good jobs at council, with the USU, that work in our waste facility, but we can't get access to capital like the private sector. Since you've had the section 88 waste levy in New South Wales, which is another form that goes into the mix of financial sustainability, you've seen a huge growth in the private sector in the waste industry, and it grows at a pace that local government can't keep up with.[430]

4.98 Southern Sydney Regional Organisation of Councils (SSROC) supported LGNSW's recommendation stating that the NSW Government should reinvest $750 million from the waste levy 'back into the growth and transformation of waste services'.[431] SSROC said that funding is required for 'priority infrastructure' for waste and 'to provide financial support to encourage investment and innovation in circular economy,' as well as to put councils in a 'better position as the challenge of waste services delivery by councils increases'.[432]

4.99 Several other organisations and councils shared LGNSW's concerns and supported more investment of waste levy funds towards waste management initiatives, such as improving resource recovery, recycling and waste infrastructure.[433]

4.100 Burwood Council went further in its recommendation, suggesting that the NSW Government should 'remove or progressively reduce the Waste Levy imposed on local government'.[434] In contrast, Kyogle Council said the waste levy should be removed from councils 'outside the metropolitan and coastal growth areas'.[435]

Pensioner rebates

4.101 As discussed in chapter 2, rebates for pensioners on their rates are required to be provided by councils with the New South Wales Government subsidising councils for 55 per cent of these costs. In evidence to the inquiry, Councillor Darriea Turley AM, President of Local Government NSW (LGNSW) told the committee that pensioner rebates for rates represents one of the largest components of cost shifting to local government.[436]

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430 Evidence, Cr Nelmes, 3 June 2024, p 39.

431 Submission 68, Southern Sydney Regional Organisation of Councils, p 7.

432 Submission 68, Southern Sydney Regional Organisation of Councils, p 7.

433 Submission 102, Riverina Eastern Regional Organisation of Councils, p 7; Submission 99, Sydney Coastal Councils Group, p 4; Submission 40, Nambucca Valley Council, p 1; Submission 105, Kempsey Shire Council, p 2; Submission 107, Shoalhaven City Council, p 3.

434 Submission 74, Burwood Council, p 3.

435 Submission 122, Kyogle Council, p 3.

436 Evidence, Councillor Darriea Turley AM, President, Local Government NSW, 3 June 2024, p 53.

4.102 Councillor Russell Webb, Executive Member of the Country Mayors Association of NSW (CMA) and Mayor of Tamworth Regional Council, discussed the issue of pensioner rebates, stating that when they were introduced in the 1990s, the rebate from the New South Wales Government 'covered about half of the rates of a pensioner' in dollar terms.[437] Cr Webb continued:

> Those dollar terms haven't changed. Today, the pensioner rebate issued by the State Government is something that doesn't count for a lot in terms of a rateable property, so those pensioners are now finding it difficult, in many cases, to be able to afford their rates. The pensioner rebate they get from the State Government is very minimal in terms of their overall rate bill.
>
> The pensioner rebates are broken into two sections: one is for your general rates, and one is for your water and sewer. What we're having to do in our local area is that we're going to have to start topping those pensioner rebates up. So, in effect, I feel that is a cost shifting in itself. We at local government level are now going to have to look at how can we actually top up those pensioner rebates.[438]

4.103 Similarly, Southern Sydney Regional Organisation of Councils (SSROC) highlighted that the pensioner rebate had not increased in line with the consumer price index, resulting in 'many councils providing a voluntary rebate on top of the mandatory, which is then subsidised by other ratepayers'.[439] SSROC recommended that the pensioner rebate funding should be aligned to the rate peg, and increase annually.[440]

4.104 Riverina Eastern Regional Organisation of Councils (REROC) stated its view that pensioner rebates are a 'form of welfare assistance' and that their costs 'should be met 100% by the State Government'.[441] REROC noted that the New South Wales Government legislated the rebate and said that 'it is unfair that local government and ratepayers must subsidise its cost'.[442]

4.105 Kyogle Council highlighted pensioner rebates in its submission, stating that one of the ways to reduce cost shifting from state to local government would be by the New South Wales Government 'fully funding' the rebates.[443]

Library funding

4.106 The inquiry also heard about library funding as a component of gradual cost shifting to local government. According to LGNSW, when the *Library Act 1939* commenced it was intended that public libraries established by councils would receive subsidies of up to 50 per cent from

437 Evidence, Cr Russell Webb, Executive Member, Country Mayors Association of NSW and Mayor, Tamworth Regional Council, 27 June 2024, p 3.

438 Evidence, Cr Webb, 27 June 2024, pp 3-4.

439 Submission 68, Southern Sydney Regional Organisation of Councils, p 4.

440 Submission 68, Southern Sydney Regional Organisation of Councils, p 5.

441 Submission 102, Riverina Eastern Regional Organisation of Councils, p 7.

442 Submission 102, Riverina Eastern Regional Organisation of Councils, pp 7-8.

443 Submission 122, Kyogle Council, p 3.

the NSW Government.[444] However, LGNSW stated that the proportion of funding given to councils has 'gradually reduced' since the Act was introduced.[445]

4.107 LGNSW highlighted figures of library funding showing that in 2022-23, councils spent $412 million on public libraries while the NSW Government spend $40 million.[446] LGNSW said that while this represented an increase on NSW Government funding since 2019-20, councils are still receiving 'less than 9 per cent of the cost of funding their libraries from the NSW Government – a far cry from initial arrangements'.[447]

4.108 Concerns about shortfalls in funding for libraries were raised by several councils, including Junee Shire Council, Clarence Valley Council and Forbes Shire Council, which all stated that the funds they spend on their public libraries far exceeds the money contributed by the NSW Government.[448]

4.109 Southern Sydney Regional Organisation of Councils (SSROC) raised concerns about potential constraint by councils of funding for libraries, stating that 'inadequate local library services and poor provision of accessible computers' will lead to 'digital disadvantage in low socio-economic suburbs, perpetuating low education attainment, poor school outcomes and employment'.[449] SSROC called for library funding to be restored 'to its original level of 50 per cent of operational cost'.[450]

NSW Beachwatch program

4.110 Sydney Coastal Councils Group (SCCG) highlighted the NSW Beachwatch program as a more recent example of cost shifting from the NSW Government to local government.[451] The Beachwatch program is a 'NSW Government-led program that monitors and reports on recreational water quality at ocean beaches and estuaries', as well as 'provides information on the level of sewage and stormwater pollution at beaches to indicate their suitability for swimming and recreational use'.[452]

4.111 Despite being a 'long-running' New South Wales Government program, SCCG raised concerns that the NSW Government have announced it is 'seeking to have Sydney coastal councils pay for the Beachwatch program'.[453] According to SCCG, the announcement occurred without prior consultation with councils, an unclear rationale for the decision, and the absence of 'legal obligation for councils to undertake water quality monitoring'.[454] SCCG said that the decision

444 Submission 119, Local Government NSW, p 30.

445 Submission 119, Local Government NSW, p 30.

446 Submission 119, Local Government NSW, pp 30-31.

447 Submission 119, Local Government NSW, p 31.

448 Submission 101, June Shire Council, p 2; Submission 123, Clarence Valley Council, p 4; Submission 126, Forbes Shire Council, p 2.

449 Submission 68, Southern Sydney Regional Organisation of Councils, p 8.

450 Submission 68, Southern Sydney Regional Organisation of Councils, p 16.

451 Submission 99, Sydney Coastal Councils Group, pp 4-5.

452 NSW Department of Planning and Environment, *Beachwatch 2022-32: Our vision for the future*, 2022, p 1.

453 Submission 99, Sydney Coastal Councils Group, pp 5-6.

454 Submission 99, Sydney Coastal Councils Group, p 5.

would represent a 'significant financial impost on coastal councils' to the detriment of ratepayers, and that councils were unlikely to receive any grant funding to support them in water quality monitoring as grant programs are focused on capital not operational expenditure.[455]

4.112 Concerns about the cost shift of the Beachwatch program from the New South Wales Government to local government were also raised by Southern Sydney Regional Organisation of Councils, Northern Beaches Council and Sutherland Shire Council.[456]

Stakeholder views on cost shifting

4.113 During the inquiry, several councils informed the committee of the challenges associated with cost shifting.

- Goulburn Mulwaree Council claimed that the challenges posed by cost shifting and its impact on service delivery and financial stability over time 'are immense', particularly for regional and rural councils who are restricted in the ways to increase revenue and are reliant on grants funding. The council stated that continued cost shifting will force councils to review their services and make changes to the detriment of the community they serve to ensure they continue to be financially sustainable.[457]
- Berrigan Shire Council described cost shifting as 'an insidious practice perpetrated by both state and federal governments where they transfer their responsibilities to local councils without providing adequate funding to facilitate those responsibilities for the long term'.[458]
- Warren Shire Council remarked that 'the unrelenting growth of cost shifting to council, coupled with rate pegging, is increasingly eroding any possibility of financially sustainable local government in NSW and risks the capacity of council to deliver tailored, grassroots services to our community and properly deliver and maintain vital local infrastructure'.[459]
- Councillor Jamie Chaffey, Chairman, Country Mayors Association of NSW (CMA) and Mayor of Gunnedah Shire Council, advocated for greater consultation with the industry prior to decisions being made in relation to cost shifting, to provide stakeholders an opportunity to 'talk about the unintended consequences' that may result from these decisions.[460]
- Ms Tracey Squire, Acting Chief Executive Officer of Albury City Council and Mr Troy Green, General Manager of Tweed Shire Council advocated for an end to the process of discounting the use of infrastructure or services by interstate residents which has impacted

455 Submission 99, Sydney Coastal Councils Group, p 5.

456 Submission 48, Sutherland Shire Council, pp 2-3; Submission 58, Northern Beaches Council, p 3; Submission 68, Southern Sydney Regional Organisation of Councils, p 7.

457 Submission 23, Goulburn Mulwaree Council, p 2.

458 Submission 25, Berrigan Shire Council, p 6.

459 Submission 30, Warren Shire Council, p 3.

460 Evidence, Councillor Jamie Chaffey, Chairman, Country Mayors Association of NSW and Mayor, Gunnedah Shire Council, 27 June 2024, p 6.

> the ability of councils along the New South Wales border to obtain state government funding for infrastructure projects including transport projects.[461]

4.114 The OLG responded to criticisms about cost shifting by highlighting that many programs which attract criticism of cost shifting are longstanding and that the New South Wales Government often provides grants to support them:

> Many of the cost shifting examples cited by the local government sector are historical in nature (for example the NSW Waste Levy and pensioner concession framework) and some date back to the establishment of councils. The State Government and Parliament have also at times imposed statutory limits of some council fees and charges, for policy reasons. On the other hand, the State also provides significant grants and support to councils each year.[462]

4.115 However, Mr Craig Swift-McNair, General Manager of Woollahra Municipal Council, remarked that 'the grants situation always comes up as the alternative side to cost shifting when we have that conversation'. The committee heard that where funding is provided to councils through grants, it does not take into account the ongoing costs generated through the use of that funding to construct a new asset or introduce a new service.[463]

4.116 Mr Swift-McNair said that grants, while welcomed, potentially impose 'great maintenance burdens on a council', providing an example scenario:

> Whilst you might need to build that widget for $3 million and you've got a grant to do it, firstly, you may have had to shift other priorities … We may have had to go fifty-fifty with the State to get that funding, which may have shifted other priorities. Then we've built the widget and we now have to maintain it. There are no additional moneys to maintain. Whilst it is fabulously good to have new infrastructure around the place, there is this ongoing burden which does sit on council and which we then have to try to manage in the constraints of the financials that we've currently got.[464]

4.117 Mr Roger Stephan, Chief Executive Officer, Illawarra Shoalhaven Joint Organisation suggested that councils are often tempted to accept grants without consideration of how it may account for any ongoing costs associated with the asset or service the grant pays for.[465] Mr Stephan said that councils should be 'much more scrupulous' in assessing whether to apply for or accept a grant, and should also be required to present a business case not only for spending grant money, but for how it will fund the ongoing activity.[466]

4.118 Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW (OLG), expanded on the OLG's submission in evidence to the committee, stating that the issue of cost shifting 'needs to be looked at from the eye of the beholder':

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461 Evidence, Ms Squire, 15 July 2024, p 21; Evidence, Mr Troy Green, General Manager, Tweed Shire Council, 26 June 2024, pp 27-28.

462 Submission 32, Office of Local Government NSW, p 17.

463 Evidence, Mr Craig Swift-McNair, General Manager, Woollahra Council, 29 May 2024, p 6.

464 Evidence, Mr Swift-McNair, 29 May 2024, p 6.

465 Evidence, Mr Roger Stephan, Chief Executive Officer, Illawarra Shoalhaven Joint Organisation, 23 July 2024, p 14.

466 Evidence, Mr Stephan, 23 July 2024, p 14.

> There are arguments on both sides about cost-shifting and what a reasonable expectation is for delivery of local services versus what a new expectation is that a government may put on another level of government. If we're going to dive into the issue of financial sustainability of councils, we've also got to appreciate that we need a high degree of rigour around how you set a budget based on the expectations of service delivery from the community, the expectations of what a council can afford to spend, and what money they are receiving in terms of their various revenue sources.[467]

4.119 In evidence to the committee, Mr Graham Sansom, Adjunct Professor, noted that the position in the LG Act towards the responsibility for funding of various activities is 'agnostic'.[468] Mr Sansom indicated that he was not satisfied a distinction between state and local government responsibility for funding has been 'made to work' anywhere, and questioned whether it would be 'desirable, in the final analysis, to do it', having regard to 'rapid changes in society and the environment we are operating in' where 'today's definitive distinction could be tomorrow's problem'.[469]

4.120 Mr Sansom suggested three potential tests on cost shifting:

> Is it something that is appropriately done at the local level? Is it reasonable for the local community's ratepayers to meet part or all of the cost? And, if necessary, are State and Federal governments willing to provide supplementary grant support and make sure that, in the case of rate pegging, the council has access to enough revenues to do the things it needs to do?[470]

4.121 Mr Sansom suggested that if these tests were applied, 'we could make progress in the endless debate about cost shifting'.[471]

Financial reporting and accounting standards

4.122 Another key consideration during the inquiry was the impact and value of the financial reporting guidelines and accounting standards that apply to local government in New South Wales. The *Local Government Code of Accounting Practice and Financial Reporting* (the Code) prescribes the forms of financial statements approved by the Office of Local Government and applies to:

- each local council in respect of its general purpose financial statements, special purpose financial statements and special schedules
- joint organisations (JOs) in respect of their general purpose financial statements.[472]

467 Evidence, Mr Whitworth, 17 May 2024, p 53.

468 Evidence, Mr Graham Sansom, Adjunct Professor, 29 May 2024, p 28.

469 Evidence, Mr Sansom, 29 May 2024, p 29.

470 Evidence, Mr Sansom, 29 May 2024, p 29.

471 Evidence, Mr Sansom, 29 May 2024, p 29.

472 Office of Local Government, *Local Government Code of Accounting Practice and Financial Reporting 2023-24* (December 2023), p 3, https://www.olg.nsw.gov.au/wp-content/uploads/2023/12/A868929-Publishing-of-the-Code-of-Accounting-Practice-and-Financial-Reporting-Update-202324-Briefing-Note-Tab-1-Section-1-General-Purpose-Financial-Statements1.pdf

4.123 The Code must be used by councils and joint organisations to prepare their annual financial statements in accordance with the LG Act and the Local Government (General) Regulation 2005.[473] According to the OLG, the Code is intended to facilitate the practical and effective implementation of the Australian Accounting Standards.[474]

4.124 The Audit Office of New South Wales is responsible for conducting financial and performance audits of the local government sector. According to the Audit Office, their financial audits 'provide independent opinions on the financial statements' of local councils and assurance about whether the financial statements comply with accounting standards and relevant laws, regulations and government directions.[475]

Value of current financial reporting guidelines and accounting standards

4.125 The committee heard from several stakeholders about the usefulness of the *Local Government Code of Accounting Practice and Financial Reporting* (the Code).[476] For example, Lake Macquarie City Council stated that the Code and the schedule for its annual release should be reviewed and questioned 'whether the Audit Office of NSW should have a role in the development of the Code'.[477]

4.126 Strathfield Council said that the 'relevance' of the Australian Accounting Standard reporting framework and Code should be reviewed.[478] According to the council, a review would enable the development of a framework that is 'more suitable for the sector' and could make 'financial reporting more understandable to the average ratepayer'.[479] Further, the council said a review could lead to 'greater transparency and accountability' and reduce the 'cost burden of audits that result in financial statements that may not be meaningful' to ratepayers.[480]

4.127 In his evidence, Mr Tony Farrell, Deputy Chief Executive Officer of Lake Macquarie City Council, commented that the NSW Auditor-General has had no input in the Code, and that currently the Code allows councils 'infinite scope' to determine the useful lives of their assets.[481] Mr Farrell said that the Auditor-General 'has found that they don't really like the idea of that

473 Office of Local Government, *22-36 Local Government Code of Accounting Practice and Financial Reporting 2022-23 and related guidance material*, https://www.olg.nsw.gov.au/https-www-olg-nsw-gov-au-category-https-www-olg-nsw-gov-au-category-council-circulars/22-36-local-government-code-of-accounting-practice-and-financial-reporting-2022-23-and-related-guidance-material/

474 Office of Local Government, *Local Government Code of Accounting Practice and Financial Reporting 2023-24* (December 2023), p 3, https://www.olg.nsw.gov.au/wp-content/uploads/2023/12/A868929-Publishing-of-the-Code-of-Accounting-Practice-and-Financial-Reporting-Update-202324-Briefing-Note-Tab-1-Section-1-General-Purpose-Financial-Statements1.pdf

475 Submission 115, Audit Office of NSW, p 1.

476 Office of Local Government, *Local Government Code of Accounting Practice and Financial Reporting – 2023-24*, https://www.olg.nsw.gov.au/councils/council-finances/financial-reporting/local-government-code-of-accounting-practice-and-financialreporting.

477 Submission 44, Lake Macquarie City Council, p 6.

478 Submission 75, Strathfield Council, p 14.

479 Submission 75, Strathfield Council, p 14.

480 Evidence, Mr Bola Oyetunji, NSW Auditor-General, 17 May 2024, p 49.

481 Evidence, Mr Tony Farrell, Deputy Chief Executive Officer, Lake Macquarie City Council, 3 June 2024, p 44.

and are trying to force some consistency', which had been 'highly disruptive' to the council when preparing their accounts and reporting.[482] Mr Farrell added that if the Auditor-General wanted consistency in this area, they should work with the OLG to prepare a standard for councils to follow to 'take the guesswork out of it'.[483]

4.128 In evidence to the committee, Mr Peter Veneris, General Manager, Lockhart Shire Council, suggested that there is questionable importance of some aspects of the Code, which councils are required to be audited against.[484] Mr Veneris commented:

> … I know some of the feedback I get from my staff has probably got to do with the auditing of our financial statements by the Auditor-General and the amount of focus on certain aspects of it, which we sometimes have difficulty understanding why there is so much focus on certain things. To be fair to the Auditor-General, we have had plenty of opportunities to provide feedback. Of course, what they indicate to us is that they don't set the framework that they have to audit against. They have to audit us against the code, for example, of accounting practice. And they, I think, at times, too, aren't sure what the benefit or what the reasons are for some of the things they are auditing.
>
> That's where I think there could be, maybe, some better alignment between OLG and even the Auditor-General in terms of where the Auditor-General is focused to pay a lot of attention on some things that we just see there is little benefit in.[485]

4.129 Further, Mr Veneris reflected on the level of detail and resources required for financial reporting. He suggested there is minimal value in determining 'what a road is worth or what a pipe under the ground is worth', as these are not assets the council would ever sell 'no matter what amount of financial trouble' they get into.[486] When asked whether there is a need to review the current accounting model that is being used, Mr Veneris responded in the affirmative given the time and effort needed for financial audits.[487]

4.130 When asked why councils are required to value non-realisable and non-saleable assets, Mr Bola Oyetunji, NSW Auditor-General stated that this is because the Code asks councils to do so.[488] Mr Bola noted that the Code asks councils to determine 'fair value', however declined to comment on the inclusion of these such valuations in the Code.[489] When asked whether the accounting requirement would impact the ability of councils to fund services, Mr Bola stated that he 'would not link the valuation, which is non-cash, to the ability to fund activities'.[490]

4.131 When questioned about these requirements in the Code, Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW (OLG), said that he will 'look at what is the best

482 Evidence, Mr Farrell, 3 June 2024, p 44.

483 Evidence, Mr Farrell, 3 June 2024, p 44.

484 Evidence, Mr Peter Veneris, General Manager, Lockhart Shire Council, 15 July 2024, p 35.

485 Evidence, Mr Veneris, 15 July 2024, p 35.

486 Evidence, Mr Veneris, 15 July 2024, p 35.

487 Evidence, Mr Veneris, 15 July 2024, p 35.

488 Evidence, Mr Oyetunji, 17 May 2024, p 49.

489 Evidence, Mr Oyetunji, 17 May 2024, p 49.

490 Evidence, Mr Oyetunji, 17 May 2024, p 49.

methodology' and that the reason it was included in the Code was that it 'was the accepted standard when the international accounting standards were introduced'.[491]

4.132 Mr Whitworth said he did not have any concerns about exploring the issue and potentially 'excluding depreciation from that performance ratio perspective'.[492] However, Mr Whitworth said that if the measure is removed from the Code, it will be important to ask:

> how are councils valuing the use of infrastructure today that has a lifetime that's more than 20 years? How are they valuing the use of that? How are they valuing for the eventuality that that infrastructure will need to be replaced and ensuring that there is a reserve? If we start not thinking about depreciation and ensuring that there are reserves put aside to renew infrastructure, then we're going to be even more dependent on grant funding for the renewal of that infrastructure in the future when it needs to be replaced.[493]

Costs of auditing

4.133 Several councils raised concerns that the introduction of auditing of local councils by the NSW Audit Office has resulted in increased costs and use of council resources.[494]

4.134 Narrandera Shire Council said that the appointment of the NSW Audit Office as auditors for councils has caused their audit fees to increase substantially, by 21 per cent this year.[495] Referring to the requirement for various valuations of infrastructure in the Code of Accounting, the council highlighted that the cost of meeting the auditor's requirements in this regard have been 'excessive and ongoing'.[496] While stating that the reporting 'may well be the right thing to do', the council argued that it 'needs to be funded'.[497]

4.135 Cessnock City Council said that the fees they have been quoted for the audit of their 2024 financial statements represents a 159 per cent increase on the auditing fees for the financial year ending 30 June 2017. The council argued the ongoing rise in costs for auditor fees is 'unsustainable', but that councils are required under section 422(3) of the LG Act to pay 'without question'. The council suggested removing the Audit Office from a 'monopoly position' could save councils 'significant amounts of expenditure'.[498]

4.136 Concerns about the cost of audit office fees were also raised by other councils and organisations including Lockhart Shire Council, Burwood Council, Riverina Eastern Regional Organisation of Councils (REROC), Tenterfield Shire Council and Wagga Wagga City Council.[499]

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491 Evidence, Mr Whitworth, 30 July 2024, p 45.

492 Evidence, Mr Whitworth, 30 July 2024, p 45.

493 Evidence, Mr Whitworth, 30 July 2024, p 45.

494 See for example, Submission 17, City of Newcastle Council, p 3.

495 Submission 51, Narrandera Shire Council, p 2.

496 Submission 51, Narrandera Shire Council, p 2.

497 Submission 51, Narrandera Shire Council, p 2.

498 Submission 57, Cessnock City Council, p 2.

499 Submission 66, Lockhart Shire Council, p 3; Submission 74, Burwood Council, p 3; Submission 102, Riverina Eastern Regional Organisation of Councils, p 6; Submission 124, Tenterfield Shire Council,

4.137 When asked about the cost of the Audit Office's services at his initial appearance before the committee, Mr Bola Oyetunji, NSW Auditor-General, responded that 'quality audits cost money and quality leads to accountability,' but that he would be looking to 'investigate and see what could be done' about the costs.[500]

4.138 Mr Oyetunji was then asked about the costs of the Audit Office's services to councils at his subsequent appearance before the committee, and noted that rising inflation had contributed to the increases in auditing costs for councils.[501] In response to these rising costs, Mr Oyetunji said he had committed to councils that fees will not be higher than inflation going forward, if there is no change to the scope or 'specific problems' with their audit.[502] Mr Oyetunji also said he would invite council executives to form part of the tender process so that it is transparent.[503]

4.139 Mr Oyetunji noted that with smaller councils the 'greatest problem' the Audit Office encounters is one of capability as these councils may not have the right internal controls, governance and IT controls. Mr Oyetunji said that 'it becomes difficult to sign off an opinion without doing more work' on audits for these councils, contributing to an increase in their audit costs. Mr Oyetunji also suggested that larger councils may consider assisting smaller councils to reduce the costs of their audits.[504]

4.140 Mr Oyetunji further said that with rural councils, if the Audit Office can 'see that the risks are low', they may employ some 'data analytic solutions that can then continuously reduce the fees in those areas'. Mr Oyetunji committed to continuing to look at the issue and 'find a solution'.[505]

Council in-house financial expertise and resourcing

4.141 As referred to earlier, Mr Oyetunji indicated that some councils may not have the optimal financial capability in-house. Mr Oyetunji observed that he believed there was a resourcing issue among some councils and said that while metropolitan councils undertake this function well, it can be 'difficult to engage an appropriate level of staff and skills set' among rural councils.[506]

4.142 Similarly, Clarence Valley Council in their submission stated that although 'in house and own source resourcing' can increase councils' productivity, non-metropolitan councils face 'significant skills shortages' resulting in 'costly competition to attract skilled labour'.[507]

4.143 In their submission, City of Newcastle Council said that changes to the *Local Government Code of Accounting Practice and Financial Reporting* (discussed in detail at paragraphs 4.122 - 4.132) and

p 5, Evidence, Ms Carolyn Rodney, Chief Financial Officer, Wagga Wagga City Council, 15 July 2024, pp 14.

500 Evidence, Mr Oyetunji, 17 May 2024, p 52.

501 Evidence, Mr Bola Oyetunji, NSW Auditor-General, 30 July 2024, p 19.

502 Evidence, Mr Oyetunji, 30 July 2024, p 19.

503 Evidence, Mr Oyetunji, 30 July 2024, p 19.

504 Evidence, Mr Oyetunji, 30 July 2024, p 19.

505 Evidence, Mr Oyetunji, 30 July 2024, pp 19-20.

506 Evidence, Mr Oyetunji, 17 May 2024, p 49.

507 Submission 123, Clarence Valley Council, p 2.

'harmonisation of accounting standards' had created 'additional work for councils' and a 'resourcing impost'.[508]

4.144 The Leeton Shire Residents and Ratepayers Association said that $5.8 million in deficit in Leeton Shire Council's budget was 'blamed upon staff turnover and resourcing limitations that allowed accounting errors to slip through the gaps'.[509]

Performance measurement ratios

4.145 There are 10 performance benchmarks which apply to councils, as set by the Office of Local Government NSW (OLG):

- Asset Maintenance Ratio
- Building and Infrastructure Renewal Ratio
- Cash Expense Cover Ratio
- Debt Service Cover Ratio
- Debt Service Ratio
- Infrastructure Backlog Ratio
- Operation Performance Ratio
- Outstanding Rates & Annual Charges Ratio
- Own Source Operating Revenue Ratio
- Unrestricted Current Ratio.[510]

4.146 In their submission to the inquiry, Lake Macquarie City Council said that the financial metrics including the 'operating results, cash management ratios' and 'own source' ratios 'do not always accurately reflect the overall financial health of a council or drive sustainable practices'.[511] The council said that 'factors such as depreciation and revaluations that are not captured in standard metrics can have a significant impact on the operating result of councils'.[512] The council recommended that the metrics be reconsidered:

> Consideration should be given to the financial metrics used by the Office of Local Government to set performance objectives and measure councils' financial sustainability. Metrics should more accurately represent the impact of factors such as balancing cash and cash reserves with less impact of asset depreciation and revaluation factors, and matching of income to expenses between financial years.[513]

508 Submission 17, City of Newcastle Council, pp 2-3.

509 Submission 10, Leeton Shire Residents and Ratepayers Association Inc, p 1.

510 Office of Local Government, *Performance Benchmarks*, https://www.yourcouncil.nsw.gov.au/wp-content/uploads/2020/05/Performance-Benchmarks.pdf.

511 Submission 44, Lake Macquarie City Council, p 5.

512 Submission 44, Lake Macquarie City Council, p 5.

513 Submission 44, Lake Macquarie City Council, p 5.

4.147 In evidence to the committee, Mr Mark Arnold, General Manager, Byron Shire Council, asserted that the 'reliance on ratios is not telling the true picture'. Mr Arnold argued that instead 'in some ways the true picture is how we are responding to the demands of the community in improving assets, doing renewals and providing the new facilities and services that the community needs,' which the ratios do not capture.[514] In relation to what the OLG could do differently in assessing councils' financial indicators, Mr Arnold expressed the view that 'there's no black and white answer', however he suggested that there is a need to 'have a broader way of measuring the satisfaction' and looking at what the community has asked council to do and how they have responded to that.[515]

4.148 When asked for his perspective on the performance ratios, Mr Richard Sheridan, Director, City Performance, Bayside Council, questioned the utility of the current ratios, stating:

> One of the big issues with the performance ratio… is you can't have one size fits all. There's no way that a Far West New South Wales council is going to comply with those ratios. That's near impossible. The other part of the ratios… is 50 per cent of them were set up as a banking—encouraging us to borrow more money. They're debt-related ratios and they have no real impact for council. We don't really understand them. We don't know why we report on them. They don't do a lot.[516]

4.149 Mr Sheridan noted that there are 'a couple of good things' around operating performance ratio, own source revenue and rates outstanding, that 'make sense' to include and acknowledged that the OLG was working to 'recapture' and 're-present to councils some performance ratios that may make more sense'.[517]

4.150 Mr Brett Whitworth, Deputy Secretary, Office of Local Government NSW (OLG), advised that the OLG has been 'working on potential updates to the performance ratios and undertaking consultation with the sector'.[518] Describing the role of performance ratios, Mr Whitworth said:

> for me, performance ratios should be a tool that we can use to understand what the liquidity is that that council has. Is there a liquidity risk that the council has? What is that council doing in terms of investing in its infrastructure and renewal of its infrastructure?
>
> How much money is that council making through its own source revenue versus how much it's spending— and moving away from having to factor in grants and so on so that it can survive on its own? I have actually asked that there be a piece of work in which we can renew and revise the performance ratios, so that we can move more to a set of tools that are more about our risk management of councils—and our understanding of how they are operating today, at the end of the year and next year—rather than them being, should we be talking about bigger or smaller councils?[519]

514 Evidence, Mr Mark Arnold, General Manager, Byron Shire Council, 26 June 2024, p 21.

515 Evidence, Mr Arnold, 26 June 2024, p 21.

516 Evidence, Mr Richard Sheridan, Director, City Performance, Bayside Council, 29 May 2024, p 6.

517 Evidence, Mr Sheridan, 29 May 2024, p 6.

518 Evidence, Mr Whitworth, 17 May 2024, p 53.

519 Evidence, Mr Whitworth, 17 May 2024, p 61.

4.151 In his subsequent appearance before the committee, Mr Whitworth proposed that further questions about the performance ratios need to be asked in relation to who they benefit and why they are in place:

> … Are they there as an ideological partnership on what a good council looks like, or are they there for the community and for councillors to say, "This is how we think our council is operating compared to other councils in the area"?[520]

4.152 Mr Whitworth posed the question about whether more could be done to improve benchmarking and 'make them less live or die—less "end of the accounting year" statistics' and more meaningful so they can be used councillors to make decisions about budget and other issues.[521]

Committee comment

4.153 It is clear from the evidence that council expenditure has a significant impact on local government financial sustainability. The committee recognises that operating expenditure has increased over the last decade for all council types, with rural councils experiencing the largest proportionate increase. Inevitably, council expenditure costs will continue to increase as the role and responsibilities of local government continue to change and grow in response to community needs, broader operating environments and cost shifting from other tiers of governments.

4.154 However, the responsibility to provide services that communities need must be balanced with fiscal discipline and must reflect a community's highest priorities. We recognise that the funds councils have to distribute towards public goods and services are limited and must be spent carefully. All tiers of government must inevitably choose between competing priorities and cannot provide for every community need.

4.155 This inquiry therefore provided an opportunity to examine the financial sustainability impact of some key areas of council expenditure, such as service delivery, assets and infrastructure, including the impact of natural disasters and depreciation, and staffing costs. The committee also considered the impact of cost shifting, the value and impact of the current financial reporting requirements on council resources and the performance measurement ratios that apply to councils.

4.156 As the level of government primarily responsible for local service delivery in communities, the committee recognises that this is an area of significant expenditure for councils. Local council services are wide ranging and can differ between council types and individual councils. We accept that councils need to budget carefully in response to changing community expectations and operating environments and require adequate funding to meet the service needs of their communities.

4.157 The committee notes the specific funding challenges faced by councils in delivering suitable pound and companion animal services, as a result of the rate cap, cost shifting and other factors affecting their financial sustainability. The committee notes that Portfolio Committee No. 8 – Customer Service recently published its report into Pounds in New South Wales which recommended that the NSW Government provide increased funding for council pounds, and

[520] Evidence, Mr Whitworth, 30 July 2024, p 40.

[521] Evidence, Mr Whitworth, 30 July 2024, p 40.

call upon local government authorities to provide increased funding for council pounds. The committee recognises the critical importance of pound and companion animal services, both to the community and in achieving good animal welfare outcomes and urges the NSW Government take steps to address these funding issues.

Recommendation 8

That, as part of the process of redesigning the local government rating system as outlined in Recommendation 2, the NSW Government have regard to the findings and recommendations of Portfolio Committee No. 8 – Customer Service's Pounds in New South Wales report and ensure councils are able to properly fund pounds and companion animal services.

4.158 It is clear from the evidence that councils are increasingly opting to provide additional services to local communities and are often seen as the service provider of 'last resort'. The costs associated with providing these services have a significant financial impact for local councils as many of these additional services require additional funding, which can be challenging to secure. The evidence indicated that the increase in costs borne by local government in relation to service delivery is a product of both the increase in the cost of providing services, and the change in service levels expected by the community.

4.159 Assets and infrastructure are another key area of expenditure for local councils. We heard that assets and infrastructure are a key part of the overall provision of services to local communities, and each council's approach to the management of assets will vary slightly, as will the portfolio of assets that they manage.

4.160 During the inquiry, stakeholders highlighted the significant challenges local councils face in maintaining and improving community assets and infrastructure, and how limited funding has led to a backlog in maintenance works, which is impacting roads, bridges and public facilities. Many stakeholders commented on the impact of delaying or postponing required maintenance and upgrades, suggesting that this leads to deteriorating infrastructure quality and increased costs over time. In particular, the committee notes that road expenditure is a specific area of concern for some local councils, with regional and rural councils managing a significant proportion of the roads network in New South Wales, which requires a substantial investment of council funding, time and resources.

4.161 Another challenge experienced by local councils is infrastructure delivery and staffing. The evidence suggests that delivering and managing infrastructure projects without properly qualified and skilled staff, such as engineers, can lead to inefficiencies and cost increases, particularly in regional and rural areas. The committee acknowledges that there are some measures available to better support councils with infrastructure delivery, including resource sharing within the sector and better use of technology or industry best practices to improve efficiencies.

4.162 It is clear from the evidence that the long-term financial sustainability of councils will be significantly impacted without an uplift in funding to support the growing role of local government in service delivery and the significant expenditure needed to fund and maintain new and existing assets and infrastructure. The recommendations we have made in relation to income and revenue in chapters 2 and 3 should go some way in addressing the cost pressures local councils face in delivering community services and assets and infrastructure.

4.163 In relation to assets and infrastructure, the committee heard that natural disasters also have a considerable impact on council expenditure and financial sustainability. Local councils play a critical role in the community in disaster response and mitigation and the need of this work is increasing due to climate change.

4.164 Whilst we recognise that natural disaster assistance funding is available from other tiers of government, it is clear that councils are still needing to divert funds and resources towards natural disaster recovery efforts, given the significant impact these events have on local communities, assets and infrastructure. The committee acknowledges that this diversion of funding and resources is resulting in a cashflow and expenditure impact for local government, with some councils advising that they have had to delay or postpone other services or infrastructure works in order to prioritise natural disaster works.

4.165 In addition, some participants highlighted the lack of clarity around natural disaster assistance funding and the time lag between a disaster and funding distribution. Councils are expected to start repairs and clean-ups immediately after an event and in many cases will need to initially cover the cost of this work until additional funding is secured. However, the committee notes that some stakeholders praised the recent tripartite funding arrangements as having improved this process by allowing faster access to funds. Therefore, the committee recommends that the NSW Government continue to improve the timeliness of disaster recovery assistance funding to local councils by utilising funding agreements such as tripartite arrangements which have provided councils with faster access to the funds they require to cover the cost of natural disaster recovery efforts. The committee also recommends that the NSW Government centralise disaster recovery funding within the NSW Reconstruction Authority to assist in improving expenditure on mitigation and preparedness and create dedicated and ongoing funding streams for communities, councils and community organisations to support their work on mitigation and preparedness.

Recommendation 9

That the NSW Government continue to improve the timeliness of disaster recovery assistance funding to local councils by utilising funding agreements such as tripartite arrangements which have provided councils with faster access to the funds they require to cover the cost of natural disaster recovery efforts.

Recommendation 10

That the NSW Government centralise disaster recovery funding within the NSW Reconstruction Authority to assist in improving expenditure on mitigation and preparedness and create dedicated and ongoing funding streams for communities, councils and community organisations to support their work on mitigation and preparedness.

4.166 The committee also heard evidence that there is a need for betterment funding, particularly in natural disaster mitigation and recovery. Some stakeholders suggested that current funding levels only cover the cost of fixing assets, however there is an increased local need and expectation to improve infrastructure resilience against future natural disaster events. The committee agrees with stakeholders that disaster recovery assistance funding programs need to consider betterment and resilience funding for assets and infrastructure to better withstand natural disaster events. Therefore, the committee recommends that the NSW Government

continue to advocate to the Commonwealth Government to incorporate betterment funding into disaster recovery funding arrangements.

Recommendation 11

That the NSW Government continue to advocate to the Commonwealth Government to incorporate betterment funding into disaster recovery funding arrangements.

4.167 In addition, the committee heard that the growth in depreciation is an area of major concern for local government, resulting in significant financial pressure. Many stakeholders suggested that funding for new assets and infrastructure does not take into consideration the long-term ongoing operational costs associated with the maintenance and depreciation of new assets.

4.168 For example, several stakeholders highlighted depreciation costs regarding Rural Fire Service (RFS) assets as an area of significant concern. According to stakeholders, local councils have no control over these assets and are essentially given an asset value figure by the NSW Government to include in their financial records. The committee notes the significant impacts on councils of being required to account for depreciation costs in relation to Rural Fire Service (RFS) assets, known as the 'Red Fleet'. Given significant change in emergency services funding and management over recent decades, this is no longer a practicable way for these assets to be accounted for. Noting the current inquiry underway by the Public Accounts Committee examining this issue in more detail, this committee recommends that this issue be addressed by amendment to the *Rural Fires Act 1997*. Therefore, the committee recommends that the NSW Government seek amendment to the *Rural Fires Act 1997* such that Rural Fire Service assets are vested in the Rural Fire Service, with consequential amendment to the duties of councils as public authorities to prevent the occurrence of bushfires on, and to minimise the danger of the spread of a bush fire on or from land under its control or management.

Recommendation 12

That the NSW Government seek amendment to the *Rural Fires Act 1997* such that Rural Fire Service assets are vested in the Rural Fire Service, with consequential amendment to the duties of councils as public authorities to prevent the occurrence of bushfires on, and to minimise the danger of the spread of a bush fire on or from land under its control or management.

4.169 The committee notes that several participants suggested there is a need to review how depreciation is managed and reported on by local government, including the methodology that applies to depreciation rates. Some stakeholders also suggested that all depreciation expenses be removed from the calculation of the Operating Performance Ratio for local councils, which measures a council's achievement in containing operating expenditure within operating income. Therefore, the committee recommends that the NSW Government review the depreciation methodology that applies to depreciation rates. The committee also recommends that the NSW Government consider excluding depreciation expenses from the calculation of the Operating Performance Ratio.

Recommendation 13

That the NSW Government review the depreciation methodology that applies to depreciation rates.

Recommendation 14

That the NSW Government consider excluding depreciation expenses from the calculation of the Operating Performance Ratio.

4.170 It is evident to the committee that cost shifting is having a significant impact on local government financial sustainability. As a result of cost shifting local councils assume responsibility and costs for services, assets and infrastructure, and other regulatory functions in the community, without the provision of sufficient funding to support these additional responsibilities.

4.171 Several stakeholders noted the significant financial impact of the Emergency Services Levy, noting that it has increased in recent years, with some councils having to reduce infrastructure projects to cover the cost. The Waste Levy was also noted as a key example of cost shifting, with participants advocating for more investment of waste levy funds towards waste management initiatives, such as improving resource recovery, recycling and waste infrastructure. We note that both of these levies are under review by the NSW Government. The committee also received evidence regarding the shortfall in funding for libraries and heard how the NSW Beachwatch program is a more recent example of cost shifting affecting some coastal councils.

4.172 The committee is concerned that as a consequence of cost shifting pressures, councils are having to review and adjust their expenditure and services, to ensure they continue to be financially sustainable while undertaking the new responsibilities. Therefore, the committee recommends that the NSW Government identify opportunities to reduce cost shifting on local government and undertake greater consultation with local government prior to making decisions that may result in cost shifting. The committee also recommends that the NSW Government review the practice of discounting infrastructure and other funding applications by border councils due to use by interstate residents and use its waste levy review to examine how the Waste Levy can better support infrastructure and services that support the transition to a circular economy.

Recommendation 15

That the NSW Government:

- identify opportunities to reduce cost shifting to local government
- undertake greater consultation with local government prior to making decisions that may result in cost shifting
- review the practice of discounting infrastructure and other funding applications by border councils due to use by interstate residents
- use its waste levy review to examine how the Waste Levy can better support infrastructure and services that support the transition to a circular economy.

4.173 The committee also received evidence on the value of the financial reporting guidelines and accounting standards for local government. In particular, we considered the usefulness of the *Local Government Code of Accounting Practice and Financial Reporting* (the Code). Several stakeholders suggested that the current financial reporting guidelines and Code should be reviewed to enable the development of a framework that is more suitable for local government to reduce the cost burden of financial reporting and audits for local councils.

4.174 During the inquiry, some local councils also raised concerns about the increased costs and use of council resources associated with auditing conducted by the NSW Audit Office. Some councils argued that the ongoing rise in costs for auditor's fees is unsustainable. Therefore, the committee recommends that the NSW Government review the financial reporting guidelines and accounting model for local government.

Recommendation 16

That the NSW Government review the financial reporting guidelines and accounting model for local government.

4.175 Finally, we considered the performance measurement ratios for local councils, set by the Office of Local Government. Some stakeholders suggested that the performance ratios do not always accurately reflect the overall financial status of councils or drive sustainability practices. The committee notes that the Office of Local Government has indicated that they are working on potential updates to the performance ratios and undertaking consultation with the sector. Therefore, the committee recommends that the NSW Government review the performance measurement ratios for local councils.

Recommendation 17

That the NSW Government review the performance measurement ratios for local councils.

Appendix 1 Submissions

No.	Author
1	Ms Lyn Magree
1a	Ms Lyn Magree
2	Mr Kevin Brooks
3	Mr Willem van Wyk
5	Name suppressed
6	Cobar Shire Council
7	Central Darling Shire Council
8	City of Coffs Harbour
9	Mr Mark Hanna
10	Leeton Shire Residents and Ratepayers Association Inc.
11	Eurobodalla Shire Council
12	Andrew Street
13	Name suppressed
14	Always Thinking Advisory
15	Professor Cathy Sherry
16	Narromine Shire Council
17	City of Newcastle
18	Byron Shire Council
19	Valuer General NSW
20	NSW Revenue Professionals
21	Blacktown City Council
22	United Services Union
23	Goulburn Mulwaree Council
24	Upper Hunter Shire Council
25	Berrigan Shire Council
26	Ballina Shire Council
27	Murrumbidgee Council
28	City of Ryde Council
29	Institute of Public Works Engineering Australasia (NSW)
30	Warren Shire Council
31	Uralla Shire Council
32	Office of Local Government NSW

No.	Author
33	Mid North Coast Joint Organisation
34	Queanbeyan-Palerang Regional Council
35	Mr Digby Rayward
36	Port Macquarie-Hastings Council
37	Cootamundra-Gundagai Regional Council
38	Name suppressed
39	Yass Valley Council
40	Nambucca Valley Council
41	MidCoast Council
42	Hay Shire Council
43	Central NSW Joint Organisation
44	Lake Macquarie City Council
45	Mr Justin Clancy
46	Name suppressed
47	Ms Nina Dillon
48	Sutherland Shire Council
50	Ms Kylie Newton
51	Narrandera Shire Council
52	Riverina and Murray Joint Organisation
53	Camden Council
54	Mr Roger Anderson
55	Tamworth Regional Council
56	Gunnedah Shire Council
57	Cessnock City Council
58	Northern Beaches Council
59	Local Government Professionals Australia, NSW
60	Albury City Council
61	Hawkesbury City Council
62	Leeton Shire Council
63	The Hills Shire Council
64	Penrith City Council
65	Tweed Shire Council
66	Lockhart Shire Council
67	Campbelltown City Council
68	Southern Sydney Regional Organisation of Councils

No.	Author
69	Federation Council
70	Bellingen Shire Council
71	Shellharbour City Council
72	Goulburn Chamber of Commerce
73	Dungog Shire Council
74	Burwood Council
75	Strathfield Council
76	Wingecarribee Shire Council
77	Bega Valley Shire Council
78	Bathurst Regional Council
79	Hornsby Shire Council
80	Griffith City Council
81	Mid-Western Regional Council
82	Kiama Municipal Council
83	Country Mayors of NSW
84	Dubbo Regional Council
85	Common Thread Consulting
86	Ku-ring-gai Council
87	Central Coast Council
88	Independent Pricing and Regulatory Tribunal NSW (IPART)
89	NSW Farmers Association
90	Canberra Region Joint Organisation
91	Redpath Cathcart
92	Name suppressed
93	Name suppressed
94	Name suppressed
95	New England Greens Armidale Tamworth
97	Narrabri Shire Council
98	Name suppressed
99	Sydney Coastal Councils Group
100	Stormwater NSW
101	Junee Shire Council
102	Riverina Eastern Regional Organisation of Councils
103	Snowy Valleys Council
104	Graham Sansom

No.	Author
105	Kempsey Shire Council
106	Wollongong City Council
107	Shoalhaven City Council
108	Bourke Shire Council
109	Dr John Davies
110	Lismore City Council
111	Northern Sydney Regional Organisation of Councils
112	Greens Councillors NSW
113	Business NSW
114	Professionals Australia, Local Government Engineers' Association (LGEA)
115	Audit Office of New South Wales
116	City of Parramatta Council
117	David Reynolds
117a	David Reynolds
118	Mr Stephen Bali MP
119	Local Government NSW (LGNSW)
120	Inverell Shire Council
121	Regional Cities New South Wales (RCNSW)
122	Kyogle Council
123	Clarence Valley Council
124	Tenterfield Shire Council
125	Richmond Valley Council
126	Forbes Shire Council
127	Coonamble Shire Council
129	Mr Richard Sheridan

Appendix 2 Witnesses at hearings

Date	Name	Position and Organisation
Friday 17 May 2024 **Jubilee Room** **Parliament House, Sydney**	Ms Carmel Donnelly PSM	Chair, Independent Pricing and Regulatory Tribunal (IPART)
	Mr Ben Strate	Acting Chief Executive Officer, Independent Pricing and Regulatory Tribunal
	Ms Fiona Towers	Executive Director, Pricing and Policy, Independent Pricing and Regulatory Tribunal NSW (IPART)
	Ms Sally Dale	Valuer General of NSW, Valuer General NSW
	Mr Stewart Mclachlan	Chief Executive Officer, Valuer General NSW
	Mr Will Barton	Vice President, Institute of Public Works Engineering Australia (NSW & ACT)
	Mr Josh Devitt	Chief Engineering, Institute of Public Works Engineering Australasia (NSW & ACT)
	Mr Erin Sellers	Principal Project Officer, Sydney Coastal Councils Group
	Mr Gordon Michael Brock	Director, Professionals Australia, Local Government Engineers Association (LGEA)
	Ms Alycia Vasilangos	Principal Industrial Officer, Professionals Australia, Local Government Engineers Association (LGEA)
	Mr Graeme Kelly	General Secretary, United Services Union
	Mr Stephen Hughes	Northern Manager, United Services Union

Date	Name	Position and Organisation
	Mr Daniel Papps	Industrial Manager, United Services Union
	Professor Brian Dollery	University of New England
	Mr Bola Oyetunji	Auditor General, Audit Office
	Ms Claudia Migotto	Acting Deputy Auditor General, Audit Office
	Mr Aaron Green	Assistant Auditor General, Audit Office
	Mr Brett Whitworth	Deputy Secretary, Office of Local Government
	Mr Douglas Walther	Executive Director, Office of Local Government
	Mr Keith Baxter	Director, Emergency Recovery and Strategy, Office of Local Government
	Mr Francis D'Lima	Manager, Performance, Office of Local Government
Wednesday 29 May 2024 **Macquarie Room** **Parliament House, Sydney**	Mr David Tuxford	General Manager, Georges River Council and President, Local Government Professionals Australia, NSW
	Mr Craig Swift-McNair	General Manager, Woollahra Council and Vice President, Local Government Professionals Australia
	Mr Richard Sheridan	Director City Performance, Bayside Council
	Mr Andrew Butcher	Senior Revenue Accountant, Campbelltown City Council and President of the NSW Revenue Professionals
	Mr Ian Clayton	Manager Property and Revenue, Mid-Western Regional Council and Vice President of the NSW Revenue Professionals

Date	Name	Position and Organisation
	Mr Sacha Thirimanne	Acting Chief Financial Officer, City of Ryde Council
	Mr Graham Sansom	Adjunct Professor
	Mr Andrew Carfield	General Manager, Camden Council
	Mr Milan Marecic	Director, Growth and Finance, Camden Council
Monday 3 June 2024 **Macquarie Room** **Parliament House, Sydney**	Mr Peter Tegart	Partner, Always Thinking Advisory
	Cr Bradly Bunting	Mayor, Blacktown City
	Mr Kerry Robinson OAM	Chief Executive Officer, Blacktown City Council
	Ms Gail Connolly PSM *(via videoconference)*	Chief Executive Officer, City of Parramatta
	Mr John Angilley *(via videoconference)*	Executive Director – Finance & Information, City of Parramatta
	Mr Amit Sharma *(via videoconference)*	Chief Financial Officer, City of Parramatta
	Mr David Walsh	Chief Financial Officer, Northern Beaches Council
	Ms Caroline Foley	Executive Manager Financial Planning & Systems, Northern Beaches Council
	Mr Jeremy Bath	Chief Executive Officer, City of Newcastle Council
	Lord Mayor Nuatali Nelmes	Lord Mayor, City of Newcastle
	Mr Tony Farrell	Deputy Chief Executive Officer, City of Lake Macquarie Council
	Mr Bjorn Lategan	Chief Financial Officer, City of Lake Macquarie Council
	Mr Bob Hawes	Chief Executive Officer, Business Hunter

Date	Name	Position and Organisation
	Mr Mustafa Agha	Executive Manager, Policy, Business NSW
	Cr Darriea Turley AM	President, Local Government NSW
	Mr David Reynolds	Chief Executive, Local Government NSW
	Mr Shaun McBride	Chief Economist, Local Government NSW
Wednesday 26 June 2024 **Lismore Council Chambers** **Goonellabah**	Mr John Hartley	Acting Chief Financial Officer, Lismore City Council
	Cr Steve Krieg	Mayor, Lismore City Council
	Mr Paul Hickey	General Manager, Ballina Shire Council
	Cr Sharon Cadwallader	Mayor, Ballina Shire Council
	Mr Vaughan Macdonald	General Manager, Richmond Valley Council
	Cr Robert Mustow	Mayor, Richmond Valley Council
	Mr Mark Arnold	General Manager, Byron Shire Council
	Ms Esmeralda Davis	Director Corporate & Community Services, Byron Shire Council
	Cr Michael Lyon	Mayor, Byron Shire Council
	Mr Troy Green PSM	General Manager, Tweed Shire Council
	Mr Michael Chortlon	Responsible Accounting Officer and Manager Finance, Tweed Shire Council
	Ms Laura Black *(via videoconference)*	General Manager, Clarence Valley Council
	Cr Peter Johnstone *(via videoconference)*	Mayor, Clarence Valley Council

Date	Name	Position and Organisation
	Mr Heindrik Basson *(via videoconference)*	General Manager, Tenterfield Shire Council
	Cr Bronwyn Petrie *(via videoconference)*	Mayor, Tenterfield Shire Council
Thursday 27 June 2024 **Passchendaele Room** **Tamworth War Memorial Town Hall, Tamworth**	Cr Jamie Chaffey	Chairman, Country Mayors Association and Mayor of Gunnedah Shire Council
	Cr Russell Webb	Executive Member, Country Mayors Association and Mayor of Tamworth Regional Council
	Mr Paul Bennett	General Manager, Tamworth Regional Council
	Mr Rami Abu-Shaqra	Chief Financial Officer, Tamworth Regional Council
	Mr Adrian Panuccio *(via videoconference)*	General Manager, MidCoast Council
	Mr Phil Brennan *(via videoconference)*	Acting Director Corporate Services, MidCoast Council
	Cr Claire Pontin *(via videoconference)*	Mayor, MidCoast Council
	Mrs Toni Averay	General Manager, Uralla Shire Council
	Mr Mick Raby	Director, Infrastructure and Development, Uralla Shire Council
	Cr Robert Bell	Mayor, Uralla Shire Council
	Ms Kelly Stidworthy	Director, Corporate Services, Gunnedah Shire Council
	Mr Greg McDonald	General Manager, Upper Hunter Shire Council

Date	Name	Position and Organisation
	Mr Wayne Phelps	Finance Manager, Upper Hunter Shire Council
	Mrs Natalia Cowley *(via videoconference)*	General Manager, Coffs Harbour City Council
	Ms Amy Mott *(via videoconference)*	Chief Financial Officer, Coffs Harbour City Council
Friday 28 June 2024 Dubbo Council Chambers Dubbo	Ms Jennifer Bennett *(via videoconference)*	Executive Officer, Central NSW Joint Organisation
	Cr Mark Kellan *(via videoconference)*	Mayor of Oberon Council and Deputy Chair, Central NSW Joint Organisation
	Cr Matthew Dickerson	Mayor, Dubbo Regional Council
	Mr David Sherley	General Manager, Bathurst Regional Council
	Mr Aaron Jones	Director of Corporate Services & Finance, Bathurst Regional Council
	Mr Ian Clayton	Manager Property & Revenue, Mid-Western Council
	Mr Gary Woodman	General Manager, Warren Shire Council
	Ms Melanie Slimming	Director of Infrastructure and Engineering, Narromine Shire Council
	Ms Leonie Brown *(via videoconference)*	General Manager, Bourke Shire Council
	Cr Barry Hollman *(via videoconference)*	Mayor, Bourke Shire Council
	Mr Paul Gallagher	General Manager, Coonamble Shire Council
	Mrs Kerrie Murphy	Director Infrastructure, Coonamble Shire Council

Date	Name	Position and Organisation
	Mr Ian Greenham	Director of Technical Services, Orange City Council
	Mr Stefan Murru	Director Corporate Services, Forbes Shire Council
	Mr Danial Speer	Manager Work, Forbes Shire Council
Friday 5 July 2024 **Jubilee Room** **Parliament House, Sydney**	Mr Gary Parsons *(via videoconference)*	Acting Chief Executive Officer, North Sydney Council
	Mr Michael Edgar	General Manager, The Hills Shire Council
	Mrs Chandi Saba	Group Manager, Finance & Corporate Strategy, The Hills Shire Council
	Dr Clare Allen (*via videoconference*)	Chief Executive Officer, Port Macquarie Hastings Council
	Mr Keith Hentschke *(via videoconference)*	Director Business and Performance, Port Macquarie Hastings Council
Monday 15 July 2024 **Robert Brown Room** **Albury City Council Administration Building, Albury**	Mrs Julie Briggs	Chief Executive Officer, Riverina Eastern Regional Organisation of Councils (REROC)
	Mr Peter Veneris	Member of the REROC Executive and General Manager, Lockhart Shire Council
	Mr Peter Thompson	General Manager, Wagga Wagga City Council
	Cr Dallas Tout	Mayor, Wagga Wagga City Council
	Ms Carolyn Rodney	Chief Financial Officer, Wagga Wagga City Council

Date	Name	Position and Organisation
	Mr Brett Stonestreet *(via videoconference)*	General Manager, Griffith City Council
	Cr Doug Curran (*via videoconference*)	Mayor, Griffith City Council
	Ms Tracey Squire	Acting Chief Executive Officer, Albury City Council
	Cr Kylie King	Mayor, Albury City Council
	Mr Peter Veneris	General Manager, Lockhart Shire
	Cr Greg Verdon	Mayor, Lockhart Shire
	Mr Adrian Butler	General Manager, Federation Council
	Cr Patrick Bourke	Mayor, Federation Council
	Mr Steven Pinnuck (*via videoconference*)	Interim General Manager, Snowy Valleys Council
	Cr Trina Thomson (*via videoconference*)	Deputy Mayor, Snowy Valleys Council
	Ms Evelyn Arnold	General Manager, Greater Hume Shire Council
	Cr Annette Schlig	Deputy Mayor, Greater Hume Shire Council
Tuesday 23 July 2024 **Studio Room** **Shoalhaven Entertainment Centre, Nowra**	Ms Sharon Houlihan *(via videoconference)*	Executive Officer, Canberra Region Joint Organisation
	Cr Russell Fitzpatrick *(via videoconference)*	Chair of the Canberra Region Joint Organisation
	Mr Roger Mark Stephan	Chief Executive Officer, Illawarra Shoalhaven Joint Organisation
	Cr Amanda Findley	Mayor, Shoalhaven City Council

Date	Name	Position and Organisation
	Ms Robyn Stevens	Chief Executive Officer, Shoalhaven City Council
	Ms Katie Buckman	Chief Financial Officer, Shoalhaven City Council
	Mr James Ruprai	Director of City Development, Shoalhaven City Council
	Ms Jane Stroud	Chief Executive Officer, Kiama Municipal Council
	Mr Joe Gaudiosi	Chief Operating Officer, Kiama Municipal Council
	Mr Anthony McMahon *(via videoconference)*	Chief Executive Officer, Bega Shire Valley Council
	Cr Russell Fitzpatrick *(via videoconference)*	Mayor, Bega Shire Valley Council
	Ms Kate Monaghan	Director Corporate Services, Queanbeyan-Palerang Regional Council
Tuesday 30 July 2024 **Preston Stanley Room** **Parliament House, Sydney**	Mr Greg Doyle *(via videoconference)*	General Manager, Wollongong City Council
	Mr Brian Jenkins *(via videoconference)*	Chief Financial Officer, Wollongong City Council
	Ms Yvonne Lingua	Executive Officer, Riverina and Murray Joint Organisation (RAMJO)
	Mr George Cowan	Chair, Riverina and Murray Joint Organisation (RAMJO) Energy Security-Sub committee and General Manager, Narrandera Shire Council
	Mr Bola Oyetunji	Auditor General, Audit Office of New South Wales
	Ms Claudia Migotto	Acting Deputy Auditor General, Audit Office of New South Wales

Date	Name	Position and Organisation
	Ms Alison Brown	Assistant Auditor General, Audit Office of New South Wales
	Ms Carmel Donnelly PSM	Chair, Independent Pricing and Regulatory Tribunal NSW (IPART)
	Mr Andrew Nicholls PSM	Chief Executive Officer, Independent Pricing and Regulatory Tribunal NSW (IPART)
	Ms Fiona Towers	Executive Director, Pricing and Policy, Independent Pricing and regulator Tribunal NSW (IPART)
	Mr John Lowe	Chair, NSW Farmers Business, Economics and Trade Committee
	Ms Kathy Rankin	Head of Policy and Advocacy, NSW Farmers Association
	Mr Brett Whitworth	Deputy Secretary, Office of Local Government
	Mr Douglas Walther	Executive Director, Office of Local Government

Appendix 3 Minutes

Minutes no. 12
Thursday 14 March 2024
Standing Committee on State Development
Room 814, Parliament House, Sydney, 12.48 pm

1. Members present
Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair*
Mr Buttigieg
Ms Faehrmann
Mr Lawrence
Mr Martin
Mr Primrose

2. Apologies
Ms Hurst

3. Previous minutes
Resolved, on the motion of Mr Lawrence: That draft minutes no. 11 be confirmed.

4. Correspondence
The committee noted the following items of correspondence:

Received:

- 29 August 2023 – Letter from Lex Bewley, Secretary, Secretariat, GTG+ Elders Committee to Chair, providing a letter and offer of assistance regarding the inquiry into the feasibility of undergrounding the transmission infrastructure for renewable energy projects (*previously circulated*)
- 29 August 2023 – Email from Emma Ashton, Government and Stakeholder Relations Manager, Transgrid, to the secretariat, providing a copy of Transgrid's Transmission Annual Planning Report 2023 (*previously circulated*)
- 31 August 2023 – Email from Lee McCourt, responding to the tabling of the feasibility of undergrounding the transmission infrastructure for renewable energy projects report *(attached)*
- 2 October 2023 – Email from Prof Simon Barlett AM, responding to the tabling of the feasibility of undergrounding the transmission infrastructure for renewable energy projects report *(attached)*
- 8 March 2024 – Letter from the Hon Ron Hoenig MP, Minister for Local Government to Chair, requesting the committee consider new terms of reference for an inquiry into the ability of local governments to fund infrastructure and services *(previously circulated and attached)*.

5. Consideration of ministerial terms of reference
The Chair tabled the following terms of reference received from the Hon Ron Hoenig MP, Minister for Local Government on 8 March 2023:

That the Standing Committee on State Development inquire into and report on the ability of local governments to fund infrastructure and services, and in particular:

a. the level of income councils require to adequately meet the needs of their communities
b. examine if past rate pegs have matched increases in costs borne by local governments
c. current levels of service delivery and financial sustainability in local government, including the impact of cost shifting on service delivery and financial sustainability, and whether this has changed over time
d. assess the social and economic impacts of the rate peg in New South Wales for ratepayers, councils, and council staff over the last 20 years and compare with other jurisdictions

e. compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff
f. review the operation of the special rate variation process and its effectiveness in providing the level of income Councils require to adequately meet the needs of their communities
g. any other related matters.

Resolved, on the motion of Mr Lawrence: That the committee adopt the terms of reference.

6. Conduct of the inquiry into the ability of local governments to fund infrastructure and services

6.1 Proposed timeline

Resolved, on the motion of Mr Farraway: That the committee adopt the following timeline for the administration of the inquiry:

- the closing date for submissions be Friday 26 April 2024
- the committee conduct hearings, including at least two Sydney hearings and two regional hearings, in May, June and July 2024
- the committee table its report in August 2024.

6.2 Stakeholder list

Resolved on the motion of Ms Faehrmann: That:

- the secretariat circulate to members the Chair's proposed list of stakeholders to be invited to make a submission
- members have two days from when the Chair's proposed list is circulated to make amendments or nominate additional stakeholders
- the committee agree to the stakeholder list by email, unless a meeting of the committee is required to resolve any disagreement.

6.3 Approach to submissions

Resolved on the motion of Mr Farraway: That to enable significant efficiencies for members and the secretariat while maintaining the integrity of how submissions are treated, in the event that 50 or more individual submissions are received, the committee may adopt the following approach to processing short submissions:

- All submissions from individuals 250 words or less in length will:
  - have an individual submission number, and be published with the author's name or as name suppressed, or kept confidential, according to the author's request
  - be reviewed by the secretariat for adverse mention and sensitive/identifying information, in accordance with practice
  - be channelled into one single document to be published on the inquiry website
- All other submissions will be processed and published as normal.

7. Other business

7.1 Local Government NSW and the Country Mayors' Association

Resolved on the motion of Mr Primrose: That:

- the secretariat liaise with Local Government NSW (LGNSW) and the Country Mayors' Association about the involvement of local governments in hearings, including potential witnesses, for the local government inquiry.
- the committee be provided with proposals for consideration and agreement following the discussions with LGNSW and the Country Mayors' Association.

8. Adjournment

The committee adjourned 12.57 pm, *sine die*.

Kate Mihaljek
Committee Clerk

Minutes no. 13
Tuesday 9 April 2024
Standing Committee on State Development
Room 814, Parliament House, Sydney, 2.28 pm

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair* (via videoconference)
Mr Buttigieg (until 3.10 pm)
Dr Cohn (substituting for Ms Faehrmann for the duration of the inquiry into the ability of local governments to fund infrastructure and services) (from 3.00 pm)
Ms Hurst (from 3.28 pm)
Mr Lawrence (via videoconference)
Mr Martin
Mr Primrose (via videoconference, until 3.00 pm)

2. Previous minutes

Resolved, on the motion of Mr Martin: That draft minutes no. 12 be confirmed.

3. Correspondence

The committee noted the following items of correspondence:

Received:

- 15 March 2024 – Email from Dr Amanda Cohn to secretariat advising that Dr Cohn will be substituting for Ms Cate Faehrmann for the inquiry into the ability of local governments to fund infrastructure and services
- 21 March 2024 – Correspondence from Mr Andrew Nicholls, Chief Executive Officer, Independent Pricing and Regulatory Tribunal NSW (IPART), to the committee offering to provide an informal background briefing on IPART's role and recent reviews and indications of witness availability should IPART be invited to give evidence
- 22 March 2024 - Correspondence from Zhanna Coleman, A/Executive Assistant, Local Government NSW (LGNSW), to the committee attaching a letter from Cr Darriea Turley AM, President LGNSW, seeking a two-month extension for submissions
- 3 April 2024 – Email from Chantal Smith to the committee regarding the rapid development in Illawarra and the South Coast.

Sent:

- 27 March 2024 – Email from the secretariat to Zhanna Coleman, A/Executive Assistant, Local Government NSW (LGNSW), advising LGNSW that the Chair is willing to accept late submissions for a period of up to two months (up to 28 June 2024), noting hearings are expected to be in May and June and anyone appearing as a witness would need to send their submission through prior to the hearing date.
- 3 April 2024 – Email from the secretariat to Mr Andrew Nicholls, Chief Executive Officer, Independent Pricing and Regulatory Tribunal NSW (IPART), confirming the committee has agreed to an informal briefing session by IPART for 9 April 2024.

4. Inquiry into the ability of local governments to fund infrastructure and services

4.1 Recording the Independent Pricing and Regulatory Tribunal NSW (IPART) informal briefing session

Resolved, on the motion of Mr Martin: That the committee agree to record the IPART briefing session via Webex and make this recording available to members only after the session.

4.2 IPART informal briefing session

The committee received a briefing from the IPART on its role and recent reviews. IPART representatives in attendance were:

- Ms Carmel Donnelly PSM, Chair
- Mr Andrew Nicholls PSM, Chief Executive Officer
- Ms Fiona Towers, Executive Director, Policy and Pricing.

5. Parliamentary Research Service briefing paper

Resolved, on the motion of Dr Cohn: That the secretariat request the Parliamentary Research Service prepare a briefing paper for the committee that examines the share of responsibility for service delivery compared to the share of revenue for each level of government.

6. Adjournment

The committee adjourned at 3.43 pm until Friday 17 May 2024 (public hearing – local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 14
Thursday 9 May 2024
Standing Committee on State Development
Preston Stanley Room, Parliament House, Sydney, 9.21 am

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair*
Dr Cohn
Mr Primrose

2. Apologies

Mr Buttigieg
Ms Hurst
Mr Martin
Mr Lawrence

3. Inquiry into the ability of local governments to fund infrastructure and services

3.1 Meeting with Regional Cities NSW

The committee met with the following Regional Cities NSW (RCNSW) representatives to discuss the current inquiry into the ability of local governments to fund infrastructure and services:

- Cr Mathew Dickerson – Mayor, Dubbo Regional Council (Chair)
- Mr Murray Wood – CEO, Dubbo Regional Council
- Cr Kylie King – Mayor, Albury City Council
- Mr Frank Zaknich – CEO, Albury City Council
- Mr James Roncon – General Manager, Armidale Regional Council
- Cr Tom Kennedy – Mayor, Broken Hill City Council (*via videoconference*)
- Mr Neil Southern - Acting CEO, Bathurst Regional Council
- Cr Peter Walker – Mayor, Goulburn Mulwaree Council
- Cr Doug Curran – Mayor, Griffith City Council
- Mr Brett Stonestreet – General Manager, Griffith City Council

- Cr Jason Hamling – Mayor, Orange City Council
- Mr David Waddell – General Manager, Orange City Council
- Mr Troy Green – General Manager, Tweed Shire Council
- Cr Steve Krieg – Mayor, Lismore City Council
- Mr Jon Gibbons – General Manager, Lismore City Council (*via videoconference*)
- Cr Esma Livermore – Deputy Mayor, Queanbeyan-Palerang Regional Council
- Ms Rebecca Ryan – General Manager, Queanbeyan-Palerang Regional Council
- Cr Philip Penfold – Mayor, Maitland City Council
- Ms Rachael Sweeney – Secretariat (Managing Director, Collective Position)
- Ms Edwina Blackburn – Secretariat (Senior Client Coordinator, Collective Position)
- Ms Natalia Cowley, General Manager, Coffs Harbour (*via videoconference*).

4. Adjournment

The committee adjourned at 9.59 am until Friday 17 May 2024 (public hearing – local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 15
Tuesday 14 May 2024
Standing Committee on State Development
Members Lounge, Parliament House, 3.05 pm

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair*
Mr Buttigieg
Ms Faehrmann
Mr Farlow
Ms Hurst
Mr Lawrence
Mr Primrose

2. Apologies

Mr Farlow

3. Correspondence

The committee noted the following items of correspondence:

Received

- 3 May 2024 – Letter to Ms Suvaal Chair, Standing Committee on State Development, from Minister Houssos, Minister for Natural Resources, requesting that the committee consider terms of reference for an inquiry into beneficial and productive post-mining land use.

4. Consideration of ministerial terms of reference

The Chair tabled the following Chair terms of reference received from Minister Houssos, Minister for Finance, on 3 May 2024.

That the Standing Committee on State Development inquire into and report on beneficial and productive post-mining land use, and in particular:

a. the benefits of having multiple successive land uses including the positive benefits for local communities and the economy, business, industry, and the broader state,
b. changes in land use potential and demand in established or traditional mining areas, particularly those generated by the decarbonised economy, renewable technology, manufacturing, defence, skills, and training,
c. opportunities for investment and growth in training and skills in established or traditional mining areas, including:
    i. the need to reskill and or retrain current workforces,
    ii. the impact and effectiveness of existing and new education, training, and skills providers for mining communities,
d. opportunities to encourage innovative post-mining land uses including:
    i. the planning and implementation of essential supporting infrastructure for future site use,
    ii. the development of solar farms, pumped hydro, and other clean energy industries,
    iii. the compatibility of post mining land sites with commercial projects,
    iv. the potential of unlocking surrounding land for residential dwellings, amenities, environmental and educational facilities,
    v. potential exploration of former and legacy mining sites with modern mining technology to explore deposits in tailings and closed sites,
    vi. the development of sites for use for advanced manufacturing, commercial and industrial use,
e. how to ensure the benefit from innovative post mine land uses are shared between the community and mine operators,
f. the expectations of mining communities in relation to post-mine land use, and how to balance this with innovative reuse of existing infrastructure,
g. the need to develop a robust independent regulatory framework to maintain and advance best practice in this area, and
h. any other related matter.

Resolved, on the motion of Mr Primrose: That the committee adopt the terms of reference.

5. Conduct of the inquiry into beneficial and productive post-mining land use

5.1 Inquiry reporting date

Resolved, on the motion of Mr Buttigieg: That the committee not adopt a reporting date at this stage.

5.2 Closing date for submissions

Resolved, on the motion of Ms Faehrmann: That the closing date for submissions be 25 June 2024.

5.3 Stakeholder list

Resolved, on the motion of Ms Hurst: That:

- the secretariat circulate to members the Chair's proposed list of stakeholders to be invited to make a submission
- members have two days from when the Chair's proposed list is circulated to make amendments or nominate additional stakeholders
- the committee agree to the stakeholder list by email, unless a meeting of the committee is required to resolve any disagreement.

5.4 Approach to submissions

Resolved, on the motion of Mr Buttigieg: That, to enable significant efficiencies for members and the secretariat while maintaining the integrity of how submissions are treated, in the event that 50 or more individual submissions are received, the committee may adopt the following approach to processing short submissions:

- All submissions from individuals 250 words or less in length will:
    a. have an individual submission number, and be published with the author's name or as name suppressed, or kept confidential, according to the author's request
    b. be reviewed by the secretariat for adverse mention and sensitive/identifying information, in accordance with practice

c. be channelled into one single document to be published on the inquiry website.

- All other submissions will be processed and published as normal.

5.5 Hearing dates and site visit

Resolved, on the motion of Ms Faehrmann: That the committee hold two or three hearings/site visits in August 2024, the dates of which are to be determined by the Chair after consultation with members regarding their availability. Further, that the location for the hearings and site visits be considered by the committee following the receipt of submissions.

6. Inquiry into the ability of local governments to fund infrastructure and services

The committee agreed to a revised hearing schedule for the inquiry's hearing on Friday 17 May 2024.

7. Adjournment

The committee adjourned at 3.18 pm until Friday 17 May 2024, 9.00 am, Jubilee Room, Parliament House (local governments public hearing).

Lauren Evans
Committee Clerk

Minutes no. 16
Friday 17 May 2024
Standing Committee on State Development
Jubilee Room, Parliament House, Sydney, 9.02 am

1. Members present

Ms Suvaal, *Chair*
Dr Cohn, *Acting Deputy Chair* (until 3.00 pm, from 3.18 pm)
Mr Buttigieg (until 12.05 pm, from 1.59 pm)
Mr Fang (substituting for Mr Farraway)
Mr Farlow (via videoconference until 12.39 pm, from 1.12 pm)
Mr Lawrence (until 9.06 am, from 9.24 am until 11.12 am, from 11.24 am until 11.42 am, from 12.05 pm until 1.23 pm, from 2.00 pm)
Ms Hurst (via videoconference until 11.46 am, from 2.14 pm until 3.04 pm, from 3.48 pm*)*

2. Apologies

Mr Primrose

3. Previous minutes

Resolved, on the motion of Mr Lawrence: That draft minutes no. 13 and 14 be confirmed.

4. Correspondence

The committee noted the following items of correspondence:

Received:

- 9 April 2024 – Email from Fiona Towers, Executive Director, Pricing and Policy, Independent Pricing and Regulatory Tribunal NSW (IPART), providing the presentation slides from the IPART informal briefing session
- 10 April 2024 – Email from Fiona Towers, Executive Director, Pricing and Policy, Independent Pricing and Regulatory Tribunal NSW (IPART), regarding confidential submissions made to IPART and providing links to reports
- 11 April 2024 – Email from Fiona Towers, Executive Director, Pricing and Policy, Independent Pricing and Regulatory Tribunal NSW (IPART), providing additional IPART resources

- 16 April 2024 – Email from Michelle Bentley, Executive Assistant to the Councillors, on behalf of Councillor Darcy Byrne (Inner West Council Mayor) advising that he would like to participate in the eventual hearings for the local governments inquiry
- 16 April 2024 – Email from Andrew Nicholls, Chief Executive Officer, Independent Pricing and Regulatory Tribunal NSW (IPART), advising of IPART acting arrangements to cover staff leave and witness availability for hearings for the local governments inquiry (*previously circulated*).
- 18 April 2024 – Email from Department of Regional NSW advising they do not intend to make a submission to the local governments inquiry
- 19 April 2024 – Correspondence from Damian Thomas, Director Advocacy, Local Government NSW (LGNSW), clarifying the LGNSW request for a sector-wide extension for all local councils until 28 June 2024
- 22 April 2024 – Correspondence from Edwina Blackburn, Secretariat Services, Regional Cities NSW, on behalf of Regional Cities NSW Chair Cr Mathew Dickerson – Mayor, Dubbo Regional Council, requesting a meeting with the Chair
- 29 April 2024 – Email from Edwina Blackburn, Secretariat Services, Regional Cities NSW, confirming a time for Regional Cities NSW to meet with the Chair and other members on 9 May 2024
- 6 May 2024 – Correspondence from Daniel Papps, Manager, United Services Union, to the Chair clarifying that the Local Government Engineers Association (Professionals Australia) also contributed to the costs of Professor Dollery's work in their submission for the local governments inquiry
- 6 May 2024 – Email from Damian Thomas, Director Advocacy, Local Government NSW to the secretariat about the involvement of local governments in hearings, including potential witnesses
- 9 May 2024 - Correspondence from IPART Chair, Carmel Donnelly PSM, to the Chair to advise that IPART has published submissions and a summary of survey responses to the draft ToR (now withdrawn) for a review of the council financial model in NSW
- 13 May 2024 - Email from Helen Sloan, Chief Executive Officer (CEO), Southern Sydney Regional Organisation of Councils (SSROC) Inc, to the secretariat declining the witness invitation for the hearing on 17 May 2024
- 13 May 2024 – Email from Deyi Wu, Whip's Advisor, Opposition Whip, Office of the Hon. Chris Rath, advising the Hon. Wes Fang MLC will substitute for the Hon. Sam Farraway MLC at the local governments public hearing on 17 May 2024
- 14 May 20 24 - Email from Siobhan Andrei, Executive Assistant, Western Sydney Regional Organisation of Councils, to the secretariat declining the witness invitation for the hearing on 17 May 2024
- 14 May 2024 - Correspondence from Imogen Baker, Executive Officer, on behalf of Lisa Miscamble, General Manager, Wingecarribee Shire Council, to the secretariat requesting the consideration of Wingecarribee Shire Council as a venue for one of the upcoming regional hearings.

Sent:

- 18 April 2024 – Email from the secretariat to Andrew Nicholls, Chief Executive Officer, and Fiona Towers, Executive Director, Pricing and Policy, Independent Pricing and Regulatory Tribunal NSW (IPART) regarding confidential submissions made to IPART
- 1 May 2024 – Email from the secretariat to Damian Thomas, Director Advocacy, Local Government NSW about the involvement of local governments in hearings, including potential witnesses
- 1 May 2024 – Email from the secretariat to Mayor Jamie Chaffey, Country Mayors Association, about the involvement of local governments in hearings, including potential witnesses.

5. Inquiry into the ability of local governments to fund infrastructure and services

5.1 Public/name suppressed submissions

The committee noted the following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos. 1-1a, 2-3, 6-48, 50-71, 83, 88 and 99.

Resolved, on the motion of Mr Buttigieg: That the committee clerk publish public submissions from the Audit Office of NSW and Professionals Australia/Local Government Engineers Association NSW, who are both appearing as witnesses at the public hearing on 17 May 2024.

5.2 Partially confidential submissions

Resolved, on the motion of Mr Buttigieg: That the committee authorise the publication of submission no. 5, with the exception of identifying information which is to remain confidential, as per the recommendation of the secretariat.

5.3 Confidential submissions

Resolved, on the motion of Mr Buttigieg: That the committee keep submission nos. 4 and 49 confidential, as per the request of the author, as they contain identifying and/or sensitive information.

5.4 Declaration of interests

The following members of the committee declared interests for the local governments inquiry:

- Ms Suvaal, Mr Buttigieg and Mr Lawrence declared that they are members of the United Services Union.
- Ms Suvaal declared that her husband is the Mayor of Cessnock.

5.5 Election of Acting Deputy Chair

The Chair called for nominations for Acting Deputy Chair, noting Mr Fang is substituting for the substantive position holder, Mr Farraway, for the public hearing on 17 May 2024 for the local governments inquiry.

Mr Fang moved: That Dr Cohn be elected Acting Deputy Chair of the committee for the purpose of the public hearing on 17 May 2024 for the local governments inquiry.

There being no further nominations, the Chair declared Dr Cohn elected Acting Deputy Chair.

5.6 Publication of research from the Parliamentary Research Service

The committee noted that on 9 April 2024, it resolved to request that the NSW Parliamentary Research Service conduct a comparative analysis of NSW local council financial challenges and responsibilities.

Resolved, on the motion of Dr Cohn: That document entitled 'Comparative analysis of NSW local council financial challenges and responsibilities (Part 1)', provided by the NSW Parliamentary Research Service on 16 May 2024 be published on the inquiry webpage.

5.7 Sequence of questions

Resolved, on the motion of Mr Lawrence: That the allocation of questions to be asked at the hearing be left in the hands of the Chair.

5.8 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Ms Carmel Donnelly PSM, Chair, Independent Pricing and Regulatory Tribunal NSW (IPART)
- Mr Ben Strate, Acting Chief Executive Officer, Independent Pricing and Regulatory Tribunal NSW (IPART)
- Ms Fiona Towers, Executive Director, Pricing & Policy, Independent Pricing and Regulatory Tribunal NSW (IPART)

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Sally Dale, Valuer General of NSW, Valuer General NSW
- Mr Stewart Mclachlan, Chief Executive Officer, Valuer General NSW

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Will Barton, Vice President, Institute of Public Works Engineering Australasia (NSW & ACT)
- Mr Josh Devitt Chief, Engineer, Institute of Public Works Engineering Australasia (NSW & ACT)

Mr Lawrence left the meeting.

The evidence concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Mr Erin Sellers, Principal Project Officer, Sydney Coastal Councils Group

Mr Buttigieg left the meeting.

The evidence concluded and the witness withdrew.

Resolved, on the motion of Dr Cohn: That the committee appoint:

- a sub-committee to conduct the public hearing on 17 May 2024 for the local governments inquiry
- Ms Suvaal, Dr Cohn, Mr Fang and Mr Farlow as members of the sub-committee.
- Ms Suvaal, Committee Chair, as Chair of the sub-committee.

The sub-committee proceeded to take evidence.

The following witnesses were sworn and examined:

- Mr Gordon Michael Brock, Director, Professionals Australia, Local Government Engineers Association (LGEA)
- Ms Alycia Vasilangos, Principal Industrial Officer, Professionals Australia, Local Government Engineers Association (LGEA)

Mr Buttigieg joined the meeting.

The sub-committee concluded taking evidence.

The committee proceeded to take evidence.

Mr Lawrence joined the meeting.

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Graeme Kelly, General Secretary, United Services Union
- Mr Stephen Hughes, Northern Manager, United Services Union
- Mr Daniel Papps, Industrial Manager, United Services Union
- Professor Brian Dollery, University of New England

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Bola Oyetunji, Auditor-General, Audit Office
- Ms Claudia Migotto, Acting Deputy Auditor-General, Audit Office
- Mr Aaron Green, Assistant Auditor-General, Audit Office

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Brett Whitworth, Deputy Secretary, Office of Local Government
- Mr Douglas Walther, Executive Director, Office of Local Government
- Mr Keith Baxter Director, Emergency Recovery and Strategy, Office of Local Government

- Mr Francis D'Lima Manager, Performance, Office of Local Government

The public hearing concluded at 4.50 pm.

The public and the media withdrew.

6. Adjournment

The committee adjourned at 4.50 pm until Wednesday 29 May 2024 (public hearing – local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 17
Wednesday 29 May 2024
Standing Committee on State Development
Macquarie Room, Parliament House, Sydney, 9.01 am

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair* (via videoconference*)*
Mr Buttigieg (until 11.00 am, from 11.47 am until 1.06 pm)
Dr Cohn (until 12.39 pm)
Mr Farlow (until 12.11 pm, from 12.28 pm until 12.47 pm)
Ms Hurst (until 9.38 am, from 9.48 am until 11.00 am, from 11.10 am until 1.06 pm)
Mr Lawrence (via videoconference*)*
Mr Primrose (until 11.00 am, from 11.10 am until 1.06 pm)

2. Previous minutes

Resolved, on the motion of Dr Cohn: That draft minutes no. 16 be confirmed.

3. Correspondence

The committee noted the following items of correspondence:

Received:

- 15 May 2024 – Email from Michelle Bentley, Executive Assistant to the Councillors, Inner West Council, following up previous correspondence regarding Mayor Darcy Byrne's future attendance a hearing for the local governments inquiry
- 17 May 2024 – Email from Ava Cheung, Manager - Financial Strategy, Hills Shire Council, to the secretariat, advising the Council's submission to the local governments inquiry was formally endorsed by the Council
- 20 May 2024 – Email from CLR Jamie Chaffey, Chairman, Country Mayors Association of NSW, to the secretariat, advising on the involvement of local governments for the regional hearings, including potential witnesses, for the local governments inquiry (*previously circulated*)
- 23 May 2024 – Email from Mr Kevin Brooks to the committee regarding his concerns with respect to the submission from Central Coast Council for the local governments inquiry
- 23 May 2024 – Email from Cathy Andre, Executive Assistant, Chief Executive Officer, Shoalhaven City Council, to the secretariat advising that Shoalhaven City Council would like to appear at a regional hearing should the committee hold one nearby for the local governments inquiry
- 27 May 2024 – Email from Oliver Guo, Acting Chief Financial Officer, Sutherland Local Council, to the secretariat declining the witness invitation for the hearing on 29 May 2024
- 27 May 2024 – Email from Rachel Noble, Executive Officer to the Office of the CEO & Mayor, North Sydney Council, to the secretariat declining the witness invitation for the hearing on 29 May 2024

- 27 May 2024 – Email from the Mayor's Office, Canterbury-Bankstown Council, to the secretariat declining the witness invitation for the hearing on 29 May 2024
- 27 May 2024 – Email from Michelle Bentley, Executive Assistant to the Councillors, Inner West Council, to the secretariat advising that the Mayor has declined the witness invitation for the hearing on 3 June 2024
- 28 May 2024 – Email from Helen Sloan, Chief Executive Officer (CEO), Southern Sydney Regional Organisation of Councils (SSROC) Inc, to the secretariat advising that SSROC's President, Burwood Mayor Councillor John Faker would like to give evidence at a hearing for the local governments inquiry and the invitation to appear on 17 May 2024 was declined by mistake
- 28 May 2024 – Email from Helen Sloan, CEO, Southern Sydney Regional Organisation of Councils Inc, confirming that SSROC is not available to appear as a witness at the public hearing on 29 May 2024 for the local governments inquiry.

4. Inquiry into the ability of local governments to fund infrastructure and services

4.1 Public/name suppressed submissions

The committee noted the following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos. 72-82, 84-87, 89-95, 97-98, 100-113.

4.2 Confidential submissions

Resolved, on the motion of Mr Farlow: That the committee keep submission no. 96 confidential, as per the request of the author, as it contains identifying and/or sensitive information.

4.3 Sequence of questions

Resolved, on the motion of Ms Hurst: That, for the duration of the inquiry, the allocation of questions to be asked at hearings be left in the hands of the Chair.

4.4 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Mr David Tuxford, General Manager, Georges River Council and President, Local Government Professionals Australia, NSW
- Mr Craig Swift-McNair, General Manager, Woollahra Council and Vice President, Local Government Professionals Australia, NSW
- Mr Richard Sheridan, Director City Performance, Bayside Council

Mr David Tuxford tendered the following document:

- Georges River Council - Council Meeting Monday 26 February 2024, *Item MM002-24 Cost Shifting onto Local Government*.

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Andrew Butcher, Senior Revenue Accountant, Campbelltown City Council and President of the NSW Revenue Professionals
- Mr Ian Clayton, Manager Property and Revenue, Mid-Western Regional Council and Vice President of the NSW Revenue Professionals

The evidence concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Mr Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council

The evidence concluded and the witness withdrew.

The following witness was sworn and examined:

- Mr Graham Sansom, Adjunct Professor

The evidence concluded and the witness withdrew.

The following witnesses were sworn and examined:

- Mr Andrew Carfield, General Manager, Camden Council
- Mr Milan Marecic, Director Growth and Finance, Camden Council

The evidence concluded and the witnesses withdrew.

The public hearing concluded at 1.00 pm.

The public and the media withdrew.

4.5 Tendered documents

Resolved, on the motion of Mr Buttigieg: That the committee accept and publish the following document tendered during the public hearing:

- Georges River Council - Council Meeting Monday 26 February 2024, *Item MM002-24 Cost Shifting onto Local Government*.

4.6 Regional hearings

Resolved, on the motion of Mr Farraway: That the committee visit the following locations for the regional hearings:

- 26 June 2024 – Lismore
- 27 June 2024 – Tamworth
- 28 June 2024 – Dubbo
- 5 and 15 July 2024 – Shoalhaven and Albury, with the final order to be determined by flight availability.

5. Adjournment

The committee adjourned at 1.11 pm until Monday 3 June 2024 (public hearing – local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 18
Monday 3 June 2024
Standing Committee on State Development
Macquarie Room, Parliament House, Sydney, 9.05 am

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair* (until 11.00 am, from 11.14 am until 2.32 pm, and from 3.15 pm)
Mr Buttigieg (from 9.28 am until 11.00 am, from 11.50 am until 3.28 pm)
Dr Cohn (until 3.15 pm, and from 3.45 pm)
Ms Hurst (until 11.00 am, from 11.45 am until 1.36 pm, and from 2.44 pm)
Mr Lawrence (until 11.00 am, and from 2.07 pm)
Mr Primrose (via videoconference until 9.57 am, from 11.03 am until 1.36 pm, from 1.58 pm until 3.24 pm)

2. Apologies
Mr Farlow

3. Previous minutes
Resolved, on the motion of Mr Lawrence: That draft minutes no. 17 be confirmed.

4. Correspondence
The committee noted the following items of correspondence:

Received:

- 29 May 2024 – Email from Cathy Andre, Executive Assistant, Chief Executive Officer, Shoalhaven City Council, to the secretariat advising Robyn Stevens, CEO Shoalhaven City Council, would be interested in appearing at a regional hearing.

5. Inquiry into the ability of local governments to fund infrastructure and services

5.1 Public submissions
Resolved, on the motion of Mr Farraway: That the committee clerk publish submission nos: 116-120.

5.2 Attachments to submissions
Resolved, on the motion of Mr Farraway: That the committee clerk publish the two attachments to submission no 119.

5.3 Publication of research from the Parliamentary Research Service (Part 2)
Resolved, on the motion of Mr Primrose: That document entitled 'Comparative analysis of NSW local council financial challenges and responsibilities (Part 2)', provided by the NSW Parliamentary Research Service on 28 May 2024 be published on the inquiry webpage.

5.4 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witness was sworn and examined:

- Mr Peter Tegart, Partner, Always Thinking Advisory

Mr Tegart tendered the following document:

- *LG Sustainability Inquiry – Opening Statement – Always Thinking Advisory*.

The evidence concluded and the witness withdrew.

The following witnesses were sworn and examined:

- Cr Bradly Bunting, Mayor, Blacktown City Council
- Mr Kerry Robinson OAM, Chief Executive Officer, Blacktown City Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Gail Connolly PSM, Chief Executive Officer, City of Parramatta (via videoconference)
- Mr John Angilley, Executive Director – Finance & Information, City of Parramatta (via videoconference)
- Mr Amit Sharma, Chief Financial Officer, City of Parramatta (via videoconference)

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr David Walsh, Chief Financial Officer, Northern Beaches Council
- Ms Caroline Foley, Executive Manager Financial Planning & Systems, Northern Beaches Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Jeremy Bath, Chief Executive Officer, City of Newcastle Council
- Lord Mayor Nuatali Nelmes, Lord Mayor, City of Newcastle

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Tony Farrell, Deputy Chief Executive Officer, City of Lake Macquarie Council
- Mr Bjorn Lategan, Chief Financial Officer, City of Lake Macquarie Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Bob Hawes, Chief Executive Officer, Business Hunter
- Mr Mustafa Agha, Executive Manager, Policy, Business NSW

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Cr Darriea Turley AM, President, Local Government NSW
- Mr David Reynolds, Chief Executive, Local Government NSW
- Mr Shaun McBride, Chief Economist, Local Government NSW

The evidence concluded and the witnesses withdrew.

The public hearing concluded at 4.50 pm.

The public and the media withdrew.

5.5 Tendered documents

Resolved, on the motion of Ms Hurst: That the committee accept and publish the following document tendered during the public hearing:

- *LG Sustainability Inquiry – Opening Statement – Always Thinking Advisory*.

5.6 Regional hearings

The committee noted that:

- the Chair has proposed members fly to Ballina on the afternoon of Tuesday 25 June 2024 and stay overnight in Ballina for the hearing in Lismore on Wednesday 26 June 2024, with the secretariat to canvass members' availability via email.
- the Australian Local Government Association (ALGA) is holding the 2024 National General Assembly of Local Government (NGA) in Canberra between 2-4 July 2024, which could affect the availability of local councils to attend a public hearing in Shoalhaven on Friday 5 July 2024 for the local governments inquiry.

Resolved, on the motion of Mr Farraway: That:

- the secretariat canvass initial witness availability to attend a hearing on Friday 5 July 2024 in Shoalhaven, or alternatively, Queanbeyan, based on the Chair's proposed witness list
- the secretariat canvass members' availability for a hearing on Tuesday 16 July 2024 in Shoalhaven if initial witness availability indicates that local councils are unavailable to attend a hearing on Friday 5 July 2024 in Shoalhaven or Queanbeyan due to the NGA in Canberra
- if a hearing on Tuesday 16 July 2024 in Shoalhaven is confirmed, the committee vacate the hearing date Friday 5 July 2024.

6. Adjournment

The committee adjourned at 5.02 pm until Wednesday 26 June 2024, Lismore (regional hearing, local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 19
Wednesday 26 June 2024
Standing Committee on State Development
Lismore Council Chambers, Goonellabah, 9.17 am

1. Members present

Ms Suvaal, *Chair*
Dr Cohn, *Acting Deputy Chair*
Mr Farlow
Mr Lawrence (via videoconference)
Mr Murphy (via videoconference, substituting for Mr Buttigieg from 9.17 am until 9.20 am)

2. Apologies

Mr Farraway
Mr Buttigieg
Ms Hurst
Mr Primrose

3. Previous minutes

Resolved, on the motion of Mr Farlow: That draft minutes no. 18 be confirmed.

4. Correspondence

The committee noted the following items of correspondence:

Received:

- 5 June 2024 – Email from Mr Adrian Panuccio, General Manager, MidCoast Council, to the secretariat advising that the council would like to participate in the upcoming regional hearing in Tamworth on 27 June 2024 for the local governments inquiry
- 12 June 2024 - Email from Ms Amanda Ciantar, Assistant, Executive Team, the Hills Shire Council, to the secretariat attaching a letter from the General Manager providing additional information and advising that the council would welcome an opportunity to appear at a future hearing for the local governments inquiry
- 13 June 2024 – Email from Ms Lyn Magree, submission author no 1, to the committee requesting that a regional hearing be held in the city of Goulburn for the local governments inquiry
- 17 June 2024 – Email from Mr Kristian Enevoldson, Chief Financial Officer, Lismore City Council, to the secretariat declining the witness invitation for the hearing in Lismore on 26 June 2024 for the local governments inquiry
- 18 June 2024 – Email from Ms Janelle McLennan, Executive Assistant General Manager and Corporate Communications, Kyogle Council, to the secretariat declining the witness invitation for the hearing in Lismore on 26 June 2024 for the local governments inquiry
- 19 June 2024 – Email from Ms Bronwyn Mitchell, Executive Officer - General Manager and Mayor & Councillors, Lismore City Council, to the secretariat advising that Lismore council has decided to accept the witness invitation for the Lismore hearing on 26 June 2024 for the local governments inquiry

- 19 June 2024 – Email from Mr Michael Cosgrove, Executive Lead - Finance and Commercial Operations, Port Macquarie-Hastings Council, to the secretariat declining the witness invitation for the hearing in Tamworth on 27 June 2024 for the local governments inquiry
- 20 June 2024 – Email from Ms Debbie Duffell, Executive Assistant, General Manager's Office, Glen Innes Severn Council, to the secretariat declining the witness invitation for the hearing in Tamworth on 27 June 2024 for the local governments inquiry
- 20 June 2024 - Email from Mr Max Kennedy, Whip's Advisor, to the secretariat advising that Mr Anthony D'Adam will be substituting for Mr Stephen Lawrence for the hearing in Dubbo on 28 June 2024 for the local governments inquiry
- 24 June 2024 – Email from Ms Robyn Waldron, Executive Assistant, Northern Rivers Joint Organisation, to the secretariat declining the witness invitation for the hearing in Lismore on 26 June 2024 for the local governments inquiry
- 25 June 2024 – Email from Mr Max Kennedy, Whip's Advisor, advising that Mr Cameron Murphy will be substituting for Mr Mark Buttigieg for the deliberative on 26 June 2024 for the local governments inquiry
- 25 June 2024 – Email from Mr Max Kennedy, Whip's Advisor, to the secretariat advising that Mr Anthony D'Adam will no longer be substituting for Mr Stephen Lawrence for the hearing in Dubbo on 28 June for the local governments inquiry.

Sent:

- 19 June 2024 – Email from the secretariat to Mr Kristian Enevoldson, Chief Financial Officer, Lismore City Council, asking if an alternative appearance time would provide an opportunity for representatives to attend the hearing in Lismore on 26 June 2024 and whether the Mayor, Cr Steve Krieg, has been advised of the invitation
- 19 June 2024 – Email from the secretariat to Northern Rivers Joint Organisation to confirm a response to the witness invitation sent on 11 June 2024 for the hearing in Lismore on 26 June 2024, noting if no response is received it is understood they will not be attending.

5. Inquiry into the ability of local governments to fund infrastructure and services

5.1 Public submissions

The committee noted the following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: supplementary submission no. 117a and submission no 121.

Resolved, on the motion of Mr Farlow: That the committee clerk publish public submission nos: 122-125.

5.2 Answers to questions on notice and supplementary questions

The committee noted that the following answers to questions on notice were published by the committee clerk under the authorisation of the resolution appointing the committee:

- Answers to questions on notice, Ms Sally Dale, Valuer General of NSW, Valuer General NSW, received 31 May 2024
- Answers to questions on notice, Mr Erin Sellers, Principal Project Officer, Sydney Coastal Councils Group Inc, received 4 June 2024
- Answers to questions on notice, Mr Brett Whitworth, Deputy Secretary, Office of Local Government, received 11 June 2024
- Answers to questions on notice, Ms Carmel Donnelly, Chair, Independent Pricing and Regulatory Tribunal NSW, received 13 June 2024.

5.3 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Mr John Hartley, Acting Chief Financial Officer, Lismore City Council
- Cr Steve Krieg, Mayor, Lismore City Council

The evidence concluded and the witnesses withdrew.

5.4 Election of Acting Deputy Chair

The Chair called for nominations for Acting Deputy Chair, noting the substantive position holder, Mr Farraway, is an apology for the public hearing on 26 June 2024 for the local governments inquiry.

Mr Farlow moved: That Dr Cohn be elected Acting Deputy Chair of the committee for the purpose of the public hearing on 26 June 2024 for the local governments inquiry.

There being no further nominations, the Chair declared Dr Cohn elected Acting Deputy Chair.

5.5 Public hearing

The following witnesses were sworn and examined:

- Mr Paul Hickey, General Manager, Ballina Shire Council
- Cr Sharon Cadwallader, Mayor, Ballina Shire Council
- Mr Vaughan Macdonald, General Manager, Richmond Valley Council
- Cr Robert Mustow, Mayor, Richmond Valley Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Mark Arnold, General Manager, Byron Shire Council
- Ms Esmeralda Davis, Director Corporate & Community Services, Byron Shire Council
- Cr Michael Lyon, Mayor, Byron Shire Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Troy Green PSM, General Manager, Tweed Shire Council
- Mr Michael Chorlton, Responsible Accounting Officer and Manager Finance, Tweed Shire Council

Mr Green tendered the following documents:

- Tweed Shire Council, Submission to the NSW Productivity Commissioner, *Submission to the Alternative Funding Models for Local Water Utilities Issues Paper Feb 2024*, 3 April 2024
- Tweed Shire Council, Submission to the Australian Government, House of Representatives, Standing Committee on Regional Development, Infrastructure and Transport, *Inquiry – Local Government Sustainability*, 31 May 2024.

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Laura Black, General Manager, Clarence Valley Council (via videoconference)
- Cr Peter Johnstone, Mayor, Clarence Valley Council (via videoconference)
- Mr Heindrik Basson, General Manager, Tenterfield Shire Council (via videoconference)
- Cr Bronwyn Petrie, Mayor, Tenterfield Shire Council (via videoconference)

The evidence concluded and the witnesses withdrew.

The public hearing concluded at 2.45 pm.

The public and the media withdrew.

6. Adjournment

The committee adjourned at 2.45 pm until Thursday 27 June 2024, Tamworth (regional hearing, local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 20
Thursday 27 June 2024
Standing Committee on State Development
Passchendaele room, Tamworth War Memorial Town Hall, Tamworth, 8.28 am

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair* (via videoconference until 10.31 am, from 10.49 am until 12.45 pm, from 1.45 pm)
Dr Cohn, *Acting Deputy Chair*
Mr Farlow (via videoconference)
Mr Lawrence

2. Apologies

Mr Buttigieg
Ms Hurst
Mr Primrose

3. Inquiry into the ability of local governments to fund infrastructure and services

3.1 Election of Acting Deputy Chair

The Chair called for nominations for Acting Deputy Chair, noting the substantive position holder, Mr Farraway, is attending the public hearing on 27 June 2024 via videoconference for the local governments inquiry.

Mr Lawrence moved: That Dr Cohn be elected Acting Deputy Chair of the committee for the purpose of the public hearing on 27 June 2024 for the local governments inquiry.

There being no further nominations, the Chair declared Dr Cohn elected Acting Deputy Chair.

3.2 Tendered documents

Resolved, on the motion of Dr Cohn: That the committee accept and publish the following documents tendered by Mr Troy Green PSM, General Manager, Tweed Shire Council, during the public hearing on Wednesday 26 June 2024:

- Tweed Shire Council, Submission to the NSW Productivity Commissioner, *Submission to the Alternative Funding Models for Local Water Utilities Issues Paper Feb 2024*, 3 April 2024
- Tweed Shire Council, Submission to the Australian Government, House of Representatives, Standing Committee on Regional Development, Infrastructure and Transport, *Inquiry – Local Government Sustainability*, 31 May 2024.

3.3 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Cr Jamie Chaffey, Chairman, Country Mayors Association and Mayor of Gunnedah Shire Council

- Cr Russell Webb, Executive Member, Country Mayors Association and Mayor of Tamworth Regional Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Paul Bennett, General Manager, Tamworth Regional Council
- Mr Rami Abu-Shaqra, Chief Financial Officer, Tamworth Regional Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Adrian Panuccio, General Manager, MidCoast Council (via videoconference)
- Mr Phil Brennan, Acting Director Corporate Services, MidCoast Council (via videoconference)
- Cr Claire Pontin, Mayor, MidCoast Council (via videoconference)

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mrs Toni Averay, General Manager, Uralla Shire Council
- Mr Mick Raby, Director Infrastructure and Development, Uralla Shire Council
- Cr Robert Bell, Mayor, Uralla Shire Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Kelly Stidworthy, Director Corporate Services, Gunnedah Shire Council
- Mr Greg McDonald, General Manager, Upper Hunter Shire Council
- Mr Wayne Phelps, Finance Manager, Upper Hunter Shire Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mrs Natalia Cowley, General Manager, Coffs Harbour City Council (via videoconference)
- Ms Amy Mott, Chief Financial Officer, Coffs Harbour City Council (via videoconference)

The public hearing concluded at 2.19 pm.

The public and the media withdrew.

3.4 Further public hearing on Friday 5 July 2024

The committee discussed options for a proposed further public hearing on Friday 5 July, noting that the secretariat had canvassed initial council availability for a hearing in either Shoalhaven or Queanbeyan.

Resolved, on the motion of Mr Farraway: That:

- the committee hold a half day public hearing in Sydney on Friday 5 July 2024,
- councils who had previously indicated their availability to attend a hearing in either Shoalhaven or Queanbeyan on this date, be invited to attend, and
- any councils who had been invited to attend a previous hearing but who had declined on the basis of date unavailability, along with the Southern Sydney Regional Organisation of Councils, be invited to attend on this date.

4. Adjournment

The committee adjourned at 2.33 pm until Friday 28 June 2024, Dubbo (regional hearing, local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 21
Friday 28 June 2024
Standing Committee on State Development
Dubbo Council Chambers, Dubbo, 8.46 am

1. Members present
Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair*
Dr Cohn
Mr Lawrence

2. Apologies
Mr Buttigieg
Mr Farlow
Ms Hurst
Mr Primrose

3. Inquiry into the ability of local governments to fund infrastructure and services

3.1 Appointment of a sub-committee
Resolved, on the motion of Dr Cohn: That the committee appoint:

- a sub-committee to conduct the public hearing, if required, on 28 June 2024 for the local governments inquiry
- Ms Suvaal, Mr Farraway and Dr Cohn as members of the sub-committee
- Ms Suvaal, Committee Chair, as Chair of the sub-committee.

3.2 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Ms Jennifer Bennett, Executive Officer, Central NSW Joint Organisation (via videoconference)
- Cr Mark Kellam, Mayor of Oberon Council and Deputy Chair, Central NSW Joint Organisation (via videoconference)

The evidence concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Cr Mathew Dickerson, Mayor, Dubbo Regional Council

The evidence concluded and the witness withdrew.

The following witnesses were sworn and examined:

- Mr David Sherley, General Manager, Bathurst Regional Council
- Mr Aaron Jones, Director of Corporate Services & Finance, Bathurst Regional Council
- Mr Ian Clayton, Manager Property & Revenue, Mid-Western Regional Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Gary Woodman, General Manager, Warren Shire Council
- Ms Melanie Slimming, Director of Infrastructure and Engineering, Narromine Shire Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Leonie Brown, General Manager, Bourke Shire Council (via videoconference)
- Cr Barry Hollman, Mayor, Bourke Shire Council (via videoconference)
- Mr Paul Gallagher, General Manager, Coonamble Shire Council
- Mrs Kerrie Murphy, Director Infrastructure, Coonamble Shire Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Ian Greenham, Director of Technical Services, Orange City Council
- Mr Stefan Murru, Director Corporate Services, Forbes Shire Council
- Mr Danial Speer, Manager Work, Forbes Shire Council

The public hearing concluded at 3.00 pm.

The public and the media withdrew.

3.3 Upcoming public hearings

The committee discussed the upcoming public hearing in Sydney on Friday 5 July 2024, travel arrangements for the public hearing in Albury on Monday 15 July 2024, a proposed public hearing in Shoalhaven on Tuesday 23 July 2024 and proposed dates for a final hearing in Sydney, noting that:

- any proposed committee activity on Tuesday 16 July 2024 will not go ahead
- the committee will fly from Sydney to Albury on Sunday 14 July 2024 and stay overnight in Albury before the public hearing on Monday 15 July 2024
- the secretariat will canvass member availability for Tuesday 30 July and Wednesday 31 July 2024 for a final hearing in Sydney for the local governments inquiry.

Resolved, on the motion of Mr Farraway: That councils who had been invited to attend a previous hearing but who had declined on the basis of unavailability be invited to attend the hearing on Friday 5 July 2024.

Resolved, on the motion of Mr Lawrence: That Tuesday 23 July 2024 be used for a public hearing in Shoalhaven for the local governments inquiry.

4. Adjournment

The committee adjourned at 3.13 pm until Friday 5 July 2024 (Sydney hearing, local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 22
Friday 5 July 2024
Standing Committee on State Development
Jubilee Room, Parliament House, Sydney, 9.03 am

1. Members present

Ms Suvaal, *Chair* (via videoconference)
Mr Farraway, *Deputy Chair* (via videoconference)
Dr Cohn

Mr Farlow
Mr Lawrence (via videoconference until 10.00 am)
Mr Primrose (via videoconference)

2. Apologies
Mr Buttigieg
Ms Hurst

3. Previous minutes
Resolved, on the motion of Mr Lawrence: That draft minutes no. 19, 20 and 21 be confirmed.

4. Correspondence
The committee noted the following items of correspondence:

Received:

- 27 June 2024 - Email from Mr Ian Greenham, Director Technical Services, Orange City Council, to the secretariat regarding talking points for his appearance at the hearing on 28 June 2024 for the local governments inquiry
- 1 July 2024 – Email from Ms Helen Sloan, Chief Executive Officer (CEO), Southern Sydney Regional Organisation of Councils (SSROC) Inc, to the secretariat declining the witness invitation for the hearing on 5 July 2024 for the local governments inquiry
- 2 July 2024 – Email from Ms Debbie Duffell, Executive Assistant (Mayor and General Manager), General Manager's Office, Glen Innes Severn Council, declining the witness invitation for the hearing on 5 July 2024 for the local governments inquiry
- 2 July 2024 – Email from Mr Oliver Guo, Acting Chief Financial Officer, Sutherland Local Council, to the secretariat declining the witness invitation for the hearing on 5 July 2024 for the local governments inquiry
- 2 July 2024 – Email from Ms Siobhan Andrei, Executive Assistant, Western Sydney Regional Organisation of Councils, to the secretariat declining the witness invitation for the hearing on 5 July 2024 for the local governments inquiry.

5. Inquiry into the ability of local governments to fund infrastructure and services

5.1 Public submissions
The committee noted the following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission nos 126-127.

5.2 Confidential submissions
Resolved, on the motion of Mr Farraway: That the committee keep submission no. 128 confidential, as per the request of the author, as it contains identifying and/or sensitive information.

5.3 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witness was sworn and examined:

- Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council (via videoconference)

The evidence concluded and the witness withdrew.

The following witnesses were sworn and examined:

- Mr Michael Edgar, General Manager, The Hills Shire Council
- Mrs Chandi Saba, Group Manager Finance & Corporate Strategy, The Hills Shire Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Dr Clare Allen, Chief Executive Officer, Port Macquarie Hastings Council (via videoconference)
- Mr Keith Hentschke, Director Business and Performance, Port Macquarie Hastings Council (via videoconference)

The evidence concluded and the witnesses withdrew.

The public hearing concluded at 10.45 am.

The public and the media withdrew.

6. Adjournment

The committee adjourned at 10.45 am until Monday 15 July 2024 (Albury regional hearing, local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 23
Monday 15 July 2024
Standing Committee on State Development
Robert Brown Room, Albury City Council Administration Building, Albury, 8.48 am

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair*
Dr Cohn
Mr Farlow
Mr Lawrence (via videoconference until 9.28 am, from 11.00 am until 12.17 pm, from 2.53 pm until 3.01 pm)
Mr Primrose (via videoconference from 10.00 am until 12.45 pm)

2. Apologies

Mr Buttigieg
Ms Hurst

3. Previous minutes

Resolved, on the motion of Dr Cohn: That draft minutes no. 22 be confirmed.

4. Correspondence

The committee noted the following items of correspondence:

Received:

- 21 June 2024 – Email from Mr Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, to the secretariat providing transcript clarifications to the evidence from 29 May 2024 for the local governments inquiry
- 24 June 2024 – Email from Mr Andrew Carfield, General Manager, Camden Council, to the secretariat providing transcript clarifications to the evidence from 29 May 2024 for the local governments inquiry
- 24 June 2024 – Email from Mr Graham Sansom, individual, to the secretariat providing transcript clarifications to the evidence from 29 May 2024 for the local governments inquiry
- 28 June 2024 – Email from confidential submission author no 128, to the secretariat providing additional information to the committee for the local governments inquiry

- 30 June 2024 – Email from confidential submission author no 128, to the secretariat providing additional information to the committee for the local governments inquiry
- 8 July 2024 – Email from Ms Kathy Rankin, Head of Policy & Advocacy, NSW Farmers, to the secretariat advising that the Committee Chair of NSW Farmers is unavailable to attend the hearing on 15 July 2024 for the local governments inquiry, and asking whether there is an opportunity to appear on another date
- 10 July 2024 – Email from Mr Luke Taberner, Chief Financial Officer, Junee Shire Council to the secretariat declining the witness invitation for the hearing on 15 July 2024 for the local governments inquiry.

5. Inquiry into the ability of local governments to fund infrastructure and services

5.1 Answers to questions on notice and supplementary questions

The committee noted that the following answers to questions on notice were published by the committee clerk under the authorisation of the resolution appointing the committee:

- Answers to questions on notice from Mr Craig Swift-McNair, Vice President, Local Government Professionals Australia, NSW, received on 17 June 2024
- Answers to questions on notice from Mr Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, received on 21 June 2024
- Answers to questions on notice from Mr Andrew Carfield, General Manager, Camden Council, received 24 June 2024.

5.2 Transcript clarifications

Resolved, on the motion of Mr Farraway: That the committee authorise:

- the publication of correspondence from Mr Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, to the committee providing transcript clarifications, received 21 June 2024, and the secretariat insert a footnote on the transcript from the 29 May 2024 hearing, clarifying the evidence of Mr Thirimanne, as per the correspondence received 21 June 2024
- the publication of correspondence from Mr Andrew Carfield, General Manager, Camden Council, to the committee providing transcript clarifications, received 24 June 2024, and the secretariat insert a footnote on the transcript from the 29 May 2024 hearing, clarifying the evidence of Mr Carfield, as per the correspondence received 24 June 2024
- the publication of correspondence from Mr Graham Sansom, individual, to the committee providing transcript clarifications, received 24 June 2024, and the secretariat insert a footnote on the transcript from the 29 May 2024 hearing, clarifying the evidence of Mr Sansom, as per the correspondence received 24 June 2024.

5.3 Appointment of a sub-committee

Resolved, on the motion of Mr Farlow: That the committee appoint:

- a sub-committee to conduct the public hearing, if required, on 15 July 2024 for the local governments inquiry
- Ms Suvaal, Mr Farraway, Dr Cohn and Mr Farlow as members of the sub-committee
- Ms Suvaal, Committee Chair, as Chair of the sub-committee.

5.4 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Mrs Julie Briggs, Chief Executive Officer, Riverina Eastern Regional Organisation of Councils (REROC)
- Mr Peter Veneris, Member of the REROC Executive and General Manager, Lockhart Shire Council

Mr Lawrence left the meeting.

The sub-committee proceeded to take evidence.

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Peter Thompson, General Manager, Wagga Wagga City Council
- Cr Dallas Tout, Mayor, Wagga Wagga City Council
- Ms Carolyn Rodney, Chief Financial Officer, Wagga Wagga City Council
- Mr Brett Stonestreet, General Manager, Griffith City Council (via videoconference)
- Cr Doug Curran, Mayor, Griffith City Council (via videoconference)

Mr Primrose joined the meeting.

The sub-committee concluded taking evidence.

The committee proceeded to take evidence.

The evidence concluded and the witnesses withdrew.

Mr Lawrence rejoined the meeting.

The following witnesses were sworn and examined:

- Ms Tracey Squire, Acting Chief Executive Officer, Albury City Council
- Cr Kylie King, Mayor, Albury City Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Peter Veneris, General Manager, Lockhart Shire
- Cr Greg Verdon, Mayor, Lockhart Shire
- Mr Adrian Butler, General Manager, Federation Council
- Cr Patrick Bourke, Mayor, Federation Council

Mr Lawrence left the meeting.

The evidence concluded and the witnesses withdrew.

Mr Primrose left the meeting.

The sub-committee proceeded to take evidence.

The following witnesses were sworn and examined:

- Mr Steven Pinnuck, Interim General Manager, Snowy Valleys Council (via videoconference)
- Cr Trina Thomson, Deputy Mayor, Snowy Valleys Council (via videoconference)
- Ms Evelyn Arnold, General Manager, Greater Hume Shire Council
- Cr Annette Schilg, Deputy Mayor, Greater Hume Shire Council

The evidence concluded and the witnesses withdrew.

The public hearing concluded at 2.52 pm.

The public and the media withdrew.

Mr Lawrence rejoined the meeting.

6. Shoalhaven regional hearing – Proposed witness list

The committee considered the Chair's proposed witness list for the Shoalhaven regional hearing on Tuesday 23 July 2024.

Resolved, on the motion of Dr Cohn: That the committee invite the following witnesses to appear and give evidence at the regional hearing in the Shoalhaven on Tuesday 23 July 2024:

- Canberra Region Joint Organisation
- Illawarra Shoalhaven Joint Organisation (ISJO)
- Shoalhaven City Council
- Kiama Municipal Council
- Bega Valley Shire Council
- Queanbeyan-Palerang Regional Council
- Goulburn Mulwaree Council
- Upper Lachlan Shire Council
- Eurobodalla Council

7. Adjournment

The committee adjourned at 3.01pm until Tuesday 23 July 2024 (Shoalhaven regional hearing, local governments inquiry).

Amanda Assoum
Committee Clerk

Minutes no. 24
Tuesday 23 July 2024
Standing Committee on State Development
Studio room, Shoalhaven Entertainment Centre, Nowra, 9.47 am

1. Members present

Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair* (via videoconference until 11.30 am)
Dr Cohn (via videoconference from 11.45 am)
Mr Farlow (via videoconference)
Mr Lawrence

2. Apologies

Mr Buttigieg
Ms Hurst

3. Previous minutes

Resolved, on the motion of Mr Farlow: That draft minutes no. 23 be confirmed.

4. Correspondence

The committee noted the following items of correspondence:

Received:

- 1 July 2024 – Email from Mr Peter Tegart, Partner, Always Thinking Advisory, to the secretariat providing transcript clarifications to the evidence from 3 June 2024 for the local governments inquiry
- 8 July 2024 – Email from Mr Tony Farrell, Deputy Chief Executive Officer, City of Lake Macquarie Council, to the secretariat providing transcript clarifications to the evidence from 3 June 2024 for the local governments inquiry
- 9 July 2024 – Email from Ms Lisa Payne, Senior Administration Officer, Chief Executive Officer's Office, Shoalhaven City Council, to the secretariat advising that the Shoalhaven Entertainment Centre (SEC) would be a better hearing venue option for the regional hearing in the Shoalhaven on 23 July 2024 for the local governments inquiry

- 22 July 2024 – Email from Ms Amy Croker, Office Manager to Mayor & Chief Executive Officer, Goulburn Mulwaree Council, advising that Mr Aaron Johansson, Chief Executive Officer, Goulburn Mulwaree Council, can no longer attend the regional hearing in the Shoalhaven on 23 July 2024 for the local governments inquiry.

Sent:

- 18 July 2024 – Email from the secretariat to Upper Lachlan Shire Council and Cr Pam Kensit, Mayor, Upper Lachlan Shire Council, to confirm a response to the witness invitation sent on 16 July 2024 for the hearing in the Shoalhaven on 23 July 2024 for the local governments inquiry, noting if no response is received it is understood they will not be attending
- 18 July 2024 – Email from the secretariat to Eurobodalla Shire Council and Cr Mathew Hatcher, Mayor, Eurobodalla Shire Council, to confirm a response to the witness invitation sent on 16 July 2024 for the hearing in the Shoalhaven on 23 July 2024 for the local governments inquiry, noting if no response is received it is understood they will not be attending.

5. Inquiry into the ability of local governments to fund infrastructure and services

5.1 Answers to questions on notice and supplementary questions

The committee noted that the following answers to questions on notice were published by the committee clerk under the authorisation of the resolution appointing the committee:

- Answers to questions on notice, Mr Peter Tegart, Always Thinking Advisory, received 1 July 2024
- Answers to questions on notice and supplementary questions, Mr Wayne Rogers, Acting Chief Executive Officer, Blacktown City Council, received 5 July 2024
- Answers to questions on notice, Ms Caroline Foley, Chief Financial Officer, Northern Beaches Council, received 5 July 2024
- Answers to supplementary questions, Ms Caroline Foley, Chief Financial Officer, Northern Beaches Council, received 5 July 2024
- Answers to questions on notice and supplementary questions, Ms Gail Connolly, Chief Executive Officer, City of Parramatta, received 8 July 2024
- Answers to supplementary questions, Mr David Clarke, Acting Chief Executive Officer, City of Newcastle, received 8 July 2024
- Answers to supplementary questions, Mr Tony Farrell, Deputy Chief Executive Officer, Lake Macquarie Council, received 8 July 2024
- Answers to questions on notice and supplementary questions, Local Government NSW (LGNSW), received 8 July 2024.

5.2 Transcript clarifications

Resolved, on the motion of Mr Lawrence: That the committee authorise:

- the publication of correspondence from Mr Peter Tegart, Partner, Always Thinking Advisory, to the committee providing transcript clarifications, received 1 July 2024, and the secretariat insert a footnote on the transcript from the 3 June 2024 hearing, clarifying the evidence of Mr Tegart, as per the correspondence received 1 July 2024.
- the publication of correspondence from Mr Tony Farrell, Deputy Chief Executive Officer, City of Lake Macquarie Council, to the committee providing transcript clarifications, received 8 July 2024, and the secretariat insert a footnote on the transcript from the 3 June 2024 hearing, clarifying the evidence of Mr Farrell and Mr Bjorn Lategan, Chief Financial Officer, City of Lake Macquarie Council, as per the correspondence received 8 July 2024.

5.3 Witness list – Hearing 30 July 2024

The committee considered the Chair's proposed witness list for the public hearing on Tuesday 30 July 2024.

Resolved, on the motion of Mr Farraway: That the committee invite the following witnesses to appear and give evidence at the hearing on Tuesday 30 July 2024:

- NSW Farmers Association
- Wollongong City Council
- Riverina and Murray Joint Organisation (RAMJO)
- Independent Pricing and Regulatory Tribunal NSW (IPART)
- Audit Office of NSW
- Office of Local Government.

5.4 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Ms Sharon Houlihan, Executive Officer, Canberra Region Joint Organisation (via videoconference)
- Cr Russell Fitzpatrick, Chair of the Canberra Region Joint Organisation (Mayor Bega Valley Shire Council) (via videoconference)

The evidence concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Mr Roger Mark Stephan, Chief Executive Officer, Illawarra Shoalhaven Joint Organisation

The evidence concluded and the witness withdrew.

Mr Farraway left the meeting.

Dr Cohn joined the meeting.

The following witnesses were sworn and examined:

- Cr Amanda Findley, Mayor, Shoalhaven City Council
- Ms Robyn Stevens, Chief Executive Officer, Shoalhaven City Council
- Ms Katie Buckman, Chief Financial Officer, Shoalhaven City Council
- Mr James Ruprai, Director of City Development, Shoalhaven City Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Jane Stroud, Chief Executive Officer, Kiama Municipal Council
- Mr Joe Gaudiosi, Chief Operating Officer, Kiama Municipal Council
- Mr Anthony McMahon, Chief Executive Officer, Bega Shire Valley Council (via videoconference)

The following witness was examined on their former oath:

- Cr Russell Fitzpatrick, Mayor, Bega Shire Valley Council (via videoconference)

The evidence concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Ms Kate Monaghan, Director Corporate Services, Queanbeyan-Palerang Regional Council

The evidence concluded and the witness withdrew.

The public hearing concluded at 2.55 pm.

The public and the media withdrew.

6. Adjournment

The committee adjourned at 2.56 pm until Tuesday 30 July 2024 (public hearing, Preston Stanley Room, Parliament, local governments inquiry).

Julianna Taahi
Committee Clerk

Minutes no. 25
Tuesday 30 July 2024
Standing Committee on State Development
Preston Stanley Room, Parliament House, Sydney at 9.05 am

1. Members present
Ms Suvaal, *Chair*
Mr Farraway, *Deputy Chair* (via videoconference until 12.21 pm, from 1.34 pm until 2.43 pm)
Mr Buttigieg (until 11.20 am and from 1.33 pm)
Dr Cohn (until 9.12 am and from 10.15 am)
Mr Farlow (until 10.19 am, from 10.30 am until 1.33 pm, from 1.48 pm)
Mr Primrose (from 9.14 am until 1.33 pm, from 2.10 pm)

2. Apologies
Ms Hurst
Mr Lawrence

3. Previous minutes
Resolved, on the motion of Mr Farlow: That draft minutes no. 24 be confirmed.

4. Correspondence
The committee noted the following items of correspondence:

Received:

- 17 July 2024 – Correspondence from Person A, to the committee, relating to evidence given at the public hearing on 28 June 2024 for the local governments inquiry
- 18 July 2024 – Email from Ms Yvonne Lingua, Executive Officer, Riverina and Murray Joint Organisation, to the secretariat requesting the opportunity to give evidence at a public hearing for the local governments inquiry.

5. Inquiry into the ability of local governments to fund infrastructure and services

5.1 Corrected submission from Clarence Valley Council (submission no 123)
The committee noted that a corrected submission was received from Clarence Valley Council (submission no 123) and published by the committee clerk under the authorisation of the resolution appointing the committee, after a clarification was noted during evidence given at the hearing on 26 June 2024.

5.2 Correspondence from Person A
The committee considered the correspondence from Person A, received 17 July 2024, relating to evidence given at the public hearing on 28 June 2024.

Resolved, on the motion of Mr Farlow: That:

- the committee keep the correspondence and attachments from Person A to the committee, received on 17 July 2024, relating to evidence given at the public hearing on 28 June 2024 confidential as they contain potential adverse mention
- the Chair write to Person A to advise them that the committee has resolved to keep the correspondence and attachments confidential and that no further action will be taken by the committee at this time.

5.3 Public hearing

Witnesses, the public and the media were admitted.

The Chair made an opening statement regarding the broadcasting of proceedings and other matters.

The following witnesses were sworn and examined:

- Mr Greg Doyle, General Manager, Wollongong City Council (via videoconference)
- Mr Brian Jenkins, Chief Financial Officer, Wollongong City Council (via videoconference)

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Yvonne Lingua, Executive Officer, Riverina and Murray Joint Organisation (RAMJO)
- Mr George Cowan, Chair, Riverina and Murray Joint Organisation (RAMJO) Energy Security Sub-committee and General Manager, Narrandera Shire Council

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Bola Oyetunji, Auditor-General, Audit Office of New South Wales
- Ms Claudia Migotto, Acting Deputy Auditor-General, Audit Office of New South Wales
- Ms Alison Brown, Assistant Auditor-General, Audit Office of New South Wales

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Ms Carmel Donnelly PSM, Chair, Independent Pricing and Regulatory Tribunal NSW (IPART)
- Mr Andrew Nicholls PSM, Chief Executive Officer, Independent Pricing and Regulatory Tribunal NSW (IPART)
- Ms Fiona Towers, Executive Director, Pricing and Policy, Independent Pricing and Regulatory Tribunal NSW (IPART)

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr John Lowe, Chair, NSW Farmers Business, Economics and Trade Committee
- Ms Kathy Rankin, Head of Policy and Advocacy, NSW Farmers Association

The evidence concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Brett Whitworth, Deputy Secretary, Office of Local Government
- Mr Douglas Walther, Executive Director, Office of Local Government

The public hearing concluded at 3.15 pm.

The public and the media withdrew.

6. Adjournment

The committee adjourned at 3.15 pm until Monday 5 August 2024 (public hearing, post-mining inquiry).

Amanda Assoum
Committee Clerk

Draft Minutes no. 32
Monday 25 November 2024
Standing Committee on State Development
Room 1136, Parliament House, Sydney, 1.03 pm

1. Members present

Ms Suvaal, *Chair*
Mr Buttigieg
Dr Cohn
Mr Fang (via videoconference, substituting for Mr Farraway)
Mr Farlow (via videoconference)
Ms Hurst (via videoconference)
Mr Lawrence (via videoconference)
Mr Primrose

2. Previous minutes

Resolved, on the motion of Mr Buttigieg: That draft minutes no. 25 be confirmed.

3. Correspondence

The committee noted the following items of correspondence:

Received:

- 16 July 2024 – Email from Ms Erin Lord, Manager, Office of the Chief Executive Office, Port Macquarie Hastings Council, providing transcript clarifications to clarify the evidence of Dr Clare Allen, Chief Executive Officer, Port Macquarie Hastings Council, from the hearing on 5 July 2024 for the local governments inquiry
- 23 July 2024 – Email from Mr Adrian Panuccio, General Manager, MidCoast Council, to the committee providing transcript clarifications to the evidence of Mr Panuccio from the hearing on 27 June 2024 for the local governments inquiry
- 24 July 2024 – Email from Mr Adrian Panuccio, General Manager, MidCoast Council, correcting a response from MidCoast Council to a question taken on notice from the hearing on 27 June 2024 for the local governments inquiry
- 26 July 2024 – Correspondence from Mr David Sherley, General Manager, Bathurst Regional Council, to the committee providing transcript clarifications to the evidence of Mr Sherley and Mr Aaron Jones, Director of Corporate Services & Finance, Bathurst Regional Council, from the hearing on 28 June 2024 for the local governments inquiry
- 5 August 2024 – Correspondence from Mr Murray Wood, Chief Executive Officer, Dubbo Regional Council, providing additional information in relation to the council's appearance at the public hearing on 28 June 2024 for the local governments inquiry
- 14 August 2024 – Correspondence from Person A in response to the letter from the Chair regarding evidence provided at the public hearing on 28 June 2024
- 21 August 2024 – Correspondence from Ms Sharon Houlihan, Executive Officer, Canberra Region Joint Organisation, to the committee providing transcript clarifications to the evidence of Ms Houlihan and Cr Russell Fitzpatrick, Chair, Canberra Region Joint Organisation and Mayor, Bega Valley Shire Council, from the hearing on 23 July 2024 for the local governments inquiry
- 25 October 2024 – Correspondence from Mr Erin Sellers, Secretary, Stormwater NSW, to the committee inviting members to attend an upcoming half-day seminar on sustainable funding for stormwater management for the local governments inquiry.

Sent:

- 14 August 2024 – Correspondence from the Chair to Person A in response to his email relating to evidence given at the public hearing on 28 June 2024 for the local governments inquiry.

4. Inquiry into the ability of local governments to fund infrastructure and services

4.1 Public submissions

The committee noted the following submissions were published by the committee clerk under the authorisation of the resolution appointing the committee: submission no 129.

4.2 Additional information from Mr Murray Wood, Chief Executive Officer, Dubbo Regional Council

The committee noted that additional information from Mr Murray Wood, Chief Executive Officer, Dubbo Regional Council, received 5 August 2024, in relation to council's appearance at the public hearing on 28 June 2024, was published on the inquiry webpage.

4.3 Answers to questions on notice and supplementary questions

The committee noted that the following answers to questions on notice were published by the committee clerk under the authorisation of the resolution appointing the committee:

- Answers to questions on notice and supplementary questions, Ms Bronwyn Mitchell, Executive Officer - General Manager and Mayor & Councillors, Lismore City Council, received 17 July 2024
- Answers to questions on notice, Ms Laura Black, General Manager, Clarence Valley Council, received 22 July 2024
- Answers to questions on notice, Ms Jenny Bennett, Executive Officer, Central NSW Joint Organisation (CNSWJO), received 22 July 2024
- Answers to questions on notice, Mr Adrian Panuccio, General Manager, MidCoast Council, received 24 July 2024
- Answers to questions on notice, Mr David Sherley, General Manager, Bathurst Regional Council, received 26 July 2024
- Answers to questions on notice, Mr Ian Clayton, Manager Property & Revenue, Mid-Western Regional Council, received 30 July 2024
- Answers to questions on notice, Ms Melanie Slimming, Director Infrastructure & Engineering Services, Narromine Shire Council, received 1 August 2024
- Answers to questions on notice, Mr Gary Parsons, Acting Chief Executive Officer, North Sydney Council, received 2 August 2024
- Answers to questions on notice, Ms Evelyn Arnold, General Manager, Greater Hume Council, received 22 July 2024
- Answers to questions on notice, Mr Brent Stonestreet, General Manager, Griffith City Council, received 24 July 2024
- Answers to questions on notice, Ms Carolyn Rodney, Chief Financial Officer, Wagga Wagga City Council, received 9 August 2024
- Answers to questions on notice, Ms Tracey Squire, Deputy CEO Business, Growth and Community, Albury City Council, received 12 August 2024
- Answers to questions on notice, Mr Steven Pinnuck, Interim General Manager, Snowy Valleys Council, received 13 August 2024
- Answers to questions on notice, Mr Anthony McMahon, Chief Executive Officer, Bega Valley Council, received 2 August 2024
- Answers to questions on notice, Cr Mathew Dickerson, Mayor, Dubbo Regional Council, received 22 August 2024
- Answers to questions on notice and supplementary questions, Mr Brett Whitworth, Deputy Secretary, Office of Local Government, received 23 August 2024
- Answers to questions on notice and supplementary questions, Mr Andrew Nicholls, Chief Executive Officer, Independent Pricing and Regulatory Tribunal of NSW (IPART), received 26 August 2024
- Answers to questions on notice, Ms Elen Welch, NSW Farmers, Policy Director – Socio Economics, received 27 August 2024

- Answers to questions on notice, Mr Brian Jenkins, Chief Financial Officer, Wollongong City Council, received 27 August 2024
- Answers to questions on notice, Ms Sharon Houlihan, Executive Officer, Canberra Region Joint Organisation, received 28 August 2024.

4.4 Transcript clarifications

Resolved, on the motion of Mr Buttigieg: That the committee authorise:

- the publication of correspondence from Ms Erin Lord, Manager, Office of the Chief Executive Office, Port Macquarie Hastings Council, to the committee providing transcript clarifications, received 16 July 2024, and the secretariat insert a footnote on the transcript from the 5 July 2024 hearing, clarifying the evidence of Dr Clare Allen, Chief Executive Officer, Port Macquarie Hastings Council, as per the correspondence received 16 July 2024
- the publication of correspondence from Mr Adrian Panuccio, General Manager, MidCoast Council, to the committee providing transcript clarifications, received 23 July 2024, and the secretariat insert a footnote on the transcript from the 27 June 2024 hearing, clarifying the evidence of Mr Panuccio, as per the correspondence received 23 July 2024
- the publication of correspondence from Mr David Sherley, General Manager, Bathurst Regional Council, to the committee providing transcript clarifications, received 26 July 2024, and the secretariat insert a footnote on the transcript from the 28 June 2024 hearing, clarifying the evidence of Mr Sherley and Mr Aaron Jones, Director of Corporate Services & Finance, Bathurst Regional Council, as per the correspondence received 26 July 2024
- the publication of correspondence from Ms Sharon Houlihan, Executive Officer, Canberra Region Joint Organisation, to the committee providing transcript clarifications, received 21 August 2024, and the secretariat insert a footnote on the transcript from the 23 July 2024 hearing, clarifying the evidence of Ms Houlihan and Cr Russell Fitzpatrick, Chair, Canberra Region Joint Organisation and Mayor, Bega Valley Shire Council, as per the correspondence received 21 August 2024.

4.5 Declaration of interest

Mr Lawrence declared he has a prior relationship to Person A, who sent the committee correspondence relating to evidence provided at the public hearing on 28 June 2024.

Mr Lawrence left the meeting.

4.6 Correspondence from Person A

The committee considered the correspondence from Person A, received 14 August 2024, in response to the letter from the Chair regarding evidence provided at the public hearing on 28 June 2024. The committee noted that it previously resolved to keep the correspondence and attachments from Person A to the committee, received on 17 July 2024, confidential as they contain potential adverse mention.

Resolved, on the motion of Mr Primrose: That the committee

- keep confidential the correspondence:
    - from the Chair to Person A, sent 14 August 2024, in response to his email relating to evidence given at the public hearing on 28 June 2024
    - from Person A to the committee, received 14 August 2024, in response to the letter from the Chair
- take no further action on this matter at this time.

Resolved, on the motion of Dr Cohn: That the secretariat inform Person A about the Portfolio Committee No. 8 - Customer Service inquiry into public toilets should he wish to make a submission.

Mr Lawrence re-joined the meeting.

4.7 Consideration of Chair's draft report

The Chair submitted her draft report entitled *'Ability of local governments to fund infrastructure and services*', which, having been previously circulated, was taken as being read.

Chapter 1

Dr Cohn moved: That:

- the following new committee comment be inserted after paragraph 1.52:

  Committee comment

  While the *Local Government Act 1993* currently provides as part of the guiding principles that councils will provide strong and effective representation, leadership, and recognise diverse local community needs and interests, the guiding principles and purpose of the LG Act is largely focused on governance and financial management, with existing service functions classified as non-regulatory (Chapter 6), regulatory (Chapter 7) or ancillary (Chapter 8). An opportunity exists for the NSW Government to update the LG Act to include explicitly that local government has a role in supporting the wellbeing of its local community, appropriate to the current and future needs within its local community and of the wider public.'

- the following new recommendation be inserted after paragraph 1.52:

  '**Recommendation X**

  That the NSW government update the *Local Government Act 1993* to include in the service functions of councils their role in supporting the wellbeing of the local community.'

Question put.

The committee divided.

Ayes: Dr Cohn, Ms Hurst.

Noes: Mr Buttigieg, Mr Fang, Mr Farlow, Mr Lawrence, Mr Primrose, Ms Suvaal.

Question resolved in the negative.

Chapter 2

Dr Cohn moved: That Recommendation 2 be amended by inserting a dot point at the end: 'use capital improved value, rather than unimproved land value, to set the variable component of rates'.

Mr Buttigieg moved: That the motion of Dr Cohn be amended by omitting 'use capital improved value' and inserting instead 'examine the use of capital improved value'.

Amendment of Mr Buttigieg put.

The committee divided.

Ayes: Mr Buttigieg, Mr Fang, Mr Farlow, Mr Lawrence, Mr Primrose, Ms Suvaal.

Noes: Dr Cohn, Ms Hurst.

Amendment of Mr Buttigieg resolved in the affirmative.

Original question of Dr Cohn, as amended, put and passed.

Chapter 3

Dr Cohn moved: That Recommendation 4 be amended by inserting at the end: 'and that the NSW Government compensate councils for the reasonable costs incurred above statutory fees and charges for required services during this term of government.'

Question put.

The committee divided.

Ayes: Dr Cohn, Ms Hurst.

Noes: Mr Buttigieg, Mr Fang, Mr Farlow, Mr Lawrence, Mr Primrose, Ms Suvaal.

Question resolved in the negative.

Resolved, on the motion of Dr Cohn: That:

a. paragraph 3.62 be amended by inserting at the end: 'and works deemed essential to support development including community facilities as determined by the council on behalf of the local community.'

b. Recommendation 7 be amended by inserting at the end: 'and works deemed essential to support development including community facilities as determined by the council on behalf of the local community.'

Chapter 4

Resolved, on the motion of Ms Hurst: That the following new paragraphs be inserted after paragraph 4.9:

'A number of stakeholders raised concerns about the financial ability of councils to provide pound and companion animal services. For example, LGNSW gave evidence that rate pegging and cost shifting is impacting the ability of councils to provide the companion animal services that communities need:

> Rate pegging, cost shifting and state and federal funding arrangements that are no longer fit for purpose all conspire to restrict the ability of councils to provide the infrastructure and services that their communities need and deserve – and this extends to services for companion animals. For the 2021-22 financial year, $8,271,976 was paid to councils from the Companion Animals Fund, which equates to approximately 80% of total registration fees collected. However, this does not come close to covering the full cost of companion animals functions, such as the need for councils to provide appropriate care for animals including nutrition, veterinary care, enrichment activities, and shelter. [FOOTNOTE: Answers to questions on notice, Local Government NSW (LGNSW), 8 July 2024, p 3]

Camden Council gave evidence that the amount they received from the Companion Animals Fund only covered 13.5% of their actual costs to deliver companion animal services [FOOTNOTE: Answers to questions on notice, Mr Andrew Carfield, General Manager, Camden Council, 24 June 2024, p 1], and explained further:

> The fees that we receive for animal registration would go nowhere near the cost of delivering that service. Unless we are to go back into general revenue for rates, which is competing against other service areas, we are not going to go near the actual costs of the needs of that service. The needs are growing, certainly in a community like ours. With new homes and new residents, we also have new companion animals.' [FOOTNOTE: Evidence, Mr Andrew Carfield, General Manager, Camden Council, 29 May 2024, p 33]

Blacktown City Council similarly expressed concerns that its community desire to provide better companion animal services was being 'hamstrung' by the rate peg:

> The rate peg pays no credence to the community's desire for dealing with companion animals, just as it pays no attention to any of the community's aspirations. It is simply a percentage applied to whatever was spent last year… We have a big desire in Blacktown—you just spoke about our animal rehoming centre, and we're looking after other councils in Sydney because they can't afford to do that. We've been hamstrung in regards to the rate peg, as the CEO said, about moving forward and how we can do it better. We need to be independent and be able to look at what's best for our community.' [FOOTNOTE: Evidence, Mr Kerry Robinson OAM, Chief Executive Officer, Blacktown City Council, 3 June 2024, p 13]'

Resolved, on the motion of Dr Cohn: That paragraph 4.110 be amended by inserting a dot point at the end: 'Ms Tracey Squire, Acting Chief Executive Officer of Albury City Council and Mr Troy Green, General Manager of Tweed Shire Council advocated for an end to the process of discounting the use of infrastructure or services by interstate residents which has impacted the ability of councils along the NSW border to obtain state government funding for infrastructure projects including transport projects.'

Resolved, on the motion of Ms Hurst: That the following committee comment and recommendation be inserted after paragraph 4.153:

Committee comment

The committee notes the specific funding challenges faced by councils in delivering suitable pound and companion animal services, as a result of the rate cap, cost shifting and other factors affecting their financial sustainability. The committee notes that Portfolio Committee No. 8 – Customer Service recently published its report into *Pounds in New South Wales* which recommended that the NSW Government provide increased funding for council pounds, and call upon local government authorities to provide increased funding for council pounds. The committee recognises the critical importance of pound and companion animal services, both to the community and in achieving good animal welfare outcomes and urges the NSW Government take steps to address these funding issues.

Recommendation X

That, as part of the process of redesigning the local government rating system as outlined in Recommendation 2, the NSW Government have regard to the findings and recommendations of Portfolio Committee No. 8 – Customer Service's Pounds in New South Wales report and ensure councils are able to properly fund pounds and companion animal services.'

Dr Cohn moved:

a. Paragraph 4.159 be amended by inserting at the end: 'and the need of this work is increasing due to climate change'
b. That Recommendation 9 be amended by:
    i. omitting 'centralise' and inserting instead 'provide'
    ii. omitting 'within' and inserting instead 'through'
    iii. inserting at the end 'and create dedicated and ongoing funding streams for communities, councils and community organisations to support their work on mitigation and preparedness.'

Mr Buttigieg moved: That the motion of Dr Cohn be amended by keeping the words 'centralise' and 'within' in Recommendation 9.

Amendment of Mr Buttigieg put.

The committee divided.

Ayes: Mr Buttigieg, Mr Fang, Mr Farlow, Mr Lawrence, Mr Primrose, Ms Suvaal.

Noes: Dr Cohn, Ms Hurst.

Amendment of Mr Buttigieg resolved in the affirmative.

Original question of Dr Cohn, as amended, put and passed.

Resolved, on the motion of Dr Cohn: That:

a. paragraph 4.164 be amended by omitting 'The committee notes that the ownership of Rural Fire Service (RFS) assets is contested and being examined by a separate Parliamentary Inquiry' and inserting instead 'The committee notes the significant impacts on councils of being required to account for depreciation costs in relation to Rural Fire Service (RFS) assets, known as the "Red Fleet." Given significant change in emergency services funding and management over recent decades, this is no longer a practicable way for these assets to be accounted for. Noting the current inquiry underway by the Public Accounts Committee examining this issue in more detail, this committee recommends that this issue be addressed by amendment to the *Rural Fires Act 1997*.'

b. the following new recommendation be inserted after paragraph 4.164:

Recommendation X

That the NSW Government seek amendment to the *Rural Fires Act 1997* such that Rural Fire Service assets are vested in the Rural Fire Service, with consequential amendment to the duties of councils

as public authorities to prevent the occurrence of bushfires on, and to minimise the danger of the spread of a bush fire on or from land under its control or management.'

Dr Cohn moved: That Recommendation 13 be amended by inserting a dot point at the end: 'end the practice of discounting infrastructure and other funding applications by border councils due to use by interstate residents.'

Mr Farlow moved: That the motion of Dr Cohn be amended by omitting 'end the practice' and inserting instead 'review the practice'.

Amendment of Mr Farlow put.

The committee divided.

Ayes: Mr Buttigieg, Mr Fang, Mr Farlow, Mr Lawrence, Mr Primrose, Ms Suvaal.

Noes: Dr Cohn, Ms Hurst.

Amendment of Mr Farlow resolved in the affirmative.

Original question of Dr Cohn, as amended, put and passed.

Dr Cohn moved: That Recommendation 13 be amended by inserting a dot point at the end: 'reinvest significantly more of the waste levy into infrastructure and services supporting the transition to a circular economy'.

Mr Primrose moved: That the motion of Dr Cohn be amended by omitting 'reinvest significantly more of the waste levy into infrastructure and services supporting the transition to a circular economy' and inserting instead 'use its waste levy review to examine how the Waste Levy can better support infrastructure and services that support the transition to a circular economy.'

Amendment of Mr Primrose put.

The committee divided.

Ayes: Mr Buttigieg, Mr Fang, Mr Farlow, Mr Lawrence, Mr Primrose, Ms Suvaal.

Noes: Dr Cohn, Ms Hurst.

Amendment of Mr Primrose resolved in the affirmative.

Original question of Dr Cohn, as amended, put and passed.

Resolved, on the motion of Mr Primrose: That:

The draft report as amended be the report of the committee and that the committee present the report to the House;

The transcripts of evidence, submissions, tabled documents, answers to questions on notice and supplementary questions, and correspondence relating to the inquiry be tabled in the House with the report;

Upon tabling, all unpublished attachments to submissions be kept confidential by the committee;

Upon tabling, all unpublished transcripts of evidence, submissions, tabled documents, answers to questions on notice and supplementary questions, and correspondence relating to the inquiry, be published by the committee, except for those documents kept confidential by resolution of the committee;

The committee secretariat correct any typographical, grammatical and formatting errors prior to tabling;

The committee secretariat be authorised to update any committee comments where necessary to reflect changes to recommendations or new recommendations resolved by the committee;

Dissenting statements be provided to the secretariat within 24 hours after receipt of the draft minutes of the meeting;

The report be tabled on 29 November 2024;

The Chair to advise the secretariat and members if they intend to hold a press conference, and if so, the date and time.

5. Adjournment

The committee adjourned at 1.34 pm until Tuesday 17 December 2024 (post mining inquiry).

Amanda Assoum
Committee Clerk

Appendix 4 Dissenting Statement

Dissenting Statement
Dr Amanda Cohn - The Greens

This inquiry was welcomed by the Greens, and we support a majority of its recommendations. It is abundantly clear from the evidence the committee heard, from diverse local government areas across NSW, that councils are not currently able to raise sufficient revenue, and are not adequately supported by the state and federal government, to be able to provide services and facilities that meet the expectations of the communities that they represent and serve.

However, The Greens dissent from this report on some matters.

This inquiry was extensive, with 10 hearings, including 5 regional hearings - stakeholders in the local government sector and in the community reasonably expect that some action will be directly taken as a result of this work and detailed examination over 8 months, not just further reviews. In justifying why this committee was tasked with this inquiry, which had previously been tasked to IPART, the Minister and the Office of Local Government referred to the capacity of this committee to "deliver it quicker" given the level of concern about the financial sustainability of councils.

The government has recommended an audit of statutory fees and charges to better reflect and account for increases in market costs and pressures including inflation - this is a good thing, but councils providing services at a fee that does not cover the cost of providing the service shouldn't have to continue losing money while waiting for a further audit. The government could and should amend those fees now where the evidence received by this committee has been clear - one example of this is the stormwater management charge. It is disappointing, given this further delay, that government and opposition members rejected an amendment recommending that the government compensate councils for the reasonable costs incurred above statutory fees and charges for required services during this term of government.

Similarly, government and opposition members together watered down a Greens amendment to reinvest significantly more of the waste levy into infrastructure and services supporting the transition to a circular economy to instead refer to the existing waste levy review. The Greens proposed a recommendation that capital improved value, rather than unimproved land value, be used to set the variable component of rates which was watered down by the government to instead recommend further examination.

Finally, this inquiry raised broad questions about the role and function of local government. Councils are providing an enormous range of services and facilities to meet the needs of their communities. The *Local Government Act 1993* classifies service functions as non-regulatory, regulatory or ancillary, with guiding principles and purpose largely focused on governance and financial management. There is an opportunity being missed for the NSW government to update the LG Act to include explicitly that local government has a role in supporting the wellbeing of its local community.

I thank the Chair and committee members for their collaborative approach during this inquiry, and for their support for Greens amendments which strengthened this report, including: that the NSW

government seek amendment to the *Rural Fires Act 1997* such that Rural Fire Service Assets are vested in the Rural Fire Service; including which works are deemed essential by local communities to support development in the proposed changes to the developer contributions framework; to review the practice of discounting infrastructure and other funding applications by border councils due to use by interstate residents; and to create dedicated and ongoing funding streams for communities, councils and community organisations to support their work on disaster mitigation and preparedness. The need for this critical work is only increasing due to climate change.

The Greens look forward to working with the government and holding them to account to implement the recommendations of this inquiry, as well as continuing to strengthen local democracy in collaboration with the 73 Greens Councillors elected to local government across NSW.