

---

**From:** Sharon Houlihan  
**Sent:** Wednesday, 21 August 2024 4:35 PM  
**To:** State Development  
**Cc:** Russell Fitzpatrick; Executive Assistant; mayor  
**Subject:** CM: FW: Inquiry into the ability of local governments to fund infrastructure and services - Post-hearing responses - 23 July 2024  
**Attachments:** Transcript - HIGHLIGHTED FOR QON - State Development - Local governments inquiry - 23 July 2024.pdf

Hello Julianna, I apologise for the delay in providing this response.

Please find attached transcript with very minor amendments to incorrect words.

Thanks



**Sharon Houlihan**

Executive Officer

---

PO Box 66, Queanbeyan NSW 2620

We stand on Country that always was and always will be Aboriginal land. We acknowledge the Traditional Custodians of the land and waters, and we show our respect for Elders past and present. We are committed to providing places in which Aboriginal people are included socially, culturally and economically through thoughtful and collaborative approaches to our work.

---

**UNCORRECTED**

---

**Ms SHARON HOULIHAN**, Executive Officer, Canberra Region Joint Organisation, before the Committee via videoconference, affirmed and examined

**Councillor RUSSELL FITZPATRICK**, Chair, Canberra Region Joint Organisation and Mayor, Bega Valley Shire Council, before the Committee via videoconference, sworn and examined

**The CHAIR:** Welcome to our first witnesses that are appearing before us this morning online. Would either of you like to start by making a short opening statement?

**RUSSELL FITZPATRICK:** Yes, I will quickly make an opening statement. You have our submission, and I believe the IPART submission that we gave originally to IPART has been forwarded to the Committee as well. I just want to touch on the special variation process: It should not be needed by councils, just to keep it plain. In the last three years, five of the Canberra joint organisation's 11 member councils had special variations approvals partially approved by IPART anywhere from 30 per cent to in excess of 55 per cent. Of our member councils, the Upper Lachlan council withdrew their special rate variation process due to community backlash and abuse of councillors. Other member councils have been forced to consider the special rate variation process in coming years.

The special rate variation process puts a bad taste in our community's mouths about local government as it makes it appear that our council [inaudible] when actually it is an added problem as they impact council's ability to afford these services and infrastructure, such as supporting an ability to raise rates when we do the rate peg and the rate base of regional, rural and remote councils due to low population and a significant amount of non-rateable land such as resorts, national parks and State forests. The current standard requirements, such as how depreciation is required to be accounted for by councils, also affects the ability of council to operate under similar situations. Rate pegging [inaudible] some financial assistance. Rates need to be enough to keep councils financially sustainable, not forcing individual councils to apply for special rate variations just to keep afloat.

I have some issues around the judging of councils' ability to manage finance based on an operating surplus as a measure. It significantly disadvantages regional, rural and remote communities and councils. Councils are judged on an operating surplus across metropolitan and regional areas alike, but this is a poor determination of councils' ability to manage money. Metropolitan councils are densely populated and they've got a high percentage of rateable land. They can raise significant revenue from rates and other fees and charges—for example, car parking fees—and therefore are able to have strong operating surpluses driven by high revenue. Regional, rural and remote councils have high percentages of non-rateable land, as I mentioned before, and sparse populations, which limit their ability to raise rates to fund councils' services and infrastructure. Together with higher costs to build and maintain infrastructure and other services to our communities due to a large geographical area, regional, rural and remote councils are significantly disadvantaged with respect to their ability to achieve operational surpluses. An operating surplus or rates ratio would be a far better way to measure a council's performance ability. I'll leave that with you as a statement.

Through our Canberra Region Joint Organisation, five of our 11 councils have had to have special rate variations in the last three years. I think the other four that haven't will be looking at it in the next three years. That is just to maintain the current services that we have. It's not to build new infrastructure or anything like that; it's just merely to maintain the current infrastructure available in those councils.

**SHARON HOULIHAN:** I just wanted to add the issue of water and wastewater charges being included in councils' consolidated revenue. So unlike metropolitan councils—which don't have water and wastewater services as part of their remit—regional, rural and remote councils do and must count the water and wastewater service fees and charges in their consolidated revenue. Those fees and charges are regarded then as own-source revenue, and are included as revenue for rural, remote and regional councils in consolidated figures. That inflates revenue but does not recognise that these fees and charges are tied to water and wastewater services only and do not assist with the delivery of other council services.


When IPART sets the rate peg, we put that they should be looking at general rates only, not water and wastewater fees and charges. The last point is around the financial assistance grants. So three points to make. They are inadequate, in terms of the amount. The early payment of the grants is masking councils' financial sustainability concerns. The State's formula for distribution of the grants disadvantages regional, rural and remote councils in that they have substantial road networks. Especially, there is an issue with how vehicles are counted. For example, B-doubles are counted the same as a lightweight, small electric vehicle. They clearly have a different impact on road maintenance and design life. The early payment of Commonwealth financial assistance grants is masking the problem of councils being unsustainable financially, because it falsely shows higher revenue in the accounts which in reality relates to expenditure that won't be incurred until the following year.

# Summary of Comments on Transcript - HIGHLIGHTED FOR QON - State Development - Local governments inquiry - 23 July 2024.pdf

---

Page: 3

---

 Number: 1      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 12:34:38 PM  
wider

---

---

**UNCORRECTED**

---

**The CHAIR:** We will now move to questions. We have a number of Committee members who are also appearing online today, so we will switch between the two. In terms of your opening statements, I will first move to Councillor Fitzpatrick. You mentioned depreciation and the impacts that has on councils in your opening remarks. In terms of the current guidelines, do either of you have any recommendations or suggestions around the current depreciation guidelines and whether or not these could or should be changed to allow councils to revalue assets differently, whether that is more frequently, less frequently, whatever the case may be?

**RUSSELL FITZPATRICK:** Yes, there is a whole scenario to it all. No council cash backs their depreciation. So it's basically an indication of what you are going to be spending on your maintenance in the ensuing financial year. We're all running asset management plans across the board with our orders, saying we have to revalue all those assets in a five-year cycle in our water requirements. So the actual depreciation being the old statement actually just masks or makes councils look like poor managers, because we actually run our asset management pretty well and reallocate the necessary funds to maintain those assets. The problem is that the income level is not substantiated enough in regional and rural councils to actually maintain those assets and the amount of assets we have.

I believe that depreciation shouldn't be in your P and L. We have to take our capital grants in our profit and loss statement. That also then brings back another figure as to the capital grant and what that's been provided by, whether it was a council requirement or, in some cases, it may be a State or Federal grant to do something that the community lobbied for, and council may not have even been in favour of actually having that grant provided. So depreciation can actually make you look pretty bad as an operator at times, especially with a high asset being on a high road network across the board. So the unit cost and depreciation amount that is required across that is debatable. I believe that there could be a better way to do it, but I'm not a CPA so I really couldn't advise on that. But they're not cashbacks, so I don't see the point of actually having them in our P and L.

**The CHAIR:** In your submission and also from the Canberra Region Joint Organisation it mentions the New South Wales Government financial reporting requirements of local government currently necessitating depreciation to be double counted in financials. I invite you to expand more on that if you are able to.

**RUSSELL FITZPATRICK:** Yes. We revalue it in our assets and we do an asset revaluation. To take the current model, as I said, every five years, that's required to manage our assets and revalue them under the audit requirements, but then we also have the depreciation figure in our P and L statement, so it's basically double accounting. If you're adjusting the value of the assets in your balance sheet to the current day value, you're changing the depreciation anyway and what the worth is, so why depreciate it then through your profit and loss statement as well?

**The CHAIR:** Ms Houlihan, did you have any comments or remarks on either of those things?

**SHARON HOULIHAN:** Nothing to add to Councillor Fitzpatrick's explanation there except in relation to red fleet assets and a different inquiry that is underway. The expectation that councils recognise Rural Fire Service assets in their accounts is also problematic for councils, given they have no control over those assets. It's a different point.


**The CHAIR:** Looking at your submission and, Councillor Fitzpatrick, in your opening statement you also mention the special rate variation process. One of the remarks is that there should be stronger support and consideration as to how the State Government, via IPART or other parts of government, can better support councils applying for special rate variations. What would that better support look like?

**RUSSELL FITZPATRICK:** In an ideal world we shouldn't have to have special rate variations unless you're doing a project that's well outside of what you can afford at the present time and you need a higher income to service that. At the present time it comes back to your definition of financial sustainability. If we are financially sustainable, our income should be able to meet all our costs. At the present time, if you want to do a capital project, regional New South Wales and rural councils don't have any capacity to do that. They're relying on a Federal Government grant or a State Government grant to build something significant. Then they have to depreciate that in there, and there are no ongoing maintenance costs included in the grant proposal. So, right across the board, how we actually fund grants and whether it's operational and capital grants need to be looked at and worked out with the grants commission.


Ms Houlihan touched on the Financial Assistance Grants and paying them in advance. That's just masking what should be a loss situation declared an operating loss into the next financial year and basically bringing income into a financial year when it's going to be spent or incurred in the following financial year. So it doesn't achieve anything. As for support, it's not a very nice feeling—I can tell you—as a mayor, going to the community and saying that we need to increase rates by 48 per cent. That's what we've been through in the past two years in the Bega Valley. It's not a good feeling. Basically, no councillor would ever get elected if they ran a campaign saying,

# Page: 4


---

 Number: 1      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 3:51:41 PM

---

 Number: 2      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 3:50:35 PM  
on the

---

 Number: 3      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 3:51:31 PM  
substantial

---

---

**UNCORRECTED**

---

we are going to increase rates—as a platform to run for council—I can assure you. The whole special rate variation process needs to be addressed in the fact that—with overall income ability of the councils.

**The CHAIR:** In your submission, it does talk about the process also being very challenging for staff—including, obviously, elected officials who generally live and work in their local government area. You've sort of touched on that a bit, Councillor Fitzpatrick, but I just invite you—and perhaps Ms Houlihan as well—to further explore what that impact has been and how that's affected either you personally or others that you're aware of.

**RUSSELL FITZPATRICK:** Yes, our senior staff are affected. They have to make a recommendation of councils to remain financially sustainable. Our council staff actually recommended a 90 per cent increase. That received huge community backlash to start with, which was worn by the councillors and the senior staff at the time trying to say that's what we needed. All it was—the 90 per cent is to manage our assets. We're not building any Taj Mahal out of that or anything like that—or any effigy to the councillors. It's just to maintain our current assets: our road infrastructure, our network—we're a coastal council with a significant road and rural road network. We're severely disadvantaged by the Financial Assistance Grants and everything else that comes, so all we're trying to do is maintain those assets.

Unfortunately, over the years, you have legacy infrastructure built. We live in a community of numerous large towns and small towns. We have six swimming pools. Ideally, you would have two swimming pools in the whole Bega Valley Shire, but you try to take away a swimming pool from a little community that, actually, 20 years ago, raised that money to build that swimming pool, and tell them you're going to close the swimming pool. It's not a very good figure and it's not a very good place to be in, but that's what needed to be said. The community wanted us to maintain those assets so we had no choice, but it's not a nice choice.


**SHARON HOULIHAN:** Going back [audio malfunction], through the Chair, of impact on staff and councillors, if I can speak on their behalf—which I think is what you're asking me to do. The staff, as we said in our submission, have to live in the town and the councillors have to live in the town. When they put up a recommendation to the council of the staff saying, "To make ends meet, you need a 50 per cent or 90 per cent or 70 per cent—such huge figures—uptick in your rates," they cop it then. I can speak from personal experience on that—not in this State. I'm new to this State but, in other States as a council CEO attending town hall meetings, it's a very abusive situation where your community is very angry at you for the recommended rates increases that need to be put up.

One of our member councils, Upper Lachlan Shire Council, withdrew from the special rates variation process that they commenced during the consultation, simply because of the abuse that the councils were suffering—and not just the councils, the general manager. To put it clearly for the Committee, the general manager and senior staff often live in council-provided housing in the town and so the community knows where they live. They drive past their house—and this happened in Upper Lachlan Shire Council—hurling abuse and other things at the general manager. It is impactful on staff and it is impactful on councillors when they, just to make ends meet and just to keep afloat—as Councillor Fitzpatrick said, not to build shiny new things—they have to suffer abuse.


Our point is that councils shouldn't be having to go for special rates variations of such large amounts if the rate peg were set in a way that allowed councils to keep afloat. If the Financial Assistance Grants from the Federal Government or the non-capital grants—just operational grants—were enough to enable councillors to stay afloat, given their circumstances that are unique to each council about how much rates they can actually raise in reality, then we wouldn't have to go for such large special rates variations. When we do have to go for those, all the blame comes back to council. It makes councils look like they're not able to manage their finances properly when, in reality, councils have the rug pulled out from under them because they are not able to raise enough revenue to fund their infrastructure and their basic services to community. It doesn't make sense or is not understood by community that the rate peg is what's stopping councils from being able to raise revenue, or that there are so few of us and such large kilometres of roads—that's why council can't raise revenue. It just makes councils look like they can't manage money, because the headline figure is "Council goes for a 50 per cent rate increase", and council gets the blame for applying that, not the State for approving it or IPART for considering it.

**RUSSELL FITZPATRICK:** Some of the downside of that is that after community abuse, as Upper Lachlan decided to do, you drop the increase. The substantial effect on assets over a three- or five-year period and then the rebuild of those assets later on, instead of maintenance on the way through, becomes a far bigger cost for that community. They're relying on grants to do that, especially new road network. Everyone knows that if the maintenance is not kept up, then you'll be up for a rebuild. The square metre rate difference in a patch-up job compared to a total rebuild is astronomical, and rural and regional councils can't afford that. When your council does go weak and gives into the community pressure, what happens is, basically, the people who've been strong enough probably won't be re-elected, and that's where the crime comes in.


---

 Number: 1      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 3:59:13 PM  
councillors


---

 Number: 2      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 3:59:51 PM  
councillors

---

 Number: 3      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 4:02:35 PM  
councils

---

 Number: 4      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 4:02:57 PM  
raise

---

**UNCORRECTED**

---

I give the example about joint organisation. At the last election, most of the councils started this rate discussion three years ago and out of the 10 mayors, I was the only one returned. All the rest were voted out as mayors. Even though they'd taken the right decision for their community in doing a rate rise, they were voted out. I expect the same to happen again with current elections coming up. People will be voted out because they took a stance to protect the assets of the community, but the community won't recognise that.

**The CHAIR:** In terms of other matters that you raise in the submission, I note one of those is to review and streamline the State and Federal disaster funding assistant arrangements, in particular around the restoration guidelines, to include water and sewer assets, community halls and public toilets, and allow for betterment. I invite you to explain a bit more about that, particularly if you've got any actual examples of issues where this has occurred and what that has meant for the community.

**RUSSELL FITZPATRICK:** Yes, there are a couple of things around the disaster recovery situation and I think we're getting better at it. The betterment one I'll start with, as a classic example. The Hon. Sam Farraway is well aware of it. I've brought it up with him numerous times. There's a little bridge down in a little village south of us at Wonboyn. We had seven floods after the bushfires. Seven times we repaired exactly the same thing, whereas lifting that bridge by two metres would have fixed it once and for all. But we couldn't do that, because all we got under the bushfire recovery and under the disaster recovery was to put back what was there, which was just a waste of money—a total waste of money. Seven times we repaired it. The first time the engineer came along and looked at the place, looked at the typography and looked at where the current bridge was, and said we should lift that bridge. It would have been done and we would have saved what I think ended up being \$3 million in repairs over those seven floods. So it was just a waste of \$3 million.

Finally, we've got a grant now to lift the bridge higher through the Federal Government as well as the State Government Fixing Country Bridges Program. We can get on with that now, but that's part of the problem around betterment. Common sense doesn't come into play when the disaster happens and it should. There's a lack of trust, to be honest. There's a lack of trust between various State Government departments and local councils in how they do things. That's what I find is the biggest problem there—the betterment program. Straightaway, when that disaster happens, it should be, "If we're going to build it back, let's build it back better right from the start, instead of wasting time around that." It's pretty obvious. It's not hard to have common sense.

Councils' infrastructure is not included in disaster recovery—water and sewer—if we had damage to that. We have to fix that cost ourselves unless we can get a special disaster recovery grant for it, and that's through a whole process. There are a lot of problems with the opt in, opt out under the recovery process as well. Once council goes along and temporarily fixes something, then council has to do the cost. We can't claim the cost of our staff under that program. So most councils sit back and actually get a contract where the whole lot of the money is covered the under recovery program. It needs to be worked out with **1** construction New South Wales as we move forward, and hopefully it will be. We've made submissions to **2** construction about that, so hopefully that will happen. That's where we're coming from in that. All we want is some common sense at times around things.


**SHARON HOULIHAN:** To add—through the Chair—around betterment, it is really understandable why betterment is not included in the recovery funding arrangements. I get it. Like for like is what recovery is defined as, and betterment suggests somehow that there might be a bit of profit-making from the emergency and this is an opportunity to fix up your infrastructure problems. I understand why it's not included, but there's a way to include it—if I might make a suggestion—that should be able to work, and it's through a method of having pre-approval for betterment projects.

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.


In all other circumstances with State government infrastructure priority lists and so on, there are processes that are gone through with pre-planning to have projects approved to be in the pipeline. We could apply the same logic to betterment projects and have them in the pipeline, pre-approved and assessed, so that the uncertainty that every council has to face, not only will they get the money back—will they get it in time to not send them into financial dire straits before the money comes through?—but also will they only get it for like-for-like? It could be



---

 Number: 1      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 4:16:04 PM  
Reconstruction NSW (this is the name of the department)

---

 Number: 2      Author: Sharon Houlihan      Subject: Comment on Text      Date: 21/08/2024 4:08:49 PM  
Reconstruction

---

**UNCORRECTED**

---

Not to overstate the point, but there are many—and it was a feature of our submission and a feature of the Country Mayors Association submission—examples, areas and ways in which there is disadvantage for rural, regional and remote and yet the same rate peg applies and there is a one size fits all in terms of how operating surplus is used. There is the measure to determine council's financial management credentials and yet there is a significant disadvantage for rural, regional and remote to have to manage water and so on. I really draw the Committee's attention to that divide and that difference in disadvantage level for the regionals compared with the metropolitan. It's not a whinge; it's all backed up by fact.

**RUSSELL FITZPATRICK:** One thing that hasn't been properly touched on at the present time is how in regional areas local government ends up as the last resort for people. We are in childcare services because the private enterprise can't provide it. There is not sufficient numbers. We run the childcare service at a loss—it's a significant loss at times, even though we review it. It's for disadvantaged people in a lot of areas. That is left with local government because private enterprise can't run it at a profit and don't want to enter there.

Some councils had to get into nursing homes. You would have seen that. You have probably already heard from a couple of councils who are trying to sell nursing homes because of the changes to the way the nursing home industry is funded and the beds are funded. That has now left them with significant loss situations. But, if we don't have that and if we don't provide the 100 childcare places that we have, that's 100 more workers that can't work in the workforce and gives us a whole workforce issue not only in council but in a lot of organisations and even our private sector. A lot has to be taken into account around those in regional and rural New South Wales—what things we have to take on because of a last resort and the private enterprise can't do it because of numbers.

**The CHAIR:** Thank you for your evidence. I'm afraid that is all we have time for today. Our Committee secretariat will be in touch in relation to any questions that were taken on notice. We will see Councillor Fitzpatrick later this afternoon. Thank you so much for making the time to give evidence this morning.

**(The witnesses withdrew.)**

