REPORT ON PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

INQUIRY INTO THE ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

CORRECTED

At Macquarie Room, Parliament House, Sydney, on Monday 3 June 2024

The Committee met at 9:15.

PRESENT

The Hon. Emily Suvaal (Chair)

The Hon. Mark Buttigieg
Dr Amanda Cohn
The Hon. Sam Farraway (Deputy Chair)
The Hon. Emma Hurst
The Hon. Stephen Lawrence

PRESENT VIA VIDEOCONFERENCE

The Hon. Peter Primrose

The CHAIR: Welcome to the third hearing of the State Development Committee inquiry into the ability of local government to fund infrastructure and services. I acknowledge the Gadigal people of the Eora nation, the traditional custodians of the lands on which we are meeting today. I pay my respects to Elders, past and present, and celebrate the diversity of Aboriginal peoples and their ongoing cultures and connections to the lands and waters of New South Wales. I also acknowledge and pay my respects to any Aboriginal and Torres Strait Islander people joining us today.

My name is Emily Suvaal and I am the Chair of the Committee. I ask everyone in the room to please turn their mobile phones to silent. Parliamentary privilege applies to witnesses in relation to the evidence they give today; however, it does not apply to what witnesses say outside of the hearing. I urge witnesses to be careful about making comments to the media or to others after completing their evidence. In addition, the Legislative Council has adopted rules to provide procedural fairness for inquiry participants. I encourage Committee members and witnesses to be mindful of these procedures.

Mr PETER TEGART, Partner, Always Thinking Advisory, sworn and examined

The CHAIR: Welcome and thank you for making time to give evidence today. Would you like to start by making a short opening statement?

PETER TEGART: Chair, thank you for the opportunity today to give evidence. I do have some short copies just to prompt some discussion, if that's of any use. That's a broad summary and it's available for tabling. Of course, the Committee would have already read the substantial submission. I have had over 45 years in the local government and Commonwealth sectors, principally in the areas of finance, planning and management. Those have been spread across rural, regional and coastal councils primarily and, most recently, as a merged council. So I've had that broad suite of experience that may be useful to the inquiries of the Committee. The main things that I'd like to raise, Chair, is that, per the handout, my submission focused not on the problems but on opportunities and options that may be pursued. No doubt you would've already heard of many of those issues around lack of funding, grants, pension rebates and so forth for quite some time so I won't dwell on those.

My preference is to turn your gaze to the options. My catchphrase I use with clients is "assets first, nice next". What that means is that since the 1970s, when I started work in local government, the principal reason for the raising of property taxes, which is general rates and annual charges, has been for the purpose of maintaining and replacing assets. Unfortunately through the progress of time and through changes of legislation, including things like cost shifting, many of the property-based services have now moved to people- or environmental-based services. My submission spent quite a bit of time on illustrating that big shift over the last few decades in the spend from councils, led primarily through the metro councils. That was because metro councils have a substantially greater revenue-raising capacity than rural and regional but, notwithstanding, people still live in the rural and regional areas and they require those levels of community, environmental and economic support.

Today is to recognise a number of different things. One is that local government could be considered an arm of government because it has not yet been recognised in the Constitution. In that way, perhaps, appropriations or allocated grants might be an alternate option to the extraordinary expenditures councils go through in seeking competitive grants. Likewise, the Act should be revised to ensure that councils do have enough council-controlled revenue-raising capacity to at least look after the assets that have been placed under their care and control. That has been a big issue, where many of the councils in New South Wales do not raise enough property taxes even to maintain their assets without the support of government.

The third factor, of course, is that most of the issues in local government can be dealt with through appropriate priority setting together with the support of government. That's around capacity of organisations in many rural and regional areas—the specialist capacities just aren't there. I do not know where the engineers, accountants and planners have gone since COVID. There is enough guidance already to help build those skills but it does require guidance and funding from the Government to do so. I would also suggest that because of rate pegging commencing in the 1970s the rate yields should, in fact, be re-based. That means that many of the councils, such as Dubbo and Moruya when they were originally farming or fishing villages, had their rates capped at that time. It required a political will to raise, through supplementary rates or special levies, those particular rate yields That quite often has not happened, so many rural and regional councils are behind the eight ball already and they continue not to have sufficient revenues to at least look after their assets going forward.

The other feature is that the Act itself should be changed to ensure that there is clarity between the role and responsibilities between State and local governments. Part of that would be, as being an arm of State Government, removing those hidden taxes. Remove the emergency services levy and remove and transfer the regional roads back to State Government from where they came in the 1980s. Indeed, I would urge also that those councils who have been placed or rated as a moderate, weak or distressed council through the Treasury core assessments in 2013—and they may still be at that rating—should be required to prepare a financial sustainability plan, which is that broad framework on which the long-term financial plan should be based. At the moment we're only looking at numbers; we're not looking at profiles, pathways and principles.

The Hon. SAM FARRAWAY: Thank you for appearing today. Particularly noting your comments around grants and obviously those being particularly volatile, what's your view on councils or local government areas that also have to deal with the expanding renewable energy zones or mining communities where they also need a different level of infrastructure, or have different priorities? How should local government be assisted, from the State in particular, for those communities where activity is being done or commodities are being extracted from the earth? How should they be compensated to be sustainable in that additional infrastructure that they may need to have in their community?

PETER TEGART: I hate to say this on the eve of the State of Origin football match, but Queensland does this rather well. That's because they do develop in advance of those big developments and big initiatives a regional and a statewide infrastructure plan which captures the various councils that are in the growth corridors or—the example you gave—around the renewable energy corridors. To that extent there is expertise in the appropriate design, placement and estimating of those pieces of infrastructure and articulating what is the portion required to be derived through local government. That can either be through council funding or through development contributions with the balance coming from State or other grants. In that way there is transparency and clarity for the community that this is a Government-sponsored ambition and, secondly, the Government is putting, on behalf of the whole of the State, its own coin into that particular initiative.

The second feature, though, to the nub of your question, is that quite often the terms of grants that councils may seek exclude, at this point, the cost to the council of project management and the cost to the council of the impact of escalations—and we've seen that being quite extraordinary in the last few years in that thing we call the PPI index. Thirdly, there is no allowance for future operation, maintenance or depreciation of those new assets that will be commissioned into the hands of the council. That, I think, has been one of the biggest issues for councils in the last few years. We've had an influx of significant grants through stimulus and through disaster recovery. We have had an influx of significant assets through the development boom.

And councils will always say, "We want this new asset. We won't say no," but they do not account or allow for its future operations, maintenance and depreciation or renewal, if you will. That is where the black hole is now emerging for many councils. They will always say, "Yes, we can do it", but they have not allowed for, in their sustainability plan or their long-term financial plan or asset plan, the provisions for those future maintenance. To answer your question more fully, it would be appropriate that grants allow for a portion of those grant funds to be received in latter years to assist the future operations, maintenance and depreciation of those assets which, at the end of the day, support the State ambitions.

The Hon. SAM FARRAWAY: That theme around the depreciation has been a common theme through the inquiry, and I think it will be right until the end of the inquiry. I want to just focus in and around communities that have got mining activities and that had programs under the former State Government, like Royalties for the Regions or Resources for Regions. Essentially, that program had a baseline amount a local government area that was facing huge expansion around different forms of mining would get in different stages, so it wasn't a beauty contest. They were essentially getting a portion of mining royalties invested back into that LGA. My question is how do those local government areas, facing obviously rate pegging and the IPART process and depreciation—they are all issues that everyone is facing. How do LGAs that have had that funding removed also make themselves sustainable without getting a slice of that revenue anymore?

PETER TEGART: That goes to the heart of my point about appropriations or allocated grants. Even when you think about the purpose of a rate peg—and you might get a 2 or 3 per cent increase—for councils that have a $10 million rate base or less, that is pennies. To an extent, there should be a base peg or base amount or base grant allocated to those councils, such as those you have acknowledged that, at the end of the day, they are at the centre of a State-generating activity—such as a mine, such as a renewable energy zone, or whatever—and so therefore there should be assistance more broadly from the State to assist the ongoing maintenance and renewal of those assets.

The Hon. SAM FARRAWAY: Because it would be unfair to have to have changes to the IPART process or the rate pegging for that LGA to propose a higher local rates increase for the sheer fact that they no longer receive a portion of the royalties. That is unsustainable in itself to the ratepayers in the LGA, isn't it?

PETER TEGART: That is correct. That is why I said yes earlier. It may well be a State or regional infrastructure plan that will guide what will be required to support those State investments and indeed, therefore, what portion of State funds should continue to contribute to the maintenance and renewal of those assets.

The Hon. SAM FARRAWAY: Around the volatility of grants more broadly, I suspect the issue is that governments change their budgets and budgetary items and the economy changes. But having a BCR and having a contest for the same pool of money—really, that is the volatility, isn't it, of the grants process? Because there is no set portion allocated—whether it is through roads or through royalties—to an LGA so they know how much money is coming in, how to budget, how to manage depreciation. What you are saying is that, in itself, the contest for grants is what creates the volatility.

PETER TEGART: In part. The certainty is an issue and consistency is the other. To that extent, part of the issue is in fact the grant process. You have described that rather well, from the point of view that by the time an idea of government emerges and it gets announced as a new initiative, program or project funding, to the time that councils apply, to the time it is then assessed, to the time that an announcement is made, to the time that the grant deed is executed and therefore the time for the council to go to tender for those particular works, can be many, many months. With the exclusion of project management and cost escalations from the terms of that grant funding formula, councils are often left with a gap. Sometimes that gap can be quite significant to the council in terms of having to divert funds from another planned purpose or, indeed, potentially collapsing the whole grant process itself or, as I am encouraging some councils, to give the money back. If you are unable to scope and rescope the project or find that funding gap, sometimes it ain't worth it.

Dr AMANDA COHN: Thanks so much for coming today. In your written submission you talked about the rate peg methodology in particular and also other ways that councils are categorised. We know that IPART categorises councils into metropolitan, regional and rural. In various parts of your submission, you've suggested there should also be a coastal category. Could you explain in more detail why that might be needed?

PETER TEGART: It was a terrific move of IPART to at least recognise there are at least three groups of councils, even though OLG and the ABS classifies all groups into 11. My suggestion is metro, regional, rural, coastal and remote, because in reality they all have different characteristics. They all have different revenue-raising capacity. When I say revenue-raising capacity, I mean council controlled. That is very different to the way it is currently defined in the financial benchmarks used by OLG. In that way, there could be a differentiation, should rate pegging continue, to recognise, as I said earlier, that the remote and rural councils just have a very low rate base and they may require a larger rate peg just to gain sufficient dollars to keep pace, at least with the water wages or utility costs going forward.

It is also to recognise that there should be different parameters for grant allocations. In particular, I would urge allocated grants to go to remote, rural and the strong, faster-growing ones, because they are under significant pressure. I would augment that by IPART[1], if rate pegging continued, to remove the discounting of the value of supplementary rate levies from the population peg component, because that is stripping those growth councils of significant funds as well. In my view, the purpose of the population peg is to fund population-based services whereas the supplementary rate levies are to fund the infrastructure to support properties that have been subdivided.

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.

Dr AMANDA COHN: In your written submission you made a recommendation that the Government look at amending the Act to enable special purpose annual charges. Could you expand on that in more detail?

PETER TEGART: Certainly. Many other States do this. Again, I do some work in Queensland as well, where it has caught my attention. There is no rate pegging in Queensland. The councils choose what will be the increase in their rating income per year. They tend to use the barometer called Brisbane City—as to whatever Brisbane City does, we will use that as the benchmark. There is no benchmark set by the Government. But by the resolution of councils, they can raise an annual charge of a fixed amount per property, per year, for a particular purpose.

Those tend to be the things that the community has sought—things around heritage, tourism, environment, emergency, whatever the case may be—and they are separately accounted for. They are separately planned and reported for, and there is a great deal of transparency around that. It is my view that the current legislation could be tweaked around section 501 to enable councils, through the IP&R process, to discern what would be the types of particular programs or projects that could be subject to a special annual charge, and appropriately accounted for and reported for each year. That will improve transparency and improve the financial sustainability of councils.

Dr AMANDA COHN: In terms of a special purpose charge being implemented, there are obviously different mechanisms through which you could do that—whether that is across every rateable property, whether it is different in different categories or whether that could be a particular subgroup of residents for some reason.

PETER TEGART: Correct.

Dr AMANDA COHN: What do you see the risks or benefits of those types of models?

PETER TEGART: Again, in Queensland—and part of my submission suggested perhaps a rethink of the rate categorisation to blend more closely with the land use zones. Queensland has a mechanism where they

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1 In correspondence to the committee received 1 July 2024, Mr Peter Tegart, Partner, Always Thinking Advisory, provided a clarification to their evidence.

can identify the principal place of residence, therefore all other residential properties hitherto are non-owner occupied. That points to they are either for tourism purposes or they are for long-term residential rental purposes. At least that way they can differentiate their rating based on those types of non-principal place of residence uses, because they have a tax benefit that they may claim. The second feature then allows the council to articulate that these are the particular programs of progress that they wish to go forward with[2].

I was suggesting in the submission that there could be a benefit to the State by identifying which are the principal places of residence and, indeed, that information flow on to all the councils so a different rating structure may apply. If that were to occur, I would urge that be the occasion upon which those different rates be above the rate yield so that there is an immediate uplift to the yields of councils who are subject. Many coastal councils have 20 per cent or 30 per cent of their properties non-owner occupied. Some might be residential rental, but many are Airbnbs and holiday properties, which do have a tax benefit and which arguably, because of the throughput and potential usage of parks, litter and so forth, should contribute more to those councils through that taxation arrangement.

Dr AMANDA COHN: On page 50 of your submission you highlighted the role of local government in disaster resilience and recovery, particularly through the NSW Critical Infrastructure Resilience Strategy. It's clear that councils are not adequately funded for that role at the moment but, in terms of moving forward or your recommendations, is there a need for a specific mechanism to fund that role of local government in particular? Or is this something that should be coming from general council revenue?

PETER TEGART: There are probably two arms to that. One is that, should the Government pursue the notion that councils will lead the recovery after declared natural disasters—and we should also note there are often many disasters that are not declared, so there is often an impost on community and council finances for non-declared natural disasters. Notwithstanding, there is no doubt that councils across the State are well placed to undertake a range of services on behalf of the State, but most are not well positioned to do so because they don't have capacity. Part of that capacity can be through the human resources you spoke about, provided they are funded by the Government.

Then, secondly, they are supported by the infrastructure that may be continually damaged and re-damaged through a spate of natural disasters. We should invest in the redesign and replacement or betterment of those, like Queensland and other States do, so that the Government doesn't continue to spend money on replacing and repairing those regularly damaged assets. There are many that can be mapped across the State to enable that initial investment. Resilience should be a feature of the State to support councils going forward, because climate change and the impact of declared and non-declared natural disasters will continue. Councils do not have the capacity within their means now, but they need to build that redundancy and resilience inside their own organisations to step in when those occasions do occur.

The Hon. EMMA HURST: I wanted to ask you about high-risk local councils. In your submission you state that the New South Wales Government and the local government sector should collaborate to transition some of these high-risk local councils so that they're in a better financial position. Do we know what those high-risk councils are now? I believe there was an assessment in 2015, but does that need to be reassessed? Do we already have an understanding of who they are?

PETER TEGART: I believe they do need to be reassessed. It has been 10 years since the Treasury Corp did their original financial sustainability check and, yes, there are seven ratings between "very strong" down to "distressed". We suspect there will be more councils in the "weak" if not "very weak" category now, and only because of the advanced payment of the financial assistance grants have the operating results been masked for a few years amongst some councils. Yes, some councils have been assisted through the natural disaster declarations, where their assets have been renewed at the cost of government rather than their own cost. That's a side benefit.

But I think you are right, member, that the councils need to be reassessed using that same framework and, indeed, future resilience assessments and benchmarking and indicators be established through that lens, because that has not happened so far. Whether it's a lens that should be readdressed every council term and, indeed, tested through the audit, risk and improvement committee of each council with the benefit of the external audit—that would be a good means of truing up where a council stands at the end of each term before handover to the next council.

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[2] In correspondence to the committee received 1 July 2024, Mr Peter Tegart, Partner, Always Thinking Advisory, provided a clarification to their evidence.

The Hon. EMMA HURST: I suppose this is a hard one to answer until that assessment has been redone, but what should be done to support those high-risk councils? What sorts of recommendations would you like to see or what sorts of State government initiatives?

PETER TEGART: There are probably a couple. The obvious one is to improve revenue raising. That will mean some allocation of grants. But the other one is to improve organisation capacity. Many of those rural, remote and regional councils—and even some coastal councils where a lot of residents are migrating to with certain expectations that the councils will provide—don't have the engineering, financial or planning capacity that metro or other larger councils might enjoy. It's that kind of investment. I would also point out that local government is probably the nursery to the State. Many of the high-level and attractive skills that are developed inside local government are often poached by the State or by the private sector, particularly the development sector. We need to continue to refresh and reinvest in those skills going forward. I lost my train of thought there, I'm sorry.

The Hon. EMMA HURST: That's all right. What do we need to put into place to support those high-risk councils?

PETER TEGART: To that extent there would be greater confidence with those skills invested in those organisations, including technologies, and a consistency in the metrics. I'd urge this hearing to prosecute the case that the IIMM metrics for asset management be instituted in all organisations to standardise condition assessments, revaluations and run-to-fail arrangements so that we know with certainty that the residual life, the depreciation, is all the same across the State, because at the moment they are not.

The Hon. EMMA HURST: You note in your submission that there are many cases where that grant funding has been applied but there has been an underestimating or excluding of the maintenance and depreciation costs. I spoke recently to a council who had put a huge amount of investment into a leisure centre; however, now they can't afford the actual maintenance and ongoing costs of that centre. I'm sure they're not the only ones that have got into this situation. What do you believe the State Government should do about this? How do we change either that grant system—or is it the fact that we also need to ensure councils are able to account for those costs when they're applying for the grants? Or is it a bit of both?

PETER TEGART: It's all of the above. Well done. The example you gave—I know where you're talking about, for example. That's quite common—that many communities are now maturing, either through intrastate migration or otherwise, where expectations are that we'll have an aquatic centre, we'll have an indoor sports centre, we'll have a performing arts theatre[3]. They are all part of the community wellbeing and indications of thriving and inclusive local communities[4]. However, in my view councils should plan that that new investment in the asset should be able to be at least maintained and depreciated through the funds raised by the council going forward. That's a rates system. However, they should allow for a portion, if not all, of the operating costs of those new facilities to be met by the key users.

That will help provide some transparency around local government's primary responsibility to look after assets, infrastructure, utilities and facilities. However, the users should pay a primary portion of the operating costs to those. But equally the council should declare what the subsidy from the public taxes would be. The public tax can be a council's rates and/or government grants. That would mean that, as you've suggested, when council does apply for a grant, there is a tail of annual grants to come to contribute towards its future operations until council can get that particular facility up and running and on its own two feet. But that should be part of the utility or the facility planning at the very early stages. But the grant system does not allow for that type of disclosure or ongoing funding going forward.

The CHAIR: In terms of your alternate rate model that you've proposed, effectively it looks as though you assign rates to the cost of asset renewal and then grants to the cost of services. Am I correct in that way of thinking? Could you explain a bit more about this alternate model that you're proposing?

PETER TEGART: Certainly. The alternate rate model, again, is to provide a level of transparency and accountability. The idea is that the ad valorem component, which is the rate based on the land value, and whether it's capital improved or unimproved is immaterial at this point in time, together with other public taxes, which are the grants which are articulated towards assets—those funds should go towards the maintenance and depreciation

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and debt servicing of those assets. Ultimately, we would hope that that part of the general rate, plus its respective annual charges for a multipurpose council looking after water and sewer, should be able to maintain in an ongoing way the maintenance and depreciation and debt servicing for those assets.

The base rate—or in some councils the minimum rate perhaps—should fund what council should call its public good services together with their respective grants that support those public good services. Those are things like the library grants. A council, as I said in my submission, should be able to work with the assistance of OLG, articulate which are its public good, shared, private and market good services, what are their funding mechanisms, and therefore design a rate structure to recoup the cost of assets and recoup the public good services. Anything else above public good should be borne by the community through user charges and other initiatives. That will improve transparency and robustness, and sustainability of the rating system.

The CHAIR: Thank you for that clarification. As I understand it, your alternative model wouldn't allow councils to charge any rates that they want, but their rates and charges would reflect the cost of assets versus the cost of services. Is that correct?

PETER TEGART: Yes, it is. The ad valorem rate on the property land value is for assets. The base rate—and New South Wales regional councils, in particular, have a base rate as well as the ad valorem—would go towards the public good services, together with their respective grants. We'd be able to articulate, "That's the funding available for those particular services." If there's a change to the level, range or scope of services, I would suggest a special purpose annual charge could then come into play.

The CHAIR: Thank you for clarifying that.

The Hon. STEPHEN LAWRENCE: Thanks, Mr Tegart, for your evidence and submissions. Under that alternative model, would there still effectively be a rate peg?

PETER TEGART: I'm working on the premise that it will take a brave government to remove rate pegging. My suggestion would be that there be, in fact, a benchmark established which might be a certain percentage. Those less mature organisations may simply use that benchmark to increase their rate yield by—again by category or cohort of council—metro, regional, rural, coastal, and so forth. However, I would suggest that, 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 year or two." I think that would be a fairer mechanism, rather than a blunt instrument such as a rate peg.

The Hon. STEPHEN LAWRENCE: In terms of this idea that's in your submission, of councils caught in a time warp where they were rate pegged at a time when their community was quite different, are you able to expand more on what council areas might be considered to be in that category?

PETER TEGART: Again, it's basically coastal, regional and rural councils who have[5]—they were formerly run by farmers, very small councils. Rate pegging commenced. You think of the sequence of mergers that have taken place since the early 1970s, where we've gone from several hundred councils down to about 128 now. The rate yields had not varied significantly from those times except through indexation through rate pegging or by a politically volatile process called the special rate variation. While IPART went to the trouble of trying to validate whether there is a certain revenue per capita—and they generally should remain the same—the very baseline of those, when they were first established, is already out of kilter because they were capped 50 years ago, or thereabouts.

I'm of the view that there should be a logical means of a base uplift to that notional yield. I would suggest that should be at least to recover—rates and annual charges should cover the cost of asset, operations, maintenance, repair and depreciation—so that councils have a solid footing to do what the community wants. At the end of the day, without assets, the community does not have services, and without high-performing and well-presented assets, the community might form low views of the performance of their council. I think that initial uplift should put all councils on a reasonable footing from which they can then continue to argue what the community seeks and what the level of funding required should be. Whether that's a process by which a CIV is

5 In correspondence to the committee received 1 July 2024, Mr Peter Tegart, Partner, Always Thinking Advisory, provided a clarification to their evidence.

introduced, coincidentally, I'm unsure. But I think there should be some invested thinking into how we might build the base from what it was capped at, in that time warp, to what it should be on parity across the State now.

The Hon. STEPHEN LAWRENCE: If that new baseline was set, do you then think that the current IPART formula would be adequate?

PETER TEGART: I think it still requires future work. At the end of the day we need to work with IPART if that's the body that the Government continues to use—recognising there should be four to five cohorts rather than the three, in my view. However, my preference remains that IPART may, in fact, set a benchmark. It may be a benchmark on wages; it might be a benchmark on materials and contracts; and it might be a benchmark on depreciation. Our issue at the moment is the depreciation is outstripping the growth in our taxes, and that's already putting many councils in a big hole.

The Hon. STEPHEN LAWRENCE: In terms of the overall imbalance or shortfall in funding, would you venture a percentage estimate? Do you think councils overall need 5, 10 or 20 per cent more?

PETER TEGART: I think the answer is that could be done and I could take that on notice, but that would require some research to understand because you really need to strip back the financial statements at the moment. They are distorted in various ways because of mistiming of grant contributions or impacts of asset impairments from natural disasters. But stripping back to those bare bones should give you some trend lines to be able to work out, for example: Are the council's general rates and annual charges adequate to at least meet the cost of assets and/or the base public goods services? That would be a means by which we could establish a base for the councils from which we could leap forward.

The Hon. STEPHEN LAWRENCE: Lastly, I wanted to ask you a pretty specific question that I don't think is addressed in your submission. It's about the policy of value capture where, when a council does a spot rezoning, a developer then pays the council a percentage of the increase in the land value. This was something that, when I was a councillor in Dubbo, was proposed by staff, but ultimately not passed by councillors. I recall at the time being advised that it happens in metro councils—that those policies exist—but not, I don't think, in country councils. I'm just wondering if you've got any view on value capture as a policy, and whether it's something to look at in terms of improving the financial sustainability of councils.

PETER TEGART: The idea of value capture was commenced in the late 1980s. I was at Wingecarribee council at the time when the Sallys Corner establishments took place on the Hume Highway. That was eventually reversed by the State Government, so it does require a policy shift of government to allow that type of thinking. Whether there is a mechanism to enable value capture through subdivision—which is what you're suggesting, which is through a supplementary levy, or through a resetting or a correction of the rate yield every council term, or after every rate revaluation, which is every three years—is a moot point.

I do believe that would be an opportunity where, in the absence of a CIV, that could be a mechanism by which the improved value from a rezoning could be captured. In my submission I did talk about how councils should be able to calculate what will be the cost of infrastructure from new developments going forward, to set a rate that would at least recover those costs—which we don't do at the moment, but that's a tool that we could look to. But I think that is one of the mechanisms that the Government should look to, particularly in growth areas, which run under that type of stress. How can there be some form of value capture? That goes to the point from Sam a while ago that, in renewable energy areas, there should be some form of value capture as well.

The Hon. STEPHEN LAWRENCE: The way that I seem to recall it was, if, for example, you were proposing a new subdivision, you'd approach the council to rezone part of the land to allow a shopping centre to be built—or something of that nature. Once that rezoning occurred, the value of the land might jump from a couple of hundred thousand dollars to maybe $15 million. There could be very dramatic increases in land value because, all of a sudden, this highly profitable purpose can be enacted with the land. Then a developer would be levied a percentage of that increase. Is that something operating, that you know of, in local government at the moment?

PETER TEGART: It is partly in Queensland, that approach. Just to explain it very crudely, there are a couple of points. When a rezoning is through a planning proposal—progresses through State and then becomes part of the council's local environmental plan—there is an uplift in value, most certainly. Part of that would be that, if there is any land to be acquired by the council for—within that development, for example, or an asset to be gifted—it would be date stamped at what the rate was pre the re-zoning. The council has an opportunity to then categorise. If we were to re-base rate categories around land zones, they could re-categorise that particular property to accelerate the rates, provided the increased uplift in that higher rate category could be added on top of the current rate yield, rather than absorbed within it, because that's part of the problem we have at the moment. It's a one-off uplift as a consequence of that increased land value, and a new subcategory created with a separate rate in the dollar for that purpose. That would be a simpler way of doing it.

The Hon. STEPHEN LAWRENCE: The way I seem to recall it being proposed was not through the rate system, but I may not remember that correctly. The way that I recall the proposal that was being put to the Dubbo councillors was that some form of other levy or charge would be put to the applicant.

PETER TEGART: There are opportunities where it can be a development charge, for example, but my preference would be that you have an annual return, and the best way to do that is to increase your base rate yield through that development, and that becomes an ongoing tax return, rather than a one-off uplift.

The Hon. STEPHEN LAWRENCE: Is a developer charge something like a developer contribution? Is that something of that nature?

PETER TEGART: In addition to it, that could be right. For example, let's say the property's currently categorised as farmland or zoned as farmland and is rezoned as industrial. The council can re-categorise that as a specific subcategory of business, strike a particular rate and raise its yield from that particular development above its current notional rate yield set through IPART. It may then continue to alter the rating structure to accommodate the particular uses inside that industrial-zoned land, to accelerate or increase those revenues, as well. The issue is the extent to which the council gains assets from that development it is to maintain—whether that should be dealt with through a development contribution and/or a bonding system is a separate mechanism that could be dealt with.

The Hon. STEPHEN LAWRENCE: Do you have any sense of how much those sorts of value capture mechanisms might be able to add to coffers in local government?

PETER TEGART: No, I don't. It's worthy of assessment.

The CHAIR: I might just finish up with a couple of final questions. You referred to the current rate peg methodology and asset maintenance. Do you think the current rate peg methodology adequately covers asset maintenance? If not, how can we get it to do so?

PETER TEGART: The current rate peg methodology introduced this year is an improvement on what it was, most certainly, beyond increasing the cohorts or categories of councils. I think there should be a greater emphasis on the escalations of the cost of assets. By using PPI, that is one step in the right direction. However, I fear that the current spate in escalation of asset values, consequent to the last few years of PPI and other growth, will cause a higher value of infrastructure assets, an elevated level of depreciation, and councils just won't be able to catch up. So there needs to be a means by which there should be a correction, either through land revaluation cycle or every revaluation of assets through the accounting's five-year cycle, where there can be a per council uplift to their rate yield, based on the uplift in assets brought about by depreciation, on the basis that depreciation is the ultimate barometer of what should be expended over a 10-year horizon on the appropriate renewal of assets.

The CHAIR: How much more money do councils need? We've heard it's a case-by-case basis, but it's important to determine the quantum of the underfunding problem. Is it 5 per cent, 150 per cent?

PETER TEGART: Again, I'm happy to take that on notice and do some work on that if that's requested, but I suggest that there would be far greater brighter minds than mine to work on that, and that would be one of the recommendations of this Committee, no doubt. But it would depend on the individual council. It would depend on the individual circumstance whether that particular LGA is part of a greater State ambition, such as the renewables we spoke about, or part of a big electricity corridor or rail corridor, whatever the case may be. There's a range of impacts that State investment has on local government areas. That should be offset in some way. But there is no silver bullet to answer that question at the moment.

The CHAIR: If we reset all the councils to a baseline that might better capture the services and the costs that communities expect of them, do you think the current IPART rate peg methodology would keep those councils solvent, absent any sort of crisis?

PETER TEGART: Again, I can't answer that with any confidence. The reason is that I think the rate peg becomes a default financial planning tool for many councils. We will just make it cut our cloth. Therefore, the intention of IP&R was to set the ambitions of community—councils to work out, "Within the constraints of the organisation capacity, how far can we go with this to build environmental protections, to build economic capacity and build communities that are inclusive and thriving?" I think those opportunities are lost because council will take the line of least resistance. They are so under-resourced because of funding issues. They can't invest in that high-level thinking or in those long-term strategic settings—those key settings around assets, risk, pricing. They're all important things that should be done normally, but they are only forced to be considered through an SRV process. And, as was said before, an SRV process itself is politically volatile and unlikely to be undertaken.

The CHAIR: Thank you, Mr Tegart, for the evidence you've given today. The secretariat will be in contact with regard to any questions taken on notice.

(The witness withdrew.)

Councillor BRAD BUNTING, Mayor, Blacktown City Council, affirmed and examined

Mr KERRY ROBINSON, OAM, Chief Executive Officer, Blacktown City Council, affirmed and examined

The CHAIR: Welcome to our next witnesses. I begin by thanking you for being here today and I acknowledge the circumstances that you are under with the recent passing of the mayor, Tony Bleasdale. Thank you for accommodating our request to be here today. I really appreciate that. Would you like to start by making a short opening statement?

BRAD BUNTING: Madam Chair, thank you for providing Blacktown City Council the opportunity to present to this important inquiry. I start by acknowledging the Dharug people as the traditional owners of the land on which Blacktown City is located and pay my respect to Elders past and present and thank them for their custodianship of the land. Our submission makes clear that the current systems of funding local government are simply not fit for purpose. The current systems do not provide the finances required to address the challenges the community expects the council to address: the challenges of growth, the challenges of climate change and the need to improve resilience, the challenges of increasing community expectations, including the need for enhanced customer systems and cybersecurity.

The failing systems of funding local government are based on what the sector spent last year, not what the community expects of a modern, efficient, customer-focused service organisation. We are here because Blacktown City has rapidly grown to a population of 435,000 residents, supporting 30,000 businesses, which employ about 175,000 people in an economy worth $24 billion annual output. Blacktown City is the largest council by population in New South Wales and one of the fastest growing in Australia. Our population will exceed 600,000 within 20 years, bigger than the Northern Territory, bigger than the ACT, bigger than Tasmania.

I welcome this Labor-led inquiry as it affords the opportunity to fix fundamental local government financing issues. It affords the opportunity to address the issues of growth councils, the many councils of the Hunter, the Illawarra and metropolitan Sydney, which need to serve expanding economies and expanding communities—councils which are not funded to provide new office accommodation to serve growth, new depots and plant to serve the growth, and new SES facilities to serve growth and to look after them in times of greatest need. This inquiry affords the opportunity to fix the developer contribution system, which 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.

The inquiry affords the opportunity to fix a fundamentally flawed developer contribution scheme, which will leave, in Blacktown City's case, an unfunded gap at the completion of release area development of more than $1 billion. Perhaps most importantly, this inquiry affords the opportunity to provide local government across the State with the funding the community expects to be available—funding to meet with increasing costs in climate change mitigation, funding for aquatic centre heat pumps, funding for more expansive vehicles and charging infrastructure, funding for hydrogen-fuelled heavy plant and funding for more solar and the costs of offsetting.

This inquiry affords the opportunity to appropriately fund improved local government resilience—resilience which would allow councils to plant millions of trees to reduce the urban heat island effect, resilience which will allow councils to provide cool refuges to the most vulnerable in the community at a time of greatest health stress and funding to build infrastructure resilience and the much-needed capacity to deal with rising sea levels and more severe floods and heatwaves. This inquiry affords the opportunity to appropriately fund local government to provide modern organisations with wide customer service systems which are cyber secure and which will protect the community's information. Any benchmarking of modern business spending would show that the rate peg component allocated to IT systems is woefully inadequate, and any benchmarking of IT funding would explain why most councils in the State have woefully inadequate cyber insurance.

This inquiry also affords the opportunity to fund local government to provide the better playgrounds and sports facilities that their community expects. The current failing systems of local government funding based on what councils spent last year must be fixed. Councils must be allowed to serve their community by talking with their businesses and their communities and providing the services that they want and need. They must be able to do this without the interference of a rate cap, which signals to the community the responsible amount of increase that a council should ask the community to pay for—a failed rate cap system based primarily on what council spent last year as opposed to what is needed to serve their community. We are here today to urge this inquiry to support initiatives that would enhance council's ability to provide for our community needs appropriately, efficiently and effectively. The great team at Blacktown City has the leadership, skills and knowledge to continue to work with government agencies to create better outcomes for our community and for the State. I thank you for this opportunity.

Dr AMANDA COHN: Thanks so much for coming to give evidence today. I was interested in your written submission. You talked about infrastructure contributions and the inability to fund community facilities, and you're certainly not the first witness to raise that issue. Specifically you gave the example that, for Blacktown, that's caused $631 million in unfunded capital costs. Are you able to talk us through, or take on notice, how you arrived at that figure?

KERRY ROBINSON: Certainly we'd be pleased to provide you with the breakdown of that. Developer contributions aren't able to fund community facilities infrastructure. That means we are able to levy developers for the land on which community facilities are built but, in our case, the incoming population of some 250,000 people in the north-west growth area will have no libraries, no aquatic facilities and no community meeting places—those facilities which were set out by the State's Department of Planning in its planning for the release areas and which it said were necessary for those communities.

Dr AMANDA COHN: It's a helpful example for us to understand the real impact of that problem. The other thing I wanted to ask about was the special rate variation process. You pointed out, as the Committee has already heard—and IPART itself has commented—that the process can be quite resource intensive. I was interested in your specific example—that you'd looked at an SRV and decided to discontinue it. I understand that that was at quite a cost to the council to actually go through the process administratively.

KERRY ROBINSON: The council did embark on a SRV process and decided to withdraw from that part-way through—I will say, speaking for the councillors, due to political pressure. The challenge we have with that whole process is that it comes after IPART says what a reasonable council should ask its community for, absent of any indication of what the true desire of the community is and what the needs of the community are. It is a process which necessitates working through with the community—a process of community consultation. We have no problem with working through community consultation, but the whole premise of the IP&R reporting framework is that that is done strategically and done once at the start of term to allow council to set its goals and delivery program across that term, and, if necessary, go through an SRV. I will leave it at that.

Dr AMANDA COHN: Some stakeholders have pointed out that, under the IP&R framework, potentially with the removal of a rate peg councils would then be able to raise the revenue they need to fund the strategic plan and, if that's done well, there is extensive community consultation through that IP&R framework. I'm interested in your perspective. This might come back to the elected councillor because it's a bit of a political question, but in terms of your community's appetite for the revenue to be raised to fund their aspirations through the community strategic plan, would it be different if that were done in a world without a rate peg through the IP&R versus the special rate variation process, where, by its nature, it's framed as an aberration—or the State Government frames it as more than you should be asking for?

BRAD BUNTING: Yes, we always communicate with our community and our community is saying, especially in the growth areas, "We need more infrastructure." We need to be able to provide for that growing community. Just recently we opened up a temporary library out in the Marsden Park area. Obviously that community needs a fully fledged library out there, not just a temporary one. We'll continue to work with them when it comes to this. Under the system at the moment, it is politically motivated. If we increase the rates above that, we can get attacked from many different sides in regards to how we're going to lift that. A good council would always work with their community to make sure that the community is getting what they want, and what they need, in lots of cases.

KERRY ROBINSON: The $630 million shortfall in community facilities provision, if funded from rates over that release area, would likely result in a rate increase—and I'm not advocating for this, I stress—of approximately 50 per cent. That is a practical impossibility in a political environment. There is absolutely no reason why developers ought not be levied for those facilities. They were levied for those facilities from 1979 until they were turned off approximately 12 years ago. The reduction in developer contributions by turning off those contributions was asserted to be to improve housing affordability. If that is not the greatest public policy failure we have seen in developer land, I suggest that you look elsewhere. The increase in developer contributions will not increase the price of housing; it will force developers to pay less for the land that they consume as part of the in globo land development process.

The Hon. EMMA HURST: Thank you both for coming today. It's good to see you again, Mr Robinson. I don't think it'll surprise you that I want to ask about pounds. We've spoken with a few other councils about pounds and the way that the funding is associated with pounds. Blacktown is a specific example because you did put a significant investment into a new pound. I want to hear from you in regards to the ongoing costs of that pound, particularly as more and more companion animals are being unfortunately dumped and ending up in pounds, and whether the current rate peg takes into account the increased role councils are actually expected to play given the high standards that the community has for animal care and the increased number of animals that are actually in the community.

KERRY ROBINSON: 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. So it is fundamental to the work of this inquiry to look more fundamentally at what services ought to be provided across communities and how they can be funded. That goes to the very fundamental issue that you can't judge one council's circumstances by another council's circumstances. There needs to be 128 decisions made in relation to rating each year—not one decision or three decisions.

Council was able to fund the Blacktown Animal Rehoming Centre by doing property development—for-profit property development—consuming its land and acting as a for-profit developer. We've captured that profit and have taken it and put it into capital investment in new projects which serve the community. But we have a set of skills, we have a scale and we have some land which allows us to do that, which other metropolitan councils do not have. Blacktown council is grouped as a metropolitan council with all other metropolitan councils. That means that the 15,000 people of Hunters Hill are grouped with the same set of needs as the 435,000 people of Blacktown, with all of the needs of growth to be serviced in our case and none of those needs in Hunters Hill. Although the IPART system has improved, it is nonsensical to suggest that the rating needs of growth councils are similar to the rating needs of maintenance councils.

The Hon. EMMA HURST: With that in mind, what recommendation would you like to see from this inquiry in regard to better supporting councils to be able to provide these services that the community desires?

BRAD BUNTING: Obviously, changing the way that we look at rate pegging—that we need to be able to, as a council, determine which is the best way forward for our community. Again, to communicate with our community. 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.

KERRY ROBINSON: And if you were to look at the services provided in Victoria, you would find that their funding is about double what local government residential rating in New South Wales is. We happen to have a sister city in Porirua in New Zealand, and that caused me to look at the rates in New Zealand, which are about a residential average rate of about $4,500 per annum. Auckland City Council is about $4,500 per annum, exceeding water charges on a comparable basis. And you can see that in the quality of infrastructure which they provide to their communities and the quality of maintenance which is provided to their assets. If you go to Perth and walk around any suburban park, you will see a totally different standard of maintenance of those facilities. If you go to south-western Western Australia and look at each of the regional councils, they all have modern infrastructure for their staff and they have modern indoor recreation facilities. We're unable to fund those things in New South Wales.

BRAD BUNTING: Could I just add onto that as well? Wherever I go around the community, no-one is asking for less; they're all asking for more. They're all expecting or have expectations for more and more services in regards to what we're providing from council. If we look at a recent example with the SES in Mount Druitt, they're screaming out for their facilities to be fixed. This is a group of volunteers that were out just recently over the weekend, as you would have heard from reports in the media, in terrible conditions at Mount Druitt, doing a fantastic job. We need to be able to provide for those people as well.

The CHAIR: We heard from Camden Council in our last inquiry—which is also a growth council, as you know—about the historic failure to account for population growth. That has obviously meant that there was a slow decline in the amount of rates that they could collect per capita. Has Blacktown had the same experience?

KERRY ROBINSON: Yes, it has, Madam Chair. Because of the failings of the developer contribution system, we will have a shortfall, which is about community facility buildings, the local infrastructure growth scheme which was turned off by the State Government and owing us $210 million, and the inadequacies of the way the section 7.11 plans work which means that in every instance at the end of the scheme of development there is a shortfall. Collectively, we will have across the city, for the growth areas only, a shortfall of about $1.6 billion.

The growth of the city is not adequately funded through developer contributions or the existing rates scheme. It assumes that there is endless capacity for a council to continue to add staff in an existing office building, which is to say there is no funding for growth to accommodate staff. It assumes there is endless capacity to keep adding vehicles and plant without the need for a new depot—and we have a need for a new depot to service our growth area. And none of that is funded. In terms of the scale of that challenge, in the north-west growth area of our city we have an incoming population which is bigger than the population of every council in the State, bar five, and yet there is nothing which allows us to provide office accommodation to serve that growth or depot accommodation to serve that growth. The depot need is somewhere between $50 million and $100 million and we have no funding for that.

The CHAIR: In your submission you say that you've received a population factor increase of 0 per cent since the population factor was introduced. Why is that, given what you've said about the growth?

KERRY ROBINSON: Because that historical population factor simply took into account the number of new rateable properties created and whether we were levying that number. It didn't actually do anything to look at what the funding needs of growth for growth area councils was. It is just a straight formula applying the rates that were collected on a per dwelling basis previously.

The CHAIR: When you talk about the changes to developer contributions and section 7.11, what do you specifically mean by that? We've heard previously about the essential works list and the limitations around that. I invite you to share your thoughts more specifically about what changes you're seeking in that regard.

KERRY ROBINSON: The Hills Shire Council submission very clearly pointed out the deficit which will come at the end of its Box Hill precinct of about $120 million. Blacktown has eight of the 12 precincts of the north-west growth area, and every one of our contributions plans for those precincts will have a shortfall at the end of the development period. As an example, when we carry out publicly funded works for the growth area to create new drains, new roads and new open space, we have to excavate material in order to lay pipes, in order to create detention basins and in order to remediate creek lines. We calculated the cost of tipping of that spoil and included that within our Contributions Plan No. 20, which was approved by IPART initially. In the next round of updating, IPART decided that that was an impermissible contribution. That has a cost of more than $100 million.

It took five years of us begging the State and IPART to review the contributions components for spoil material excavation and disposal. At the end of that five years, IPART said, "Gee whiz, you were right." And that's it. There's no ability for us to make up for the last five years of levying developers at a rate which is less than our actual cost of delivery of that infrastructure. When we acquire land, we do that through developer contributions. But if there's a change in the pattern of land that's required—and in an update to a section 7.11 plan we seek to include additional land—we can't apply the whole cost of the land; we can only apply a proportional amount, being the proportion of development which has not occurred within that release area. There are a number of other structural issues in the way that those contributions plans work, which means that every council ends up with a deficit at the end of the development cycle.

Further, the State ran something called the Local Infrastructure Growth Scheme, which was meant to top up council's contributions between what the section 7.11 plan said the council was entitled to in order to provide the facilities required by the community and what the cap imposed on developers was. Treasury turned that scheme off without paying the Hills council $85 million and Blacktown council $210 million that we were owed under the scheme. These are very significant numbers that we are talking about, which when you relate that $210 million to our annual rating across the whole of the city of about $273 million, that's roughly equivalent to a year's rates that Treasury just turned the scheme off.

The CHAIR: Quite a compelling example. In IPART's revised decision around the spoil—that example of the issue that you gave there—was there any reason given for why they had reviewed it in one way as opposed to how it should have been?

KERRY ROBINSON: Madam Chair, I won't speak for IPART. I'll just say that its analysts at one point in time took a view and subsequently different analysts took a different view.

The CHAIR: We might have to ask them about that when we bring them back.

The Hon. STEPHEN LAWRENCE: In terms of developer contributions and the things in your submission about the shortfall in respect of infrastructure, how much more do you think should be paid by way of developer contributions?

KERRY ROBINSON: I'll start by answering your question to Mr Tegart, which was about increasing charges. The State did have something called a betterment tax between the time of creation of the County of Cumberland planning scheme in 1951 and the creation of new planning schemes in the late 1960s. For a couple of years across the green belt of Sydney—as it was at that time—there was something called a betterment tax. It only lasted about two years because of political pressure, which was applied by rural landowners. In terms of that betterment or capture of that betterment, the political reality is that the community accepts that it's better to bash up the development industry and doesn't really care if contributions are sought from developers. That's a political reality and works effectively not only in this jurisdiction but in many Western jurisdictions around the world.

In answer to your specific question, the amount of money that council needs is the amount of money that the contributions plan says is required to fund the infrastructure that the State says we're allowed to levy to provide services for the incoming community. So whatever that total amount is that is required—and it's not council which sets the standard of landscape, embellishment or other things; that is actually set by IPART. But we ought be able to recover the whole of the cost of those facilities. I point to one additional element that we're not allowed to levy for at the moment, which is indoor recreation facilities. The mayor will—better than I—be able to cite the number of people who want to play basketball within our city for which we are simply unable to fund buildings within which to allow that to occur.

The Hon. MARK BUTTIGIEG: We heard evidence last week that they're already under the pump because of building costs and it's just not viable to get a lot of these developments going notwithstanding the increased density. What's your response to that view of the development industry?

KERRY ROBINSON: That's an interesting question. I've spent most of my working life as a property developer working for the likes of Lendlease, Delfin Property Group and for 12 years for Landcom. The feasibility of development varies every single day. It varies with input costs and it varies with market. What I can say is that the construction of new dwellings in this State contributes less than 2 per cent to the total number of properties which sell in any given year. In any market, changing the input costs on 2 per cent of the product supply doesn't change the cost of the product. If you have 100 car dealers on Parramatta Road and two of them have an increase in their costs, the price of used cars doesn't change. It's a lazy argument to say that an increase in developer costs will increase housing prices. It's lazy because it doesn't understand or pay credence to the reality of the way developers do their feasibility models. I won't go through that in detail but I will say that the consequence of increasing input costs is simply that the amount the developers are prepared to pay for a development site goes down.

The Hon. STEPHEN LAWRENCE: Going back to those questions that I asked of Mr Tegart, is there currently a policy in Blacktown that, if you do a spot rezoning, part of the value increase is captured straight from the developer?

KERRY ROBINSON: Nowhere in this State is a betterment tax permitted by the State. It's only through developer contributions or the incremental change in rates where that will have effect. But you need to understand that, just because the value of a property goes up, council's rate-capped total amount does not go up.

The Hon. STEPHEN LAWRENCE: As a policy, is that something that could in a meaningful way assist local government finances—if such a tax, if you want to call it a tax, was allowed to be put into place?

KERRY ROBINSON: I'll answer that obliquely by suggesting to you that there is ample academic work on betterments taxes in jurisdictions around the world to suggest that they're problematic in their implementation.

The Hon. STEPHEN LAWRENCE: In what way?

KERRY ROBINSON: All of those people who are adversely affected by that tax squeal. I would also say that the increase in land value which occurs because of rezoning does not occur at the point of rezoning. It's not a step which happens at the date of rezoning. There is so much anticipatory increment that, by the time you get to the date of rezoning, most of those in globo land values have already lifted. What you have is a long S-curve, not a single step. So if you're looking at capturing betterment, part of the challenge you have is at what point do you start looking at that betterment. If you do it at the point of rezoning, a lot of that incremental change has already happened and you need to go back. It's a complex and challenging thing to go back five years, 10 years or 20 years to say, "Here's the base from which the increment was derived."

The Hon. STEPHEN LAWRENCE: If you assume that Government is not going to lift the rate peg—obviously that's an assumption—what other ways could we be looking at to assist local government finances to address this shortfall?

KERRY ROBINSON: There are rates, there are grants of various forms and there are developer contributions. If I touch on grants, the reduction on a per capita basis of financial assistance grants provided to Blacktown council since its peak in 2013 is about $23 million. I stand to be corrected if that number is not correct. That's a very, very substantial reduction in FAGs grants. That's because, on sensible public policy grounds, the Commonwealth and the State are shifting FAGs grants from relatively rich metropolitan councils to relatively poor rural councils who have very limited economy to tax. That doesn't make it any easier for metropolitan councils. Does the rate cap in any way address that shift in FAGs grants from metropolitan councils to rural councils? No. It just looks at three averages across the State, so nuance is required.

As I said, there are three places that we get money from—four, if you count the services that we charge for—rates, grants and developer contributions. I've pointed out some of the challenges of developer contributions, but that is only going to the capital funding of works. It's not going to increased depreciation as a result of the delivery of, in our case, about $4 billion of land and infrastructure in the North West Growth Area. We need to fund that increased depreciation.

The Hon. STEPHEN LAWRENCE: What would you say is the most deleterious way that vested interests have managed to influence the political process to their advantage, in terms of things like developer contributions?

KERRY ROBINSON: That's a very pointed question and I will deflect it and just say that there are many ways to mount a public policy argument.

The CHAIR: Blacktown had $170 million in cash and cash equivalents at the end of the last financial year, and you've got a $700 million budget. Isn't that enough money to run a council?

KERRY ROBINSON: With respect, Madam Chair, you've asked the wrong question. I would suggest that councils are there, as the mayor pointed out, to deliver the services that the community wants and needs. The current rating and developer contribution structures do not provide that funding. I've pointed to councils in Victoria, Western Australia and New Zealand who, broadly, have the same ambit and provide a similar range of services to their community, but are funded to very, very different tunes.

The CHAIR: How much of your funding is in restricted reserves?

KERRY ROBINSON: I don't have that number to hand.

The CHAIR: Noting that, do you think if there were easier pathways to access those restricted reserves you'd have more capital for projects?

KERRY ROBINSON: I think that the restriction of reserves is a very good discipline. Central Coast Council is a salutary example that if you ignore the restrictions, you very quickly drive yourself to a very bad position. The restrictions are there to provide the right money for the community for the right things. For instance, our workers compensation fund reserve is there to look after injured workers. I think that there is a danger in taking those restrictions away. There's a political danger, for instance, if council were able to use developer contributions to fund things anywhere in its LGA. There may be great temptation to use those funds not for the purpose for which they were levied, and I think that that would be a bad outcome.

The CHAIR: You mentioned you have eight of the 12 growth areas—

KERRY ROBINSON: Precincts.

The CHAIR: Your word, sorry. And that they were all anticipating that similar shortfall. What is the quantum of that and what will that mean?

KERRY ROBINSON: As I said, my rough calculation this morning was about $1.6 billion.

The CHAIR: How will Blacktown address that?

KERRY ROBINSON: Without a sensible change in policy, we will get close to the end of development and simply not provide the drains, parks and roads which are required to serve the community's needs because we have no alternative.

The CHAIR: What would such sensible change in policy be?

KERRY ROBINSON: Reform to section 7.11 calculations, so that the whole of the amount needed to fund those things that the plan says are required is available to us, and changes to the rating structure to take into account the needs that growth councils have—which are different to maintenance councils—so that we can adequately provide those facilities that growing communities need.

The CHAIR: Are the changes to the rating structure that you're talking about—are those powers not currently available to councils?

KERRY ROBINSON: Only through an SRV process. The political challenge of that is that which I have pointed out.

The CHAIR: You're looking for an alternative avenue to access those changes to rating structures that does not involve going through that SRV process. There will need to be some consultation with the community though, I would expect. What would that look like?

KERRY ROBINSON: The point of consultation with the community ought to be a strategic consultation which is part of the IP&R framework, which is carried out every four years. Mr Tegart was absolutely right: Most councils go through a process of cutting their cloth to fit the available funding, not providing the facilities which are required to service—in the case of growth councils—that growth. What do we tell the SES volunteers, who are going to serve an incoming community of some 250,000 people, that we can't afford to provide them with a base from which they should operate?

The CHAIR: That's very good question. Let's say, hypothetically, as the Hon. Stephen Lawrence suggested, we don't allow for a total removal of the rate cap. What other alternatives could we pursue—you've mentioned changes to the developer contributions—to help improve local government finances?

KERRY ROBINSON: I think that IPART is a very clever organisation staffed with very clever people and it's not within their scope or capacity, if appropriately funded, to make 128 calculations rather than three calculations every year. Given the right charge, it's entirely possible for IPART to be asked to look at what would be the actual operating cost of this council in order to provide an agreed level of services. I would suggest that an agreed level of services would take into account the provision of libraries and SES facilities, and enough money to maintain and renew the assets which exist. I'd also point out to you that some of the submissions made to this inquiry, including by the Office of Local Government, are incorrect in that they refer to asset values.

One of the fictions of local government accounting is that not all assets are counted. Would it surprise you that all bar three councils in this State ignore the value of land under roads where those roads were acquired prior to an arbitrary date in the 1980s? Tens of billions of dollars of land value is simply ignored in counting councils' assets. Whilst I'm on my hobby horse about accounting, because section 7.11 contributions are grants, they turn up as a surplus in councils' accounts. Every year for the last decade or so, we go to the community and say, "Here, community. We've made a profit of more than $200 million every year because grants are considered surplus. There's not a matching detriment, and therefore we have to show a profit." How do we have a sensible conversation with the community about the need for a rate rise when the fiction of local government accounting says that we're making a profit every year?

The CHAIR: What changes would you recommend to the fiction, as you say, of local government accounting?

KERRY ROBINSON: I'm not an accountant; I just need to deal with the consequences of accounting. There are manifold of issues that need to be addressed, Madam Chair.

The Hon. STEPHEN LAWRENCE: Is that a method of accounting imposed on local government by the Act?

KERRY ROBINSON: It's a combination of the local government accounting rules by the Office of Local Government and the relevant accounting standards.

The Hon. STEPHEN LAWRENCE: What's the rationale for that, in terms of that being treated as surplus?

KERRY ROBINSON: If only I knew.

The CHAIR: Were there any final remarks in the minute we have left?

BRAD BUNTING: Again, thank you for the opportunity. I think it's a great way of making sure that we're looking at this, in a new government, to look after our communities. We're at the face of the communities and they're looking for more and more services. We thank you for the opportunity to come and present to you here this morning.

The CHAIR: Thank you both so much. Any questions on notice will be provided to you by the secretariat in due course.

(The witnesses withdrew.)

(Short adjournment)

Ms GAIL CONNOLLY, PSM, Chief Executive Officer, City of Parramatta, before the Committee via videoconference, affirmed and examined

Mr JOHN ANGILLEY, Executive Director – Finance and Information, City of Parramatta, before the Committee via videoconference, affirmed and examined

Mr AMIT SHARMA, Chief Financial Officer, City of Parramatta, before the Committee via videoconference, affirmed and examined

The CHAIR: Would any of you like to start by making a short opening statement?

GAIL CONNOLLY: Yes. Thank you. I will. I'm going to assume that the Committee has the City of Parramatta's submission and has taken it as read.

The CHAIR: Yes. That's correct.

GAIL CONNOLLY: Essentially, we'd like to sum up by making three short recommendations for the Committee's consideration. The first one is that the practice of rate pegging be discontinued, obviously, for a number of reasons that are contained within our submission. But, essentially, the city contends that it is no longer fit for purpose. It limits our ability to generate revenue in line with our needs and responsibilities; it does not adequately cover our ongoing operational expenses; it fails to accommodate the diversity of different councils across New South Wales, in terms of size, demographics, staffing levels et cetera; and it is an antiquated system that has been around in the Local Government Act since around 1919, when the first Act was made.

The second recommendation that the city is advocating for the Committee to include in its findings is in relation to cost shifting, and that is from other levels of government. Local government continues to bear the responsibility for payment of expenses for other entities. Our example that we would like to talk about today is the State Emergency Service, in particular, the SES and the emergency services levy. They're two examples. But, more generally, the cost shifting from State and Federal governments hinders our ability to provide for local residents, when we are continually being asked to bear the costs of operations that were once the domain of the State or Federal governments.

The third recommendation we'd like the Committee to consider is for the Committee to suggest an alternative governance framework in the way that rates in the future can be calculated by councils, which would enable councils to determine their own annual increases in line with our delivery programs, guided by asset management plans, resourcing strategies and also feedback from the community on the amount of rates that they would be prepared to bear, and this would be done through the usual budget process and is more consistent with what occurs in other States, where rate capping is not universal, and it is only introduced in certain States. Having worked in other jurisdictions, councils can operate quite nicely without having a cap that is set by the State but rather set by their own communities.

The CHAIR: The first question I have for you is around how much funding you have at the moment, in restricted reserves.

GAIL CONNOLLY: Externally restricted, internally restricted or total?

The CHAIR: Both would be useful, thanks.

AMIT SHARMA: We've got a total restricted reserve of $400 million, plus general reserves of $100 million at this stage.

The CHAIR: If there were easier pathways to access those restricted reserves, would you have more capital for projects?

GAIL CONNOLLY: Potentially. One of our biggest restricted reserves is, of course, developer contributions, for example. And they are highly regulated. The ability to borrow and forward-fund from our developer contributions reserve, for example, is very restricted. If there was a way for councils to borrow more easily and, perhaps, not incur borrowing costs when we borrow between internally restricted reserves and if there was an existing governance framework that allowed for that without having to seek ministerial approval, for example, that could potentially free up our capital reserves to forward-fund the provision of infrastructure a lot more easily than what occurs now.

I think the Committee's aware, at the moment, that our developer contribution plans have works programmed to be delivered at a particular time in accordance with population. If the population growth speeds up or slows down—they're very rigid plans. There's no ability to bring forward or push back funding, because it's been collected in accordance with the plans. That would be one example of where some additional flexibility could help the council—being able to borrow between reserves without getting ministerial approval and without having to incur borrowing costs.

The CHAIR: Thank you. They're useful examples. Arguably, the council is in quite a good financial position, relatively speaking. Do you think, as the council grows financially, the focus on value for money is still there?

JOHN ANGILLEY: Yes, absolutely. I think the residents and ratepayers want to get value for their money, for what they're contributing. They want to see what's on the schedule for upcoming periods. That's why the DPOP and the budget-setting process is critical, to put those projects that are close to their interests and their needs. Particularly as our dwelling capacity and structure changes, having access to those open spaces—parks, aquatic centres and the rest of them are going to be critical for them, to make sure that we can provide them but also that we can charge them and service the community at a reasonable cost as well. They don't want to be overpaying for things that they've actually had to contribute almost twice to.

GAIL CONNOLLY: A practical example, Chair, is that council frequently goes to tender to, say, build a synthetic oval. We get a lot of people in the community say, "How come it costs the council, say, $3 million to build that synthetic oval, when the market can provide it for $2 million?" We get these sorts of examples all the time. The answer to that is that local government is bound to comply with a whole lot of additional rules and regulations that add costs. So the community thinks that they're not getting value for money when we're spending $3 million on a synthetic, when a private company down the road has just built one for $2 million, and that is because we are constrained by a whole lot of regulation and procurement guidelines that require things like purchases over $250,000 to go to tender.

Those limits are ridiculously low. You can't build anything these days for $250,000. There are award and labour costs. There are procurement regulations. There are a whole heap of red tape that go in the back end of purchasing products or building capital projects, that the private sector does not have to incur. Residents often feel that they're not getting value for money because what the private sector can build for $2 million, for the council costs $3 million. That sits behind almost every single major project we build. It would be interesting for the Committee to go and interrogate what those layers of regulation are that add costs to council that aren't necessarily in existence in the private sector.

The CHAIR: In terms of those layers, as you put it, that are adding cost, we have heard in the inquiry and in some of the other submissions about a request for more flexibility with those procurement processes. The flipside of that, of course, is that that would then introduce risk and open up other avenues for exploitation and whatever else. How do we mitigate against that? Is it that you're suggesting increasing the threshold, for example—increasing flexibility in that way?

GAIL CONNOLLY: Two things, Chair, that I would say are that rather than having guidelines which are just that, guidelines—and the OLG procurement guidelines for projects over $10 million, for example, I think are around about 11 years old. They are completely out of date, not up to speed and they do not reflect how councils operate now. So rather than having out-of-date guidelines every time you want to spend $10 million to build a capital project, those guidelines should be reviewed and they should be more than guidelines; they should be mandatory. Treasury has a set of business case guidelines that are updated all the time and could quite easily be mandated on local government. Whilst you're doing that, you could strip out some of the red tape that currently exists behind those guidelines. I understand the need for transparency—that absolutely has to exist—but at the moment you have councils constrained by a $250,000 tender limit on a project when most general managers and CEOs, on a week-to-week basis, are approving payrolls of $1 million to $2 million. My delegations to approve a payroll every week are—

JOHN ANGILLEY: About $2.7 million.

GAIL CONNOLLY: I'm signing off $2.7 million every week just to pay staff, but I cannot award a tender or a project that is over $250,000 without going through a procurement process and going to the council to sign it off. You have this massive disparity in the way that tenders and capital projects are treated versus everyday operational expenditure in local councils. A lot of that derives directly from the Local Government Act and its tendering provisions.

The CHAIR: I want to turn now to an example of a recent decision made by council, and that was a $1.1 million sponsorship deal with the Parramatta Eels. Do you think that that would have happened if you were less well off financially?

GAIL CONNOLLY: For the record, the $1.1 million is spread over three years. The council is contributing $383,000, $200,000 of which is our marketing fund, which was already in the council's budget. The other amount of that is towards not only sponsorship—sponsorship is actually less than a third of the deal. The other amount is towards player clinics, events, raising the Western Sydney Women scholarship and a whole range of community projects. I think the answer to your question is, yes, it would've still occurred; however, council's contribution perhaps would've not been as great. We have followed other councils. Smaller councils have done a lot more. If you look at the Stawell Gift in Victoria, they've sponsored that event to the tune of, I think, $100,000 every year for the next three years, so a much smaller council has paid to sponsor that event. The City of Parramatta's contribution is relatively small in the scheme of things. I think those deals still exist and they are made between councils and sporting groups every day. It's just the scale that varies, and that scale would depend on each council's financial status at any one time.

The CHAIR: Council spent $60 million on outsourcing garbage services to Cleanway. What's the value of that money over performing waste services in-house?

GAIL CONNOLLY: Generally, in my experience, the private sector can do waste collection—we're talking residential waste collection such as recycling, garden organics—a lot cheaper than councils can. This goes to the example that I made before regarding the additional layers of red tape that apply to councils that do not apply to the private sector. Our award increases every year 3½ per cent. This year it's 3½ per cent plus a $1,000 cash payment to our employees. We obviously have additional WHS obligations. We have insurance obligations and WorkCover obligations, plus then we would have all of the costs of plant and equipment et cetera. We would have to purchase garbage bins. I've worked in councils that have had both in-house garbage collection systems and outsourced, and most of the councils I've worked in have moved to outsourcing it because it is cheaper and less risky for a council to outsource garbage collection than it is to do it in-house.

The CHAIR: In terms of it being cheaper and less risky, as you say, is that a direct result of what you're purporting to be that increased red tape or layers? So better wages—

GAIL CONNOLLY: Yes, partly. When you're dealing with specialist waste contractors, they are aware of the market and they have ability to negotiate, for example, collection and processing fees because they're dealing with the receivers of that waste every day. Councils, as a one-off, are dealt with individually. We don't have that same collective bargaining power so the rates that we would pay for bin lifts, disposal and processing are different to what the waste industry pays because they are involved with and have a better idea of the market and they control the market a lot better than councils do. But, yes, there are also additional costs. Our workers comp premium would go through the roof if we operated a garbage service, as would our depreciation on vehicles. A garbage service the size of Parramatta—from memory I am going to estimate that we'd have 25 to 30 trucks on the road any one day. For those assets to go on the council's books and be depreciated would be an horrific impost on our bottom line. Garbage trucks have to be replaced every so often. To buy that plant and equipment, depreciate it and then get rid of it—the liability on our balance sheet would be enormous every year.

The CHAIR: Thank you for talking about depreciation. Most of the assets a council like Parramatta bills aren't realisable so you can't sell them, and the maintenance and depreciation, I imagine, would rapidly add up. Do you think we could better account for asset maintenance or asset depreciation in the rate peg to provide a better accounting of these costs?

JOHN ANGILLEY: Yes, I think absolutely that's one of the areas that councils like ours do suffer from. Our depreciation over the next ten years is forecast to go from $60 million to $100 million. There has been a lot of investment and new infrastructure has come on board. Even the WestInvest Program that we are grateful for for the $200 million—there's significant impost once that's up and going. There's another $10 million worth of depreciation over that which is not fully covered in the rate peg. The rate peg itself, even at 5 per cent for the forecast for next year's rate—about $8 million—really only covers our wages. EBA increases are only about $6 million but by the time you put in insurance, it doesn't even cover our materials and contracts going up by relative inflation. We've got $72 million worth of materials and contracts going up at CPI of 3 per cent. By the time you add all those factors together, there's nothing really left for such a huge portfolio of assets.

GAIL CONNOLLY: Additionally, if you wanted to tackle depreciation, there's two critical things, in my view, you have to do. The first one is to have every council required to depreciate the same asset at the same rate at the same schedule. It was a very interesting exercise to go through all of the merger proposals because most councils, to make themselves look fitter for the future—and I'm hesitant to use that line—all calculated depreciation differently to make sure that the financial statements looked better. Some people were depreciating footpaths over 300 years, others were depreciating them over 50 years. At the moment, councils do pretty much whatever they like with depreciation. If you wanted to get a benchmark, you would issue the same rates of depreciation for all the same asset classes, get every council to start with that, and then you would be comparing apples with apples across every council in New South Wales. Then you could tackle the problem of how that depreciation is treated on your books.

Should councils be allowed to show it separately on their rates notices, for example, and have a separate levy that is just hypothecated to depreciation in addition to the rate cap, for example—that may be one way. In the same way that a stormwater levy exists, for example, you could say, "We're going to give councils a depreciation levy and that depreciation is based on that work that you have done before. We have already benchmarked City of Parramatta and every other council in New South Wales, and their true depreciation looks like this, and we are going to allow them to impose a separate levy on residents outside of the rate cap that is, say, a flat rate levy of whatever it is—20 bucks a year or whatever—that is hypothecated purely towards depreciation, replacement of assets, renewal." That is one way you would do it.

If you are just talking generally around depreciation and the way it is calculated and what impact the rate cap has on it, it is the same impact that the rate cap has on all of our expenses. Depreciation needs to be taken out of the mix and treated separately. Every council needs to be depreciating its assets at the same rates in the same classes, and then you know what you are dealing with—then you have the size of the problem and then you can tackle it with something different that sits outside the rate cap, in my view.

Dr AMANDA COHN: Thanks for taking the time to give evidence today. We had a discussion earlier this morning about whether or not councils that are having significant increases in population are able to adequately capture the uplift in property values that is created either by rezoning or development. I am interested in your perspective on your ability to provide the infrastructure that those growing communities need.

GAIL CONNOLLY: It is a common myth amongst most council populations that rate pegging is linked to population growth, and the more development you have, the more rates you get. We all know that is not true. A rate cap fundamentally limits the amount of income that you can raise. I know you have heard this before, but I always liken it to a massive increase in development of population is like running a very successful business where the State Government comes along and says, "We know your business is very successful but we are capping the profits that you can make, so no matter how many customers walk through the door, you can only ever earn this much profit"—and that is what a rate cap is.

Whilst we do get a lot of development, and we have met our housing targets of 25,000 additional targets for the period until 2026—we have already met them. It does result in some redevelopment and some rezoning, but the return on those when we subdivide those properties and apply rates obviously is not covering the additional costs that we incur through the demand on our facilities. What we get in supplementary rates as a result of that development never covers the cost of having to open another swimming pool, build some more basketball courts, build an indoor centre et cetera. We are always behind the eight ball on that.

Dr AMANDA COHN: Obviously, you are recommending discontinuing the rate peg. But, in addition to that, are there other ways that we can look at improving your ability to capture that uplift?

GAIL CONNOLLY: There are. I have been asking the department of planning to issue a set of VPA guidelines, voluntary planning agreement guidelines, for about six or seven years now, so councils across the State all have the ability to negotiate planning agreements in the same way when they are upzoning land. At the moment, it is every man for himself when it comes to local council. Depending on the skill of the negotiator depends on how good a deal you get with individual developers. Some councils, like Parramatta, are very well-resourced and we can negotiate extremely good planning agreements, which help offset the demand on our facilities through population growth and up-zonings; other councils are very poor at it.

However, ICAC has recommended on numerous occasions that the department of planning come out with a set of guidelines so all councils have an equal ability to negotiate additional developer contributions when land is upzoned. I think that would help some of the smaller, less well-resourced councils to get a fairer share from developers to help support the up-zonings that are going on in their areas. I won't even mention the anti-corruption benefits that a set of standard mandated guidelines would bring to the sector. At the moment, everyone is having discussions behind closed doors with developers using their own policy, which varies across the 150-odd councils that exist in New South Wales.

Dr AMANDA COHN: In your written submission, you raised issues that a significant number of councils have, like cost shifting and particularly the statutory fees and charges that don't meet the cost of providing the services that you are required to. Do you have any particular examples of those at Parramatta? I appreciate you might need to take this on notice, but specifically what is that financial impact on your books?

JOHN ANGILLEY: There are a couple of big ones, I guess. The emergency services levy over the last four years has gone from $3 million to $5 million, so the rate peg doesn't capture that. Even though we welcomed the changes in the rate peg, it doesn't historically go back and compensate for that. We probably get about $1 million out of the rate peg to cover the ESL with a $5 million base that has been there historically. I know some of the other councils have mentioned things like pensioner rebates have been stuck and flat. We also offer additional local rebates for our pensioners as well. The parking space levy is a big one. That has gone from about $670,000 to over $1 million in the last three years. I think there is a fair bit of work going on that is going to see a lot more cost shifting over that space hit us. The State Emergency Service is the other big one, where we are responsible to maintain and relocate the State Emergency Services, which we are provisionally putting in our budgets for next year of $11 million to build a building—that is not including the cost of land. Depending on what sort of arrangement we can do, there are significant imposts on us as an organisation.

GAIL CONNOLLY: They also have the RFS costs as well. I think the Committee would be aware there is an ongoing argument between councils and the Audit Office as to how those assets are shown on the books. A lot of councils are receiving qualified audits as a result of not listing the RFS assets on their books because they have no control over them. This is an ongoing debate between the Office of Local Government and the Audit Office and individual councils, because councils do not want to show any plant and equipment from RFS or SES or anything else that we have no control over as liabilities on our books and having to depreciate it.

But this is an open wound that continues to weep in the local government sector, and it would be excellent if the Committee could address that issue as well, as part of this inquiry, because it does fundamentally go to your bottom line. And certainly for the country councils who have to depreciate all of those trucks and equipment of the Rural Fire Service—they have no control over them and they don't want to show them on their books. It is a classic example of cost shifting, but it is an interesting one because if you talk to the OLG and the Audit Office, they are at extreme ends of the spectrum on whether or not those assets should be shown on councils' financial statements.

Dr AMANDA COHN: A lot of councils have raised this. If we are not asking as many questions as you'd expect on this, it is because there is another committee examining that specific issue in isolation. Thank you for those examples of the statutory fees and charges. That is really helpful. My follow-up question is a bit harder. Where did you find the funds to cover those things, given that the State Government doesn't cover them? What services were cut? What impact does it have on your community, having to find the funds to cover those things?

JOHN ANGILLEY: It is probably not so much. We look to maintain our core services across the community—that is our priority—and delivering those. Where it comes to is in your assets maintenance, your backlog ratios and those sorts of things. You either stop doing replacement or maintenance of them or you delay them and extend the programs over certain times. That increases not only the cost of doing the final repair or the upgrade when you get to it, but it also has the impact of inflation coming through there. So things like buildings that have become dilapidated. Our town hall probably was let go considerably and cost $32 million to restore that to its historical glory. But things like leaking roofs and wear and tear that we've probably neglected over a period of time cost us significantly more to do that. We try to find ways to move balance. Grants obviously assist in certain things, but it's really about trying to balance and maintain those community services.

GAIL CONNOLLY: The other thing that City of Parramatta has been very lucky with is that we have an extensive property portfolio and from time to time assets are sold and that money is reinvested for a particular purpose. It's not a long-term, sustainable approach to raising funds, but the city has been very lucky in that we've been able to, from time to time, sell assets and then invest those funds and get a return and then reinvest those returns into, as John said, our renewal and capital program. But for most councils it's a choice of pushing out and delaying renewals or replacement and/or reducing the level of service. It can get to the point where you just don't run a childcare service, you close your library hours, you close a number of branches, you reduce the number of swimming pools you have or the opening hours and you stop undertaking essential maintenance and repair. Often those choices are put in front of councils. You try to do more with the same amount of money. But it does come at prioritising choices for the community.

The CHAIR: I want to go back to the financial position that you talked about being in at the moment. My understanding is that your council is in probably one of the best financial positions of any in the State. Others are obviously really struggling. In terms of adding value to the work of this Committee, I invite you to explain to us what that success looks like and where it is that your strengths are coming from, whether there are factors that have contributed to your council's stability and success, and how can we suggest or recommend that these examples be implemented in other parts of the State.

GAIL CONNOLLY: I will start by saying that our success on paper is pretty much due to our capital grants and contributions. That's what gives us our surplus. If you look at every council's operating surplus versus their overall surplus—if you take out the capital grants, developer contributions, grants from external bodies, VPAs, those sorts of things—we actually adopted an operating deficit on our books last year. I think it's important that the Committee interrogates every council's financial statements without the capital injection of funds. If you look at a lot of the country councils—take the small ones like Uralla, for example. Without the financial assistance grants, without capital grants, without the Roads to Recovery and all the usual road repair grants that those country councils get, they would be constantly operating in a deficit because the only thing keeping them alive is the capital grants. In Parramatta's case, our capital grants and contributions and VPAs this year were—

AMIT SHARMA: Close to $112 million.

GAIL CONNOLLY: —close to $112 million, but our operating expenses were $330 million and our operating income was around the same. I think it's important for the Committee to interrogate the operating expenses in every council, which is opening the doors, keeping the lights on, paying the water bill, paying the staff, day-to-day services, versus what does that look like and then throw on top the capital grants, because Parramatta on paper looks very sustainable. We have a fantastic amount of capital grants but, if all of our capital grants and contributions disappeared tomorrow, we are operating in a deficit.

The Hon. PETER PRIMROSE: How successful have you been at estimating incoming capital grants and contributions to council over the last couple of years?

JOHN ANGILLEY: I think relatively they've been fairly standard and they are declining and that's part of the challenge that we're seeing. But it's why we focus on our underlying operating surplus or deficit, given that we try to maintain the operation and provide those services outside of that environment so if they do drop off—what we find happens more is around the timing of them. We get a grant and it might move to the next financial year or be delayed two or three—even WestInvest. So if we forecast some of those programs—because of the timing delays in the grant agreements and then the projects and the delivery, things that are impacted by weather. I think they've been fairly stable. We've seen some of them decline and we've taken the advantage of that. We've also had the benefit of our interest income on some of that capital that we have historically held from sales of properties and some of those grants. So we have a healthy cash balance, which does return around the order of $20 million to $22 million a year. But as we spend that money—and it'll decrease over time—you're going to see the impact of that flow through.

The Hon. PETER PRIMROSE: You mentioned decline. Are there significant areas? I'm thinking of things like developer contributions, for example. Does that affect you?

JOHN ANGILLEY: Yes, it does. It's also in terms of financial assistance grants, the roads programs—some of those have had spikes and drop-offs. The Federal assistance grants have come off from 13 down to about 10 million in dollar terms but also in per capita terms they've dropped quite substantially. Then when you offset that with things that are coming through around the cost shifting measures, it becomes that double-edged sword. All of those various factors that affect every other council still impact us. I guess we've just got a bigger base that we can try to balance it with to offset the impact and the timing.

GAIL CONNOLLY: John is quite correct. Our scale makes us sustainable, so we can cope. For example, if the financial assistance grants were halved next year, we would just move things around and we would cope. But for smaller councils—say, take your Hunter's Hill—they would probably struggle to deliver any capital program because I'm thinking that their financial assistance grants probably do a lot of propping up the entire operational costs of the organisation, plus probably pay for their capital program. And they're such a small council and their rate base is so small. I think they've only got, I don't know, around 14,000 or 15,000 population—who knows what their rate base is—and seven councillors for that many people. Any minor tweak of any of their grants would probably make them unsustainable in terms of an ongoing operational expenditure, especially if they're using it for capital as well. We're lucky. We have scale and we can move things around and we can borrow between reserves if we have to and reimburse, whereas I don't think smaller councils like Hunter's Hill could do any of that.

JOHN ANGILLEY: No, that historical general revenue in terms of our working capital that we virtually have—around that $80 million to $100 million—yes, it's declining but it offers us the ability to be able to shift and move and reprioritise things without dipping into ongoing revenue or services that need to be maintained.

GAIL CONNOLLY: I think you have to look at Parramatta in the same way as the City of Sydney and probably North Sydney and other councils that have a very large business rate base. The larger your proportion of ratepayers who are business, the easier it is to obtain good rates income, because there are business rating categories that you can introduce for different entities. For example, most councils who have a Westfield just set a flat rate for Westfield every year and get on with it, and you do have the ability for your business ratepayers to disproportionately contribute to your rates income.

Normally, you don't get a lot of complaint about that because it's all a tax write-off. They're all classed as business expenses. Business owners just claim their land rates, their business rates as part of their business expenses. They're tax deductible and they get on with it. Of course, residents cannot do the same. Any council that has an extremely large business rate base is able to disproportionately garner income from the businesses as against the residents. Whereas, if you're a small country council where everything is zoned rural or residential, the ability to rely on your business rates is almost non-existent. That's part of the reason why Parramatta, City of Sydney, North Sydney are successful, because of that disproportionately large business rate base.

The CHAIR: I want to take you back to some of the questions around financial situations. You talked about the surplus being largely the result of grants. I wondered whether or not we could explore some of the other funding decisions made by council. My understanding is that you spent some $88 million on a new pool and $136 million on a library. Is this a good use of funds if it is the case that you are running an operating deficit and/or you're so reliant on those capital grants?

GAIL CONNOLLY: The Parramatta Aquatic Centre, the new pool, was a decision that was pretty much forced on the council to make. When the State Government announced that it was rebuilding the stadium, that was on the site of the pool, so a lot of the funds towards the building of the new pool came from the State Government as a result of the compulsory acquisition of that site. My understanding was, around about half of the cost of the pool came from the State Government, and the other half was matched by the council—roughly.

From memory, around $35 to $40 million came from the State and the rest was contributed by the council. My understanding was—and I wasn't here at the time—part of it was from our cash reserves, part of it was from developer contributions and part of it was from grants. They were essentially the funding mixes. The library, known as PHIVE in Parramatta Square, my understanding is a lot of those funds came from a property sale of properties around the square when the square was redeveloped by Walker Corporation. Once again, it was a combination of funding sources, but some of it was definitely from property sales and some of it was from working capital, is my understanding. I am happy to take that on notice and give you the exact breakdown.

The CHAIR: In terms of those assets, obviously they're going to have maintenance and depreciation costs in the long run.

GAIL CONNOLLY: Massive.

The CHAIR: You agree?

GAIL CONNOLLY: Yes, and, as John put before, our current depreciation bill used to be sitting around $35 million to $40 million. With the bringing on of the opening of the library and the aquatic centre, for example—and now town hall, which was a $32 million restoration—we see our depreciation go from around $60 million to $65 million this year, up to $100 million over the next 10 years.

The CHAIR: How does Parramatta council plan to fund that in the long run?

JOHN ANGILLEY: It will be a combination of all sorts of things. That's part of where the reliance on setting the right rates to factor in those asset costs—giving us the ability to be able to really prepare and maintain those. Our roads, our stormwater—some of those stormwater feeds haven't changed for years. We're dealing with things like legacy asbestos and those sorts of programs as well that add significant choices to where we do and how we maintain those. There are scenarios we run on our assets. We do our asset planning each year. We can run them, not just to maintain them. It's about determining what condition you want them to be in, in the 10-year forecast period. Do you want to just keep them going and do a major upgrade at that time, or do we want to be able to have them so that they're quite well maintained and easy on the maintenance?

There are a lot of decisions and levers we can pull in that process to do it. The more that we can maintain our rates at the right level, looking at the business rates, particularly in some of those categories that help support—living within those ecosystems. Trying to subsidise community for usage of our facilities causes another dilemma, so they're not operating them at a commercial rates—or as close to without penalising them. They're all factors that we have to marry up and do it. But the depreciation cost is our biggest significant going forward.

GAIL CONNOLLY: John is correct. It is going to be a little bit of everything. Some of it will have to be rates income. What we're trying to move towards is not putting in any of our own cash into our capital program. We've started a strategy with the councillors where we want to back out of any of our cash and fund the entire capital program from grants, VPAs and developer contributions, and free up cash so that can be spent towards other things.

There will be an emphasis on fees and charges. This year we put up the fees and charges by five per cent rather than three and a half. The councillors accepted that, in the main, that's what would have to happen—that we'd have to have a bit of a jump. What we are trying to do is get a return on our investment, rates and fees and charges; free up working capital; stop putting it into the capital program and just relying on grants. There are about three or four strategies we have to try to cover that depreciation task but, ultimately, the ongoing rate peg is not helping us.

JOHN ANGILLEY: No, and I think it's a challenge that some of those big assets that you mentioned and talked about are really about getting us to become a top-class global city. We're on the way to doing that, but it costs money.

GAIL CONNOLLY: It's no secret that we've started to enter into some entrepreneurial partnerships. You mentioned the Eels partnership before. The Eels are actually giving us, too, as part of that partnership, $200,000 towards our marketing and community costs. It's not just a one-way thing. That deal brings in $600,000 to the council over three years to help offset the cost of running our community programs and our scholarships. We're also looking at partnering with a couple of the well-known sporting clubs and licensed premises.

I'll give you a generic example. We have a bowling club that needs a $15 million upgrade. We have $7.5 million in grants. We're looking for a licensed premises to partner with us and pay for the rest of the upgrade in exchange for a long-term lease. We're doing that in a few instances where we are looking for private sector partners to help with cash injections or ongoing operational costs through entering into commercial leases with us. We are starting to operate far more like a commercial practice than a traditional council where we continue to subsidise some of our facilities.

The CHAIR: That's all we have time for today. The secretariat will be in touch with any questions that are on notice. Thank you so much for taking the time to appear for this inquiry.

(The witnesses withdrew.)

Mr DAVID WALSH, Chief Financial Officer, Northern Beaches Council, affirmed and examined

Ms CAROLINE FOLEY, Executive Manager, Financial Planning and Systems, Northern Beaches Council, affirmed and examined

The CHAIR: I'll now welcome our next witnesses to the inquiry. Thank you so much for making time to be here today. Would either of you like to start by making a short opening statement?

CAROLINE FOLEY: Yes, please. I will. Thank you very much for the opportunity to come and talk to you today. Councils have different capacities to generate income and services, and their service needs are affected by geography, demographics, community preferences and population growth. Over the three years to June 2023, inflation has more than doubled the increase in rates income over the same period. For Northern Beaches Council, this is a gap of $18 million in rates going forward each and every year. Over the same period, we experienced six natural disasters at a cost of $14 million. The COVID pandemic had a $41 million impact, and the emergency services levy increased by $3.1 million this year. We are supportive of the rate peg. We are also supportive of the IP&R framework. It's just the inflexibility of the rate peg which is missing the mark. Councils need the autonomy to work with their communities to allow small additional increases to meet community expectations and to cover costs not included in the rate peg. IPART have suggested increased flexibility for councils to set rates with a margin of 3 per cent above the rate peg limit.

The SRV process is resource intensive. It's costly, and it can be politically contentious, and it incurs a significant burden on councils, regardless of the size of the increase sought. Even with the IPART changing the rate peg methodology, we've missed out, as the high inflation of the past two years will never be incorporated into the rate peg. On our calculations, our 2024-25 rate peg would've been 6.7 per cent under the old method, which is almost 2 per cent higher than the new methods. That's another $3.3 million gap for us. Even a large, well-resourced, high-capacity council such as Northern Beaches will at times need a special rate variation, to take account of costs not covered by the rate peg. We have ageing infrastructure and high exposure to natural hazards, and it's not sustainable to defer these issues each and every time an unexpected issue arises. While our council continues to identify efficiencies and alternative revenue sources, this will never be enough to deal with these issues.

The Hon. EMMA HURST: Thank you both for coming in today. We really appreciate your time. We heard an argument this morning that coastal councils should be considered their own cohort or category, along with metro, rural and regional, given the unique costs and pressures that they face. I'm wondering if you would support that sort of a shift.

CAROLINE FOLEY: We would. We do find, particularly along the coast, there are a lot of additional costs that we face. As a Sydney metro council as well, we are a bit of a playground for the growing suburbs to the west of us, and support in identifying those councils as a unique group would be helpful.

The Hon. EMMA HURST: I also note in your submission that you said that this Committee should consider a rate peg exemption model for councils that demonstrate an agreed level of performance. I'm just wondering if you can explain a little bit further about how this would work and if something like this is in place elsewhere that we can look at.

CAROLINE FOLEY: Through the whole Fit for the Future process, it was a suggestion at the time that councils that could demonstrate that they had strong planning in place—and the basis of that is the IP&R framework, and that mechanism gave them that ability to work with their community to set the funding arrangement that is needed to meet the services of the community—should have the autonomy to lift their rates income to meet that level. There are other States that do allow councils to set their own rating level. We haven't seen that in New South Wales, but it has been something that's been suggested for a long time, and I think we've got a good framework now that's been in place for many, many years, and now it's time to move to the next stage.

The CHAIR: In terms of the funding that is available to Northern Beaches Council, how much of that funding is in restricted reserves?

CAROLINE FOLEY: For our council, we've got externally restricted reserves of around $53 million at the end of last financial year. That's primarily developer contributions. And we also have internally allocated cash, which is about $90 million. What's left and unrestricted is $39 million, and that's there to cover your first two months of the financial year, until you get your first rates instalment, on 31 August, really for liquidity purposes.

The CHAIR: Do you think, if there were easier pathways to access restricted reserves, then you'd have more capital for projects?

CAROLINE FOLEY: No, not in our case. The internal allocations are there to manage long-term liabilities. We have a landfill site that we will need to remediate in the future. A lot of grants that have been given to us sit in those reserves. The funds are restricted, and they're there for a purpose. We wouldn't be looking to access them to do other things with them.

The CHAIR: In terms of Northern Beaches Council—and you alluded to this earlier in the coastal councils questioning. You've got a lot of infrastructure that is available on the beaches that council funds from ratepayer funds but that non-ratepayers are one of the primary beneficiaries—or the people who go to the beaches and use the walkways and use the wonderful environment that is there. Can you think of ways that those external costs can be better captured?

CAROLINE FOLEY: The costs like that—you can somewhat, with things like parking fees, try and recover funds from people who are coming from outside of the area to use the facilities within your area, but there's a limit to that, and we really couldn't increase that kind of fee structure beyond what we're currently at now.

The CHAIR: Are there other ways that we as a State government could look at or other—if you've maxed out, as you say, what you can do at a local level, are there other opportunities there?

CAROLINE FOLEY: I think it would be helpful to look at the sort of untied grant funding that's available to councils to manage the costs. Whilst it's a Federal grant, the Financial Assistance Grant—we, like many Sydney metro councils, receive the minimum amount. It's $9 million a year. That hasn't really kept pace with the cost of running councils, and there was a period there that was frozen, as well. Those sorts of gaps have created issues.

The CHAIR: I've now got a couple of questions about the emergency services levy, which you mentioned quite a bit in your submission. When the previous Government began providing a subsidy to the increased cost of the levy, did you budget for that?

CAROLINE FOLEY: We budgeted for the subsidy, yes.

The CHAIR: The announcement was made in April of each year. So you'd have begun your budgets earlier than that, assuming that you would pay the full amount? Is that correct?

CAROLINE FOLEY: Budgeting for this financial year—pretty much this time last year, the guidance, which was actually in the rate peg methodology documentation from IPART, said that the Government had committed to providing that subsidy again. So we budgeted on that basis, and we put our budget out to the community, and a week later we found out we wouldn't receive the subsidy and the emergency services levy was increasing. That created for us—it was just over a $3 million increase, up to just over $9 million dollars. What that meant is that that budget now, that we had out with the community, we couldn't afford to deliver. In finalising that budget, we had to cut back our infrastructure projects in order to fund the emergency services levy. Our levy is something like $90 per ratepayer now.

The CHAIR: At what point in time did you start to assume, on an ongoing basis, that you would be receiving that subsidy to the cost of the levy?

CAROLINE FOLEY: The subsidy was received—I think it was something like four years ago. We didn't assume the following year we would get the subsidy. We budgeted for the full emergency services levy charge, and it was really post that that it seemed to be something that was going to be provided on an ongoing basis to help offset the significant increases that were occurring in the emergency services levy at the time.

The CHAIR: At that year that you budgeted for it but then received a subsidy—that would've been an added bonus to the bottom line for council?

CAROLINE FOLEY: That's right, and that was during the COVID pandemic. That was very helpful for council because we had a number of cost pressures at the time, particularly with a lot of our other income sources dropping off.

The CHAIR: Was this grant or this subsidy that you were expecting and budgeting for visible in the accounting that you released to the public or in the accounting that you released to councillors?

CAROLINE FOLEY: For councillors, we were calling out the emergency services levy because it was such an important item for us in our budgeting. It's quite a big amount of money, so it was part of our briefing packs to them.

The CHAIR: But it wasn't visible in the accounting that you released to the public.

CAROLINE FOLEY: In the accounting released to the community, they wouldn't have seen it at that level of detail, no.

The CHAIR: Do you think, then, that the accounting standards used in local government allow members of the community to understand where the ratepayers' money is going?

CAROLINE FOLEY: If you look at the reporting that's done, there's a lot of detail provided in council financial statements, a lot more than I think other levels of government would provide. We provide a summary up the front of ours as well, just to try and put it into plainer English what's happening within the numbers. In our set of accounts, I think someone picking it up could have a good understanding of our organisation from the complete set.

The CHAIR: Going through your proposed recommendations in the submission, what are the statutory charges that you recommend the Government indexes?

CAROLINE FOLEY: I know you've heard many people talk about the stormwater charge. That matter is completely covered so I'll give you another one: the filming protocol, which is a mandatory set of fees for the filming industry. *Home and Away*, which is filmed up in the Northern Beaches, has been paying the same amount of money since that mandate came out in 2009. There's no indexation in that so it's 15 years. No guidelines or legislation should be ever issued that has no indexation in it. It's just really poor practice.

The CHAIR: How much would you get from them?

CAROLINE FOLEY: About $120,000 a year.

The CHAIR: And that hasn't been indexed?

CAROLINE FOLEY: No.

The CHAIR: It's been the same since 2009?

CAROLINE FOLEY: Correct.

The CHAIR: Interesting. There you go. It's a very unique position to find yourself in as a council. What particular elements of the SRV process do you think the Government should streamline? You mentioned that in your submission as well.

DAVID WALSH: In essence, where there are costs outside of the rate peg, that there is some mechanism to allow councils to have the small flexible increase to take account of those costs without going through the same rigorous process, which incurs considerable costs for council. If those costs were reasonable, and can be well and clearly articulated, council has the ability for a per cent or two increase above the rate peg.

The CHAIR: What would be the role of community? Community consultation is an important part of that SRV process. How would that be replicated? Or wouldn't it?

DAVID WALSH: No, that would all be replicated as part of the normal IP&R process, whereby we actually consult with the community on the full budget each year, draw out particular elements of the budget and get their feedback in relation to those things.

The CHAIR: So long as it was in line with the IP&R framework, then you're purporting that it should be allowed if it's within a window—a small amount.

DAVID WALSH: Yes, if it's within a small amount and can be clearly articulated and explained to the community, we believe that there should be that flexibility in the SIV process.

The CHAIR: Thank you for clarifying.

Dr AMANDA COHN: Thank you for making the time to come and give evidence today. Some of my questions have already been covered, but I was interested in the cost that you've cited, which was $14 million in the last five years, for natural disaster recovery. Could you break that down for us? What actually is the cost that you incurred?

CAROLINE FOLEY: We've actually had seven natural disasters since we wrote that because there was another one last month. For us, the 2022 financial year was quite a difficult one. We had three natural disasters. Particularly February 2022 was significant—the cost of that one alone would be over $7 million. There are mechanisms to provide funding to the affected areas through the Federal and State assistance programs but not all assets are covered by that. There's always a gap. The length of time it takes to actually receive funding after those disasters is significant; we're still waiting on money from a storm in November 2019. Huge amounts of work need to be done to put the claims in and then you wait a very long time to receive the cash. A council like ours, which is forecast to be one of the most impacted by natural disasters into the future, needs to have a good amount of cash in place so that we can manage our cashflow every time is one of those events happens. If you're waiting three years to get the money back, it's a significant problem.

Dr AMANDA COHN: That was helpful. Just to follow that up—and this might need to be taken on notice—it sounds like you're talking about most of that cost incurred being damage to assets that needed repair.

CAROLINE FOLEY: It depends on the storm. It can be a lot of clean-up—trees on roads and the like—but it can also be significant infrastructure damage, which takes a longer time to repair. Being a coastal council, a lot of the damage, except for that February 2022 instance where there was a special exception, seawalls and things like that are not are actually covered under the arrangements.

Dr AMANDA COHN: Are you able to, on notice, provide a breakdown of that $14 million? I'm sure it's more now that you've had that $7 million—I'm sorry to hear that. I'm really interested in what the actual costs are and what council is paying for in that recovery.

CAROLINE FOLEY: Yes, we're happy to do that.

The Hon. SAM FARRAWAY: I have just one question to follow up, Ms Foley, about the disaster payments and claims. Do you have infrastructure that has been damaged in 2019 then followed again and damaged possibly in events in 2020, then 2021 and 2022? You said that you're still waiting for payments, and the impact that has on cashflow. Are you still yet to receive, just to confirm, funding from those 2019 claims? Was that right?

CAROLINE FOLEY: The November 2019 storm was made to tree damage. The way it works is once you finally get approval for your claim, you get the first 75 per cent paid. The final 25 per cent doesn't come through until it's passed a range of assurance tests—

The Hon. SAM FARRAWAY: And audits, yes.

CAROLINE FOLEY: —that somewhere in the government process. We're still waiting on that final 25 per cent for that particular storm.

The Hon. SAM FARRAWAY: So how much would Northern Beaches Council be out-of-pocket for pre-existing claims that date back three or four years?

CAROLINE FOLEY: Right now, we'd be out of pocket about $8 million.

The Hon. SAM FARRAWAY: Wow. How does your council—you touched on this earlier but in terms of cashflow, how has that resulted in future programming and changes to maintenance and managing cashflow of day-to-day operations of the council?

CAROLINE FOLEY: For us, that money has come from our unrestricted cash. When you asked about our cash before, an organisation our size should have more unrestricted cash than just enough to cover the first two months of the next financial year. That money at the moment is sitting waiting for payment and we need that back before the next big storm happens.

The Hon. SAM FARRAWAY: So without to try to tie over—there is another inquiry hearing into the Reconstruction Authority and the Act that some of us sit on as well, so I won't tie over there. Obviously these weather events and the delay in processing, whether it's the last 25 per cent or even getting the first 75 per cent, is fundamentally changing the way councils forecast their budgets and their cashflow more broadly. I note it comes from a different reserve but there would be items that you wouldn't be able to take from that reserve or you would be managing from business-as-usual activities and cashflow as well, wouldn't you?

CAROLINE FOLEY: For us, in looking forward in our long-term financial plan, we feel that we need more cash because we need to be able to manage unexpected events into the future and invest in new opportunities. The unexpected events is the biggest concern at the moment because if we had another February 2022 storm, we'd have to do cut back our infrastructure program yet again in order to fund that. That's a significant issue; it's just growing the backlog further and further for us.

The Hon. SAM FARRAWAY: So in your opinion—obviously Northern Beaches Council is a large council that has a fair bit of cash behind it—fundamentally this is unsustainable, holding that amount of cash long term, in your view?

CAROLINE FOLEY: Holding?

The Hon. SAM FARRAWAY: Holding receivables, isn't it? It's holding that cashflow long term for these claims when really the focus should be repairing the infrastructure, processing the claims and not putting a council into a cashflow deficit situation for something that's totally out of their control.

CAROLINE FOLEY: That's right. I should probably just clarify that there are two different government departments that the claims go through—Public Works and Transport for NSW. Transport for NSW did provide us with a $5 million advance payment for that February storm, which was fantastic, and that's what we've been able to utilise to manage some of those works. Public Works don't have the same capacity to offer that funding so when you've got claims through them, you are out of pocket for a very long time.

The Hon. SAM FARRAWAY: There is another point I wanted to raise. We heard in evidence this morning from Mr Tegart—and I think it's a common theme from every council, whether metro or regional or rural—about the volatility of grants. In the past 12 months, has the Northern Beaches Council seen less opportunity for grants, or the process of applying for grants, or more of a focus around a contest for one bucket of money for grants?

CAROLINE FOLEY: We have noticed in the last 12 months there has been probably more of a delay in announcements, or grants around wharf projects and things like that haven't been as successful as we've seen them in the past. But we do recognise we've been quite fortunate in the last few years. There has been a lot of COVID stimulus grant funding available to councils and, being a merged organisation, before that it was merger grants. Whether we're moving into business as—

The Hon. SAM FARRAWAY: From a sustainability point of view and an operational point of view, in particular as a metropolitan council, how does it impact you when, I'm sure for lots of different reasons, grants are delayed in their announcements? That possibly delays you in finalising the scope of works and going to market for tenderers. The costs of material and labour could change from when you applied for the grant versus when you actually are successful, or can get cracking, essentially, with that money. That obviously has an impact as well, longer term.

CAROLINE FOLEY: It does. We don't budget for grants that we haven't received. We don't set an expectation with the community for something we don't actually have the funding for. But what we do do is try to work towards having plans in place that allow us to competitively put our best bid forward for grants when they come forward.

The CHAIR: I have a couple of questions about your recommendations. You talk about rating exemptions. Which rating exemptions should be lifted, in your experience?

DAVID WALSH: It is really those rating exemptions for businesses that may sit on a national park. We may have a marina sitting within a national park. It still draws resources from councils. These are businesses competing against other businesses in the area, but they are exempt from rates. There are a whole range of users on either Crown land or similar-type things—it might be the quarantine station. You have accommodation. You have restaurants and things like that there competing with our other businesses, yet they're exempt from rates. We're effectively saying that where there are users of those services that impact upon councils' infrastructure and services, there should be consideration for rates being paid on those particular properties.

The CHAIR: In terms of other avenues we could pursue to help councils in raising revenue, if we didn't increase permissible rateable income, are there any changes you could suggest to increase that, or is it the case that one of the only levers that local government has is changes to rates?

DAVID WALSH: It very much depends on a particular council. A regional council is much more reliant upon grants. Their rates base will never allow them to pay for all of their services just from rates income alone. We are quite limited on our ability to raise fees—fees that are largely for particular services which council is providing. You may have better opportunity in terms of parking fees and things like that, but if you look at the range of fees that we can charge, they're not so extensive. So it is really that ability to look at grants for particular councils to meet, potentially, operational needs, and it depends on the level of services for different areas of the community that the council is actually providing—whether that be for youth services, for older members of our community or things like that. If there were particular operating grants, that would be of assistance.

The CHAIR: You mentioned fines having statutory limits imposed. What are the statutory charges that you recommend the Government indexes? We've heard about the film contributions as a unique example. Are there any others?

CAROLINE FOLEY: The stormwater charge is significant. Particularly for an area with so many flood-prone properties, people want to see the council invest more in the stormwater system. The stormwater charge is $25 per house, and it has been like that since it was introduced—a very long time. It would be about $45, probably, today, if it had been indexed. It raises for us $2.2 million. There's not much you can do with $2.2 million across such a big area. Doubling of that is great assistance. Things like development assessment fees, which are being indexed today, but it's similar to the rate peg issue—all of the historical gaps have not been addressed with a lot of the fees. If you put a development application in to council, you are really only contributing

50 per cent of the cost of assessing that development. Is it fair that the ratepayers pay the other half? That private versus community benefit split in assessing your fees isn't an option for councils because they're statutory fees.

The CHAIR: Could you talk about the challenges that are caused directly by having the rate peg? Does it have any impacts on staff—whether staff are harder to come by, or the capacity of local government to get loans, for example?

DAVID WALSH: There are really no restrictions in the ability of council to get loans, because loans will generally be secured against the rating income. The staff issues are really a separate issue again, dealing with our ability to compete with private sector. Particularly in areas now at the moment, like those planning areas, it is not unusual for people to leave council from the planning areas and join the private sector. It is very hard in those circumstances. There's not a lot that can be done, other than perhaps having more training programs and that for the staff who provide the core services.

CAROLINE FOLEY: I was just going to add to that, sort of back to my opening remarks about the issues with inflation in the last few years and that consumer price index, which is not actually reflective of council costs, which has a lot to do with construction costs. The gap there—because there is no mechanism for councils at all to provide even a small adjustment on top of the rate peg to keep up with those prices, we're left with this ballooning problem. We've just updated our asset management plans. We need to be spending about $25 million more per year on our infrastructure. These problems are just problems for the future generations. You wait until an SRV application, which then becomes a large increase, and it creates this kind of lumpy situation, whereas you could have something a bit smoother for people to not have such a shock every 10 years or so.

The CHAIR: You've provided more financial information on your website than most other councils. Do you believe that that level of financial transparency improves your financial outcomes?

DAVID WALSH: We provide information by service. I think that's a really good way of actually informing our community of where their rating dollar is actually going to. But it also provides an ability for us to assess the performance of each area. We do believe that adds significantly to the performance of council.

The CHAIR: Interesting. Is that something that other councils could learn from and adopt, or is it something that they're doing at the moment, to your knowledge?

DAVID WALSH: Each council really provides their own mechanism for how they report at that service level, and probably a greater consistency within the IP&R framework would be one advantage of actually going down that path.

The CHAIR: Turning to the role of councillors, what steps does the council take to ensure that locally elected councillors have a thorough understanding of the council's finances?

CAROLINE FOLEY: Our councillors are very involved in our financial decisions at council. We have a series of briefing sessions in the lead-up to the setting of the annual budget, and they're very much part of that. This year we did a workshop with them as well, over a weekend. They are very interested and take the decisions thoroughly in terms of setting the budget and aligning it with the services for the organisation. They do have a good understanding of our situation.

The CHAIR: Do you think there's more work that could be done in that area?

DAVID WALSH: I think that our councillors take such an interest, not a hell of a lot more could be done. But one of the things that they do recognise is that if there is a shock that comes into our system, something will have to be deferred. They are very good at recognising that they just can't put forward ambit claims on top of the budget. The budget process is very, very rigorous. If there is something else that they're looking at doing, they really have to get their other colleagues to decide what won't be done.

The CHAIR: Does your council invest in apprentices and trainees? If so, what is the percentage of your workforce?

CAROLINE FOLEY: We do. I'm not sure of the percentage, but I can get that back to you.

The CHAIR: How does this investment help with the skills requirements going forward?

DAVID WALSH: I can say that personally because we do have trainees within the finance area, and it is a really fabulous way of bringing people forward and bringing them into the organisation. I know just through our council that a large number of the trainees have gone on to take positions and grow within the organisation.

The CHAIR: If rate capping was removed and councils were able to set their own rates, do you believe there should still be a level of oversight on limits?

DAVID WALSH: Absolutely. We actually very much support the rate peg. We think that the rate peg adds a certain amount of discipline for councils. We're talking about adding an element on top of the rate peg for those costs that aren't covered by the rate peg and providing a small percentage, which would avoid the need for large special rate variations on, say, a 10-year cycle. Because when you look at the special rate variations, it's very uncommon for a council in a 10-year period not to require one.

The CHAIR: So that would allow more flexibility? That slight amount above the rate peg, as you said earlier, were it within the IP&R framework and had been consulted on, should be permissible. Is that what you're putting forward?

DAVID WALSH: Yes. We very much support that.

CAROLINE FOLEY: Yes.

The CHAIR: With the time remaining, were there any final remarks that you may have wanted to make to the Committee?

CAROLINE FOLEY: Nothing more from me, thank you.

DAVID WALSH: No, other than to express support for some of the processes, like the rate peg, but also for the IP&R process, which, used effectively, is a fabulous way for us to consult and involve our community in the whole financial and budgeting process.

The CHAIR: Thanks so much for the evidence that you've given today and to both of you for being here. The secretariat will be in touch with you about any questions taken on notice.

(The witnesses withdrew.)

(Luncheon adjournment)

Mr JEREMY BATH, Chief Executive Officer, City of Newcastle Council, affirmed and examined

Lord Mayor NUATALI NELMES, Lord Mayor, City of Newcastle, sworn and examined

The CHAIR: Welcome to our next witnesses. Would either of you like to start by making an opening statement?

NUATALI NELMES: Yes, I can. First of all, thank you very much to the Government for initiating this parliamentary inquiry into the financial sustainability of local government. It's something that, as a mayor of almost a decade, we've been asking for, for quite some time. There is really an overarching need for a more equitable and sustainable financial framework for local governments in New South Wales that addresses both the immediate financial pressures and the long-term implications of current fiscal practices.

I believe this inquiry will highlight several critical issues, including financial sustainability, evolving service delivery obligations and the impact of cost shifting onto local government. If we are as a sector to address these challenges, it will require a multifaceted approach involving efficient management practices, the ability to diversify revenue and optimise expenditure, infrastructure planning, and very strong advocacy for policy changes. By adopting these strategies, local councils can enhance their financial sustainability and continue to meet the needs of their communities effectively.

As many of you would know, the City of Newcastle is one of New South Wales' largest councils in the Hunter region, representing a population of around 170,000 people. In the Greater Newcastle area there are around 600,000 to 700,000 people. Notably the Hunter's economy is the largest regional economy in Australia. As a regional capital, we provide regional, State and national level cultural and sporting facilities. I proudly note that we are a financially sustainable council that meets and exceeds the current benchmarks. This is at the same time acknowledging that many of my colleagues in the 128 councils throughout New South Wales do not have the same ability to fund everyday services off their rate base.

The current situation in local government in New South Wales in terms of sustainability is untenable to remain as it is. Almost every council has a different suite of services they provide to their local community, and I believe that is the beauty of local government. In New South Wales we're in desperate need of reform to ensure the communities that we serve are protected, maintained and enhanced. The City of Newcastle embarked on this challenge almost a decade ago, and now we consistently deliver operational surpluses without borrowings whilst increasing our works program through the city. For example, our works program a decade ago was anywhere between $35 million and $45 million throughout the whole city. Now last year and this year it's averaging around $130 million to $140 million, and that is also while we run very modest operating surpluses.

Whether it be the NSW Productivity Commission's green paper, the Henry review of taxation, the New South Wales Treasury Corporation's assessment of the financial sustainability of New South Wales councils or the NSW Independent Local Government Review Panel's final report, they all agree that the rate peg detrimentally affected a council's ability to deliver and maintain local services and infrastructure. Councils are primarily responsible for providing a wide range of critical local area services, like planning; libraries; waste management; infrastructure provision for roads, footpaths, parks, sporting grounds and swimming pools—all required by the local community.

Over the years, infrastructure and service delivery obligations and expectations of councils have continually increased. 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 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. An example of this dates back to the previous New South Wales Government. When cultural infrastructure grants were offered, we were ineligible for hundreds of millions of dollars of cultural infrastructure grants in metropolitan Sydney. Then, six months later, there was a regional cultural infrastructure grant that was announced for hundreds of millions of dollars, and again we were declared ineligible because we were declared metropolitan. Particularly Newcastle and Wollongong are often in a very unique position out of every other council in New South Wales due to those classifications.

Furthermore, research by the University of Newcastle found that the City of Newcastle has been ineligible for almost $6 billion in grant funding schemes. To highlight this, there will be suburbs in the City of Newcastle that cross over into neighbouring councils that are often eligible, even though if you live in the other half of the suburb in the City of Newcastle you are ineligible. A little, small one that I can give an example of would be regional seniors transport, but it also applies to very large, significant grants that can be cut off halfway through each suburb. Even when Newcastle is eligible for grant funding, such as the $1.6 billion Restart NSW funding, which is a very significant grant program, Newcastle received just 0.06 per cent. That's one-sixth of 1 per cent of the funding.

To make it clear, this inherent unfairness, I think this Committee would be interested to understand how self-funding the City of Newcastle actually is. In the financial year ending 2023, we received $20 million in grants from the New South Wales Government. Neighbouring councils like Port Stephens received $32 million; Cessnock, $56 million; Maitland, $75 million; Lake Macquarie, $72 million; Central Coast, $112 million. We believe the primary reason that we receive as little as a fifth of these equivalent grants is because we're ineligible for the regional grants. You have metropolitan Sydney, and then, if you move north, you go into the Central Coast. Then you go into Lake Macquarie, and then you go into Newcastle, and the grant funding changes right in the heart of Newcastle. The reason why this is an issue is because, essentially, we are a regional capital, providing regional-level services to those communities not just neighbouring us but across the State and, often, depending on what's happening, across the country.

This has also led to a really perverse situation, where the City of Newcastle is the only net payer to the New South Wales Government. For example, in 2022 we received $15 million in grants from the New South Wales Government. That year we paid $42 million in levies to the New South Wales Government. This year, 2024, we'll receive $18 million from the New South Wales Government, but we will pay the New South Wales Government more than $47 million in levies. That means, for the last 12 months, City of Newcastle ratepayers have been net payers to the New South Wales Government of over $30 million through levies. If you want to make it more broad—rather than just the last couple of years—if you look at the last four years, we have paid the New South Wales Government a net of $98 million.

This highlights a total—after grants of $70 million over those four years, at the same time we paid $168 million in levies to the New South Wales Government. Just to be clear, that is net. Just the City of Newcastle Council, who is proudly a financially sustainable council, has, net, paid the New South Wales Government over the last four years $98 million. If you just take the grants as one indicator of financial sustainability and the burden on local government, if you make it more broad across the State—the LG NSW cost shifting report that was released in November last year highlighted total cost shifting to councils of $1.36 billion in 2021, which is the equivalent, across the State, of more than $460 per ratepayer annually. I'd hypothesise, given our financial situation—and you add that up with the grants that we also miss out on—it's likely a lot more per capita for City of Newcastle ratepayers.

If you look at sector wide—and I'm sure that you already know this, but it's really important because funding local government is not just a State government responsibility or an area of inquiry that's needed. I note the Federal Government is undertaking similar inquiries. But, when you look at the taxation revenue collected nationally of local government, you're looking at only 3.5 per cent of taxation nationally. Yet we're responsible for maintaining more than 75 per cent of local roads. So the type of outcomes from this inquiry need to also look at the intersection with Federal government and the ability for communities to maintain their infrastructure, but not just maintain it: to improve it and embellish it.

Currently, as many of you would know, we also receive now 0.52 per cent of GDP federally, and the sector continues to advocate for that to be increased to 1 per cent. But I do note that very recently the Australian Government did also announce Roads to Recovery funding that will double from $500 million to $1 billion annually and an increase in the Black Spot Program of $40 million per year, which are really positive steps in the right direction. To give more context from a planning perspective and population growth perspective, many of you would know the Transport Oriented Development SEPP has been announced. And, like metropolitan Sydney, Newcastle is included in that. But, notably, Newcastle is not eligible for the $500 million of infrastructure that was announced to accompany the Transport Oriented Development SEPP. We were not eligible, but Sydney councils that had the TOD SEPP were.

Positively—and it's been a long collaboration with DPHI and the planning Minister—we have announced a new place strategy for a suburb in Newcastle, called Broadmeadow. This is of State and regional significance, and the planning for that indicates that, over the next 30 years, it could be home to 40,000 more people, and that is one suburb in Newcastle. Just for context, that is like putting the whole of Tamworth right in the middle of one suburb in Newcastle. We welcome this change, and we're working very collaboratively with the New South Wales Government because urban consolidation and this type of change, particularly if it includes social and affordable housing in perpetuity, is very welcome, but we have to have the correct spending on associated hard and soft infrastructure to make this work.

We also saw, the week after, an increase in population targets for the City of Newcastle, which is sometimes metro and sometimes regional. The targets went from 4,100 over the next five years to 11,100, which is significantly more than some inner-city Sydney councils. I believe this is actually possible, but we have to have the commensurate infrastructure investment into public transport, and our 7.11 and 7.12 plans can't be compromised. There are also similar and smaller-type redevelopment plans in suburbs in Sydney that have six State infrastructure contribution schemes attached to them. At this point in time there isn't one attached to this Broadmeadow Place Strategy, and I want to make sure that there is one. And I'll explain to you why.

This new housing target would see, obviously, a very high growth scenario where, if you coupled the rest of the growth throughout the city, we could have 86,000 new residents that live in the City of Newcastle by 2041. That would bring our population, just in the City of Newcastle, to 256,000. That's larger than the Northern Territory, the whole of the Northern Territory. That's just the City of Newcastle. If the city continues to meet our housing targets out till 2041, that LGA population forecast will be more than 55,000 above the department's official forecast, which sits at just over 200,000 people. That difference between the forecast housing target pre the changes and the new sizes also is the size of the entire Woollahra local government area.

When the housing targets for our neighbouring LGAs that I've mentioned are factored in, the lower Hunter would need an additional 700 new hospital beds by 2041. That's equivalent to the whole of the John Hunter Hospital, which is the major tertiary referral hospital between Newcastle and the Queensland border. The City of Newcastle would also need at least three government secondary schools the size of Lambton High, which is adjacent to this Broadmeadow precinct. That's averaging 1,000 enrolments. We'd also need at least eight new government primary schools that average 565 enrolments.

I think I've given you a very large picture of Newcastle, but I know that this Committee has been interested in developer contributions and how they are spent, so I just thought I would let you know that by the end of 2022-23 we had $22.5 million in developer contributions. Over the last five years, we've received $29 million—that's over five years—in developer contributions, and we have spent $30.6 million by the end of 2022-23. Just to be clear, we've spent over the allocation. We are a council that receives our developer contributions and then commensurately spends it on public infrastructure.

In closing, I would like to thank the Committee for this inquiry and thank the Government. It is a really important step in redressing the fiscal imbalance between the funding for local government and how we make sure we maintain and enhance the services that we provide to our residents, ratepayers and visitors. But 128 councils are not all going to need the same type of service delivery and funding, and there needs to be mechanisms, whether they're reflected in legislation change through the Local Government Act or they're reflected in how grant programs are rolled out or how we work collaboratively with all levels of government: local, State and Federal.

There needs to be a recognition that councils like Newcastle and Wollongong that sit outside the metropolitan Sydney area and the Sydney Basin are capitals of metropolitan scale that need to service regional communities. For example, a lot of the sporting infrastructure again and the cultural infrastructure that is provided off our rate base, we are providing to those communities and to visitors to the city. It's very different to metropolitan Sydney, where a lot of those services are often funded by the State and provided by the State. I'm hoping that some of the recommendations from this Committee will go much more broadly to addressing some of those imbalances in financial sustainability in local government than just looking simply at how the rate peg is or isn't calculated, or is or isn't applied to local government.

The Hon. SAM FARRAWAY: Thank you, Lord Mayor, for joining us. It's good to see you again. I note that Newcastle is a member of the Country Mayors Association. I remember attending the first time you joined. There are just a couple of things, Lord Mayor. How many people live in the Newcastle LGA?

NUATALI NELMES: About 168,000.

The Hon. SAM FARRAWAY: How many ratepayers do you have in that LGA?

NUATALI NELMES: Our ratepayers would be about 30,000.

JEREMY BATH: It's about 70,000 ratepayers.

NUATALI NELMES: I halved it.

The Hon. SAM FARRAWAY: What is your total rates collected per annum for the last financial year, or expected in this financial year?

NUATALI NELMES: It's about $260 million.

The Hon. SAM FARRAWAY: There are a couple of points, and I think your last point was a good one, around we should be looking at more than just rate pegging. Your comments at the end were around 128 councils and we need to be looking at maybe the equity, I suspect you were saying, about grants programs, how they're delivered, the proportionality and all that. Newcastle's success, having spent a bit of time there—correct me if I'm wrong—is very much based on the success of the Hunter. Is that fair to say, in terms of opportunity, jobs and the broader economy? A lot of people may live in Newcastle and commute to Cessnock or Singleton or Maitland, or whatever. Is that a fair point to make, as the Lord Mayor of Newcastle?

NUATALI NELMES: Yes, it's intrinsically linked. As I said, the City of Newcastle sits as a regional capital and provides those regional-level services, so cultural facilities and sporting facilities that can service, and should be servicing, into those regional areas, whether it be even not just from the City of Newcastle but the Port of Newcastle. In terms of the economic make-up of the city regarding jobs, the highest job category of employment is around the provision of health services.

The Hon. SAM FARRAWAY: Where would mining fit into the categories? Would it be in the top three in terms of mining or mining-related activity for the broader Hunter?

NUATALI NELMES: Not in the City of Newcastle. You'd find that would increase in terms of job category and employment, probably, in the ABS stats as you move further out of Newcastle. But, just to be clear, the area that's really grown and is in the top three now is construction.

The Hon. SAM FARRAWAY: With regard to infrastructure, and your involvement with CMA and other neighbouring councils throughout the Hunter and your experience there, is it fair to say that there is volatility around the grant process? Would you agree with that statement I've made?

NUATALI NELMES: Yes.

The Hon. SAM FARRAWAY: We heard that in evidence earlier. Do you believe that there should be more equity for LGAs that deliver a greater output to the State economy? You've spoken about being a regional capital. Obviously, you're on the back of the Hunter Valley, which could be described as one of the engine rooms of the State economy. I'm just trying to work out how we get a more equitable grants program. Have you got any ideas of how we could do that?

NUATALI NELMES: Yes. We've made a couple of submissions over the years around how cities like Newcastle and Wollongong are classified in terms of being a second city or a gateway city. A lot of this goes into how we look at our national housing targets and how we would see a national housing strategy across the country—you would have to look at that—and where you'd see a settlement plan. Then you would look at the State targets and you would look at—"Okay, we have X amount of population in New South Wales and this is the expected growth." We've seen that trend of a lot of internal net migration of people leaving Sydney and moving to Newcastle since COVID, and also to the surrounding LGAs that I mentioned, and to the Lower Hunter. When you look at where the population in New South Wales should be growing, and could be growing, we are very captured by the idea of centring our economic policies or planning strategies around capital cities.

The Hon. SAM FARRAWAY: Just with that—I've got limited time so I'll keep going—does the Newcastle council, or your LGA, apply a BCR to every single piece of infrastructure you build from a local government perspective?

NUATALI NELMES: Not every single piece of infrastructure. The reason why—the grant process is unfair because we're often ineligible to apply for any of the grants. That's why, as I sit here, we're a net payer to the New South Wales Government.

The Hon. SAM FARRAWAY: To that point, Lord Mayor, do you believe in 2024 that Newcastle is regional, or is it metro?

NUATALI NELMES: It is a metropolitan area that provides a service to regional New South Wales. As you know, through Country Mayors and the Port of Newcastle—what I would like to say in response is we could focus on the grant inequality, and that's one thing and that could be resolved with conditions of grants and a stroke of a pen.

The Hon. SAM FARRAWAY: My follow-up point—I know my colleagues here are wanting to ask the next question—is that one of the greatest strengths of funding grant programs, in particular in your broader region of the Hunter, is something that is equitable like the Resources for Regions program, from which a lot of your neighbouring councils received a baseline amount. They knew how much was coming. They knew that it would be at least that, if not more.

NUATALI NELMES: Yes.

The Hon. SAM FARRAWAY: I believe you may have even supported that program once upon a time. But beyond the rate peg, beyond depreciation and finding efficiencies that every council, including Newcastle, needs to do, do you accept that funding programs like that will make it even harder for some of your colleagues in and around Newcastle and the Hunter because they no longer have that program and they don't have the rate base that Newcastle has to be self-sufficient? I think you've proven you're self-sufficient today but the reason you had programs like Resources for Regions was to reinvest those royalties back into communities that couldn't get a BCR for projects—royalties reinvested back into areas where it's extracted from. Do you believe that removing programs like that really only makes the sustainability of councils' infrastructure and moving forward even worse, possibly, for the broader Hunter region?

NUATALI NELMES: Yes, and we were recipients of Resources for Regions and we got about a million dollars a year. It always went straight into public infrastructure. We've built really big playgrounds and active hubs through the cities with the Resources for Regions grants. When I say the work we've done to be financially sustainable, it is hard work. But the point that I wanted to make in terms of grant funding is I think we have a problem as a State and as a local government authority if we are reliant, for the infrastructure we need to actually build the communities that we need to build, on grant funding. It needs to be much better planned and very deliberate. For example, that's a million dollars a year and they are really important community projects, but we need a freight rail bypass. We need the light rail extended. We are a metropolitan area and we need to have policies commensurate to understanding there are other major metropolitan and emerging metropolitan areas outside the centre of Sydney.

The Hon. SAM FARRAWAY: It'd be fair to say that around that volatility, then, with grants—and we heard this in evidence earlier and I reckon we'll hear it every time we have these hearings—there needs to be more equity in the grant programs in terms of possibly programs like R for R that had a baseline, or programs in certain parts of regional New South Wales, which you touched on earlier, that distributed funding based on LGA, and every LGA got the same amount of money. I suspect what you're saying is it's very hard for councils, including yours, to plan when the grant process is a beauty contest, essentially, because you may get the grant, or you may not get the grant. That's really the issue, isn't it? There's no equity in that, is there, for anyone?

NUATALI NELMES: We are often ineligible for any of those grants. We've missed out all the way along in terms of those grant programs. For my colleagues in Country Mayors and in more rural and regional areas, local government is such an important fabric of those communities because they provide the jobs and services in communities where—

The Hon. SAM FARRAWAY: As Lilliane Brady once said, it's the closest form of government to the people, isn't it?

NUATALI NELMES: It really is. They provide jobs in the local community and a form of economic development for local communities, but you wouldn't want any of those communities and you wouldn't want the City of Newcastle reliant on grant programs for funding. What actually needs to happen is how the baseline of funding is delivered to local government, whether it be through the Federal Government and the financial assistance grants and how they are distributed through the State Grants Commission, and what that baseline of funding looks like.

I'm not just talking about myself now in Newcastle but, as I mentioned, we get 3.5 per cent of taxation revenue but are responsible for 75 per cent of local roads. That's one of the biggest areas in country New South Wales. It's obviously an issue for us as well because people expect—and rightly so—that those roads are well maintained and fit for purpose because then it's safer for our communities. But this is more than just roads. The expectation of our community is that they will have safe walking paths, safe cycling tracks and access to multimodal forms of transport. These are all the types of hard infrastructure that make cities liveable and provide a really healthy environment for our communities. You want to know that that money is coming so you can actually plan the work in advance. It's local government that can deliver that baseline of hard infrastructure.

The other component is the soft infrastructure, like the libraries. We run a regionally significant museum in Newcastle. We have the country's most significant regional collection of art. Our gallery in Newcastle has, after 40 years, needed to be expanded and, essentially, rebuilt. We received only $5 million of funding to do that, which is fantastic, but most of that cost to rebuild that gallery is borne by the ratepayer. But if you are in Sydney, that type of funding comes from the State Government into the hundreds of millions of dollars. It is about really understanding the role of second cities and regional cities and how they service their communities.

Dr AMANDA COHN: I have one follow-up question along the angle of being the regional capital. It's certainly something that Regional Cities New South Wales has raised with us—that they are often providing infrastructure that services a really broad region. I think it's fairly common sense to understand that a number of your facilities would be used in that way. My question is: Do you collect that kind of data? Do you know, for example, for your sport and recreation facilities, where people come from? Do you know by postcode?

NUATALI NELMES: We sometimes do. The facilities that are provided in the City of Newcastle—we have 126 parklands and open space. We have a multitude of different uses for a lot of those facilities, and they will be spread out across the lower Hunter. That's normally, basically, the five local government areas, which is about the 600,000 to 700,000 population catchment. A lot of those facilities will be located in the City of Newcastle. To be fair, some of those regional sporting facilities are located in Lake Macquarie in neighbouring council areas—which is absolutely fantastic and very appropriate—where there is a significant sized population.

It's about making sure that, in the lower Hunter area, with the City of Newcastle in the centre of it, we have access to the same grant funds. We actually have a metropolitan plan that we've done with the neighbouring councils and the New South Wales Government that signifies catalyst precincts for jobs and the growth in jobs for research and for housing as well as for sporting infrastructure. We have identified all these areas in a metropolitan plan. We often plan, particularly for our local infrastructure—if we have neighbouring suburbs that aren't in our local government area, we will still include that population in how we will plan our library services in Beresfield, for example, in the neighbouring suburb of Woodberry, which is in Maitland. They will accommodate and plan for—as well as when we are doing planning for parks and upgrades to parks. We know that those neighbouring populations will use those facilities and we will plan for those upgrades for them.

JEREMY BATH: If I could just add, we recently hosted a very successful three-week season of *The Rocky Horror Show* at the Civic Theatre in Newcastle, which is a council-owned asset. Almost 50 per cent of those ticket sales came from people located outside of the Newcastle LGA. It's much easier to document when they are ticketed events, quite obviously. Our Newcastle Art Gallery, which the lord mayor mentioned, has the most valuable and regionally significant collection in Australia. Again, about 50 per cent of attendees to the Newcastle Art Gallery, when it's open, are from outside of the LGA.

Dr AMANDA COHN: Those are good examples. You mentioned in your opening statement the unfunded infrastructure from developer contributions. It sounds like in Newcastle you are in the envious financial position of being able to build that infrastructure anyway, but it sounds like you are topping it up yourself on top of what you are collecting from developer contributions. What recommendations do you think we should be making to address this problem?

NUATALI NELMES: We've done a lot of refinement of how we deliver infrastructure. Obviously, if you've had a program that 10 years ago was $45 million and it's now $140 million and you are financially sustainable, without cutting any services or any jobs within the city, that type of progressive management—not only budget management but also infrastructure delivery management—has seen a huge reform internally of how we actually program and deliver that type of infrastructure. And it is hard. There are people that work much more than just your regular council working week to actually deliver that type of infrastructure. Everyone has worked incredibly hard to get to that point.

The city is a nationally significant city in the country, and the type of infrastructure and spending on infrastructure we need is beyond the means of local government. We are an example of doing everything you possibly can and being a net payer to the New South Wales Government, but I could give you a laundry list of infrastructure deficits we have. I don't see the way to fix that as putting it onto one level of government or just the government sector without including the private sector in that and developer contributions. It's about having the 30-year plan, which we have, and working backwards on the infrastructure that needs to be delivered and having appropriate funding for that infrastructure.

The M1 extension is being funded at the moment. That's obviously very important infrastructure for the State. Next to that, there needs to be a freight rail bypass. That's for the permanent use of a nationally significant infrastructure like the Port of Newcastle. Interestingly enough, on our balance sheet also sits Newcastle Airport, which has significant Federal funding to expand the terminal and fix the runway to become an international airport before Western Sydney. But that sits on the balance sheets of Port Stephens Council and the City of Newcastle council.

What happens in the Hunter is that, because we have been left to our own devices for so long, we are very resourceful and have made sure that we are trying to fund, mostly on rate bases, all of the infrastructure that our communities need. But there needs to be more of a lens, given we are the largest regional economy in the country, on how Newcastle and the Hunter grows. It needs to grow in an environmentally appropriate way, where our waterways are protected and our open space is protected. That's why urban consolidation and adding 40,000 people over the next 30 years to Broadmeadow is workable. But we need a light rail extension and we need more public hospital beds and more schools, and all of that needs to be planned in collaboration with all levels of government. Everyone is going to have to chip in along the way.

If we just have population growth without commensurate infrastructure spending from the highest taxing levels of government, which is the Federal and then the State Government, you are going to see the type of growth that has been ad hoc and happening for a long time in New South Wales, where you have population growth without the spending on infrastructure. That's where you have the missing footpaths, the missing schools and the missing hospitals. I don't want to see that because we have a chance to get that right in Newcastle and the Hunter. Local government has been doing it alone for quite some time.

Dr AMANDA COHN: My last question is very small in comparison to the things you've just been talking about. In your written submission you mentioned the 2011 ministerial investment order. Could you explain in particular how that is constricting you at the moment?

NUATALI NELMES: That investment order I think was a response to the GFC at the time, which was fair enough because I do remember a lot of local councils probably did not have the ability to understand the effect of what was known as collateralised debt obligations that were being sold as financial investments for local councils. But not just local councils; the State Government was caught up in the GFC at the same time and so was the rest of the world. There was a number of restrictions put onto local government of how they could invest their funds. It is a very restricted environment. What that means is when you look at your balance sheet in local government, if you have an increase in expenditure, which is what every local government would want to do in terms of providing services and infrastructure, you have to have the commensurate increase on the revenue side of your balance sheet. That is why we're here: to talk about what that revenue side looks like and what that mix looks like to make sure councils are financially sustainable.

We're fortunate in that we haven't had to rely on borrowings and that our exposure back in 2008 to collateralised debt obligations have all been since recouped. Obviously, there need to be some restrictions, but it is a heavily restricted environment, which means restrictions on the way you would invest your reserves to make sure they were invested in a way that they didn't decrease, depending on the external financial conditions. The example of that is most local government areas can only invest in bank deposits, either short term or long term, more or less, after those ministerial directions. When we went through a period where you only had very low interest rates on term deposits in banks, what you saw is that the net equity or wealth of councils, if they had those investments, declined over time.

That has probably been picked up in the last couple of years with interest rate increases. Interest rate increases for councils that hold money in term deposits would fix that side of their balance sheet in recent years. But that's not always the operating environment in local government. There aren't many other options for local government in terms of how we would expand our investment. Probably one of the better examples for us is that we are one of the largest publicly owned waste facilities in New South Wales—the second largest waste facility and the largest publicly owned one. We collect section 88 waste levy. The section 88 waste levy, as you would probably know—the first reading was in the LC quite a number of years ago now—was for waste avoidance and the investment into waste avoidance technologies.

This year we'll pay $43 million in section 88 waste levy, but we'll be lucky to receive $500,000 back in waste avoidance. But at the same time, out of our rate base, we'll be paying for recycling—how we deal with food and organics, and building our own FOGO facility, 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. So local government moves out of that service delivery and it goes into the private sector. We've kept it and we provide those services at cost to neighbouring councils and other council areas and also the commercial sector. But the benefit of us providing that is that anything we make in that business goes back into facilities and services for the citizens and visitors and ratepayers of the City of Newcastle.

The CHAIR: In terms of that waste facility that you mentioned, it now brings in revenue—obviously it was a significant investment at the time. From a financial perspective, is the facility a success?

NUATALI NELMES: Yes.

The CHAIR: What can other councils learn from that?

NUATALI NELMES: It's a very significant undertaking in terms of business. I might ask the CEO because he's got a fair bit of experience in dealing with the waste. But it was the foresight of people before me, and I'm just going to call out a former deputy lord mayor in Frank Rigby, in buying the land and setting up the waste facility. He had the foresight to ensure that we had not only land available to provide those really vital municipal services, but we have land available that can provide those services to neighbouring councils, and also to the commercial sector. We need to be able to access capital to diversify that business. Going to Dr Cohn's question, it's very hard in local government, due to those directions, to access capital and to diversify your revenue stream. That's what compounds us in local government, not being able to diversify your revenue stream.

Not that I'm against ministerial directions, because not all 128 councils have the same capacity and I think that, when you do your recommendations, you're going to have to think about different categories of councils and how you couch those recommendations. That would be my advice. But they're businesses in themselves. For us, we provide 48 different services, waste being one of them, and we're fortunate that that waste business is complicated, highly regulated, but we don't have access to capital to increase that revenue stream like the private sector does.

JEREMY BATH: Chair, I think your question was what advice would we provide to neighbouring councils. One, if they don't have a time machine—because that's the reality, to get in the waste business, you really need to be getting in the waste business, certainly the landfill business, probably about 30 years ago. I think it's probably no front-page story to say that NSW EPA is highly unlikely to be permitting the use of any new landfill facilities anywhere in New South Wales and, even if they do, there's about a 10-year process to get the necessary environmental permits and permissions in place. So my advice to neighbouring councils is to consolidate. Work with your neighbouring councils, such as Newcastle. We have a cell, as you call it, a landfill that currently is permitted to take about 300,000 tonnes per annum.

It has the capacity to take about one million tonnes. So it is grossly underutilised as an asset. It has the capacity to take the waste needs of the entire Hunter region as well as about a third of Sydney without any significant expansion. So I think what should be happening—and it really needs to be happening with the support of the New South Wales Government, given the very clear capital investment that is required—is that the New South Wales Government should be partnering, and I use that word "partnering", not handouts, with councils like City of Newcastle. We have this asset that was the decision of people 30, 40 years ago to construct, which has the ability to ensure that we are for the foreseeable future, as a State, able to responsibly address our lingering waste needs.

The CHAIR: That is all we have time for. The secretariat will be in touch with you if there are any questions on notice. Thank you both for being here today and taking the time to give evidence.

(The witnesses withdrew.)

Mr TONY FARRELL, Deputy Chief Executive Officer, City of Lake Macquarie Council, affirmed and examined

Mr BJORN LATEGAN, Chief Financial Officer, City of Lake Macquarie Council, affirmed and examined

The CHAIR: Do either of you want to start by making a short opening statement?

TONY FARRELL: Firstly, I offer the apologies of our CEO, Morven Cameron, who had a longstanding prior engagement and couldn't be here today so I'm standing in her place. We've made a written submission, which I understand you have. I don't plan to reiterate it other than to say that Lake Macquarie council has taken difficult decisions in the past in order to ensure its long-term financial sustainability. We do things like cash fund depreciation. We're very careful about our new asset spending, and we are very careful about the source of funds that go into different aspects of the business. Those things have helped us become and remain financially sustainable.

However, we're consistently under pressure from new sources of financial impact, which continually make it difficult for us to remain financially sustainable. We cannot foresee all of the pressures as they come forward, because they often come to us as a surprise. Despite our best efforts in financial planning, every year there seems to be something new that will take us off guard. In particular, cost shifting and asset planning are the two areas that give us most cause for concern going forward.

The CHAIR: I invite you to tell us a bit more about Dantia and how this model could be looked at for other councils in the State.

TONY FARRELL: Dantia is a business owned by council. It's our economic development company. It was established by utilising the funds that we were spending on economic development—pooling those into a single pool of money and recruiting a company board that is competency based. Council is represented on the board by the CEO and the mayor, but the numbers on the board favour independent members. They are then free to operate as they see fit, respecting the objectives of the company, which are to increase existing employment and attract new employment to the city.

The way they're operating at the moment, they have a very small full-time staff. They particularly concentrate on incubation. They operate a business centre which is effectively a hot-desking operation for startup businesses, sort of the halfway house between the dining room table and rented premises, and they provide support to businesses operating in their space. They work to attract new business and they work on our strategic plan for the city, which focuses on areas of greatest need.

They've had a recent success story, which I understand some of the Committee would be aware of, which is the breaking of ground on the development of a motor resort on a former colliery site in the city. That colliery actually stopped producing coal about 50 years ago and was under rehabilitation. When it came to market, the expectation, I think, of the coal company was that they would find someone who might want a bush retreat and might be able to take advantage of a very large holding—it's over a hundred hectares. Our preference, of course, with all former coalmining land in our city is to see it re-used for employment purposes.

It fortuitously came to the attention of someone who wanted to build a motor resort—Australia's first motor resort. This is a type of facility which is becoming common in the Northern Hemisphere. I understand there are about eight now across the world, all in the Northern Hemisphere. It's effectively a facility that provides track days for motor enthusiasts. It could be bringing your own vehicle to the track and testing it out and testing out your own abilities to thrash it around a course. They're not cars racing each other. It's also suitable for driver training, for product launch days, for motor journalists and so forth to trial new products. It'll also provide accommodation. Dantia was instrumental in guiding that proponent through the very difficult process of the relinquishment of the mining lease for the land and the obtaining of environmental approvals, and now they're under construction.

The CHAIR: Would that have happened were it not for Dantia? Do you have a view around that?

TONY FARRELL: I think it possibly would have, but I think there would have been greater risk. The main proponent is a fellow by the name of Tony Palmer, who will probably be giving evidence to your other inquiry on the re-use of mining land. He's a very patient man and he's very passionate about delivering this project. So I'm not sure when his patience would have run out. He was on the project for seven years. It would have taken longer without Dantia's support and assistance, and I'm just not sure how much longer he would have been able to keep his enthusiasm for the project going.

The CHAIR: Once it's up and running, will that be a significant revenue source, or a revenue source for council?

TONY FARRELL: Not really. Our rates are based on unimproved capital value of land. The land itself hasn't changed in that respect. I think probably in the long term, you'll see investment attracted to the city because of this facility, because it's so unique and because there will be businesses that want to take advantage of the facility. I heard Tony Palmer speaking last week and he has 180 track days already requested from two Northern Hemisphere car makers who want the track between them for 180 days for product demonstration, and obviously for marketing purposes. That's the benefit to the city. I think that would be hard to track, but there would be supplementary rate benefits as new investment comes into the city and land is developed.

The CHAIR: How much of your funding do you have in restricted reserves?

TONY FARRELL: A lot. My CFO is with me. He'll give you a more accurate number. But it's significant.

BJORN LATEGAN: Externally restricted reserves are in the high 180s and internally restricted is close to about $100 million at the moment[6].

The CHAIR: Do you think if there were easier pathways to access those restricted reserves, you'd have more capital for projects?

TONY FARRELL: Certainly, our largest holding in reserves are our 7.11 contributions, and we're a significant growth council. There are many challenges to spending developer contributions. In situations where you've got multiple development fronts—and because of the geographical character of the city, we've got development occurring in many parts of the city at one time—it takes a lot of time to get adequate funds together to get a project off the ground.

We know the Government is exploring new opportunities to liberalise the management of contributions and they've made a few attempts already in the last few years. We do think we're reaching a point where it will become easier. One of the things we are concerned about, which is key to our own financial sustainability, is that we manage our new capital program quite closely. We know that every time we build a new asset, we have significant long-term costs to also deal with.

Our preference at the moment is to maintain our new capital spend each year at about $100 million[7]. We do accept that we'll have higher years than that if we have profit-earning investments to make or if we have significant one-off projects. At the moment, we're building a significant sports centre which is, overall, a $52 million project, which is something that we would do—it's an addition to an existing sports centre that was built in 1998, so it's been over 20 years between such significant investments for our council. So even if we were able to free up more of those restricted assets, the operating cost impact would be a new challenge for us.

Dr AMANDA COHN: Thanks so much for coming to give evidence today. I had a question about some of the examples you gave in your written submission of cost shifting, which has come up over and over again. I know Local Government NSW has done some great quantification of the problem statewide, but I'm very interested in the specific examples. You mentioned two new ones: the dams safety regulation levy and the interment industry levy. Could you expand on those ones in more detail?

TONY FARRELL: I can't expand on the specific impact of the costs—Bjorn may be able to—but we've noticed that the New South Wales Government is also trying very hard to make sure it's living within its means. And we see that virtually every agency that we deal with is looking for ways to improve their own level of self-funding. The dams safety committee—we have effectively stormwater control devices in the city which require dams safety regulation. So there is a proposal to significantly increase the cost of the regulatory activities that we're obliged to engage in, to have those dams certified and recertified on a programmatic basis as required. Interment fees—we operate cemeteries, as many local governments, particularly in regional New South Wales, do. Once again, there's a suggestion that a new fee would be required for each body we inter that would be paid to the Government. Are there any more specifics?

BJORN LATEGAN: That particular fee, it's adding close to $200,000 of cost to the organisation. I'm mindful that when we look at our overall P&L of circa $240 million, sometimes those expenses are seen as fairly insignificant, which we might normally have in our organisation. The challenge is with next year, and an operating

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7 In correspondence to the committee received 8 July 2024, Mr Tony Farrell, Deputy Chief Executive Officer, City of Lake Macquarie Council, provided a clarification to their evidence.

surplus that's forecast at $500,000, when you start to see a $200,000 chunk out of that before we even begin the year, it starts to make it much more significant as a percentage. I think a lot of these fees that you see, alone they're not overly significant compared to our revenues, but when you look at that relative to our operating results, they're all quite impactful and we need to really find those savings elsewhere, which are often at the augmentation of other services.

Dr AMANDA COHN: The more and more specific examples of that cost shifting we get, the more compelling a picture it is that that's really happening across every government department, so thank you. The other question I had was more broadly about the role of local government, or the expectation of your community. You talked in your written submission that you feel that's shifted over the last couple of decades. We had a discussion at our last hearing about how the role of local government in the Act includes a provision about broad wellbeing of the community. How have you seen that community expectation change?

TONY FARRELL: Firstly, the quality of services and facilities that people expect has certainly grown. As the wealth of the community generally has grown, people anticipate that they'll receive a level of service that they may have accepted a much lower standard in the past than they're prepared to accept now. And, of course, there's always a political toll to be paid if you're not meeting the expectations of your community. With new areas of activity, we have much more significant environmental stewardship obligations now than we had in the past. Lake Macquarie itself—the council engaged on a very significant clean-up program, in conjunction with the New South Wales Government. We funded our part of that arrangement with a special rate variation, which was very successful as well. Most people have forgotten that we actually ever did that because the health of the lake now is such that people tend not to complain or be concerned about it.

In community services, I think there are obligations or expectations on councils to fill the gaps that exist now. We virtually played no role even five years ago, six years ago in mental health activities and support. But when those in the community have run out of other options, they tend to turn to us and look for what we can do. I must say our contribution remains modest, but it is a relatively new area. Indigenous relationships—most councils now are working diligently, some more effectively than others, to engage with their Indigenous communities and offer programs that address disadvantage and promote new opportunities. Lake Macquarie has got the largest Aboriginal population in regional New South Wales—something that we're proud of and now promote quite widely. Someone in my role maybe 15, 20 years ago would not have known that, and would not be able to talk to the activities that the organisation was engaged in. Bjorn's fairly new to the industry, however. I'm not sure if you can think of any examples, Bjorn.

BJORN LATEGAN: I think probably the two that stand out for me are shifting community expectations and what is required. One of the things we do require is the suitability of metrics within the OLG guidelines that we have and one of them is this asset replacement concept that you should spend 100 per cent of your depreciation on replacing assets in the community. However, with the shift of expectations, things like community halls, which were once prevalent and highly expected by the community, are no longer as expected and, as a result, replacing them wouldn't necessarily be in the best interests of the community. So that's an example where they would expect different sorts of facilities. One of those might be things like sporting facilities where if you look at the older ones where there was really a large focus placed on a field with a boundary and modest facilities, expectations now around change room facilities, lock up facilities, and other supporting infrastructure, is significantly different. So, when we come to building those, it's a much bigger investment in dealing with those new projects than there might have been in the past.

The CHAIR: I wanted to ask you now about the stormwater levy. Does Lake Mac council charge a stormwater levy?

TONY FARRELL: At the moment, we don't. As I mentioned, we did have a special rate variation to do the lake clean-up, which preceded the stormwater levy. We then rolled that into a permanent special rate variation, which the council current rating system is based on. We have looked at it a couple of times since and it's, I would think, reasonably likely that we'll look at it again in the next couple of years. It's a tough thing to put in front of an elected body, that here's a way to collect more revenue for the city and make the job of remaining financially stable easier, when it comes at an expense to your electors. But it is something we'll be exploring again. We're not doing it at the moment.

The CHAIR: It's interesting, because we've heard a lot in this inquiry about issues with the stormwater levy not being indexed and so not keeping up with inflation. It's interesting that you basically found another way. Because you mentioned an SRV that's in perpetuity—

TONY FARRELL: Yes.

The CHAIR: Which could effectively be seen as another type of levy but for a much bigger project.

TONY FARRELL: Yes, and just to be clear, the SRV that we had for the lake clean-up component was less than the stormwater levy. But it was also a lot simpler to administer. It did only apply to that part of the city that fell in the catchment of Lake Macquarie, just to complicate everyone's life. But it did work effectively for us. I think that when people paying a levy like that can see a material change in the environment that they're contributing to, it definitely helps sell the result.

The CHAIR: When talking about the level of rates and certainly the rates that community and Lake Macquarie are spending—just looking at how much you've earned from rates in 2023, which was $196 million, and to give the example of Blacktown, who we heard from earlier today, they've earned $277 million, and they're over double your size. Do you have higher rates per capita than other areas? How does that compare?

TONY FARRELL: In our comparable council group—Group 5 councils—we're below average. We certainly, in our region, tend to be slightly lower. I was in the gallery when you were asking Newcastle previously about their rate base. They have fewer ratepayers and a significantly higher rate income than we do, but it's the nature of the city. They have a major CBD; they have major industrial areas. There's been more capacity to pay, shall we say, from those sorts of ratepayers in the past and that's benefited them.

One of the other things that we had to correct with our SRV is the council, at two points in the past, chose a rate freeze. I'm sure it's a coincidence but it was around an election time. It's one of the things that I personally—it's not a council position—have great concern over, going forward. We already see in the media with elections this year in local government, there are candidates coming forward and promising rates freezes as a response to cost-of-living pressures, and that's a very reasonable thing to contemplate. However, the damage that will be done to councils to maintain long-term sustainability will be dramatic if they decide to do that. There's simply no way they'll be able to maintain current services, let alone continually upgrade services, if they do take rate freezes.

I was also reading the Office of Local Government submission on rate pegging earlier this morning. The OLG, interestingly, said that by setting a maximum rate increase that it gave councils the flexibility to take into account local circumstances. I think it's taking licence, in my opinion, to say that setting a maximum is giving councils any freedom at all, to be frank. If they set minimum rate increases it would, first of all, take away the political damage or the political pointscoring that could be gained, but also provide a true level of flexibility to local councils if they were within a range. Providing political incentives to have rate freezes is clearly going to—someone's going to have to pay in the long term for that.

The CHAIR: Yes. We have heard that throughout this inquiry. Your submission recommends the local government code of accounting and financial reporting be reviewed. Where do you think the code falls short and what changes would you advocate?

TONY FARRELL: We might do a separate written submission. Firstly, the Auditor-General has had no input into the local government code of practice. I'm not sure—I'll resist making that remark. The Auditor-General is sort of late to the party, in terms of local government accounting and auditing. They've been in the game now a few years and they're starting to find that each council does things differently. Instead of going to the standards and reviewing the standards, we feel that we've been the source of experimentation on what the standards possibly should be and how they should be standardised. The code at the moment, for example, in terms of the useful lives of assets provides you infinite scope to make your own decision on the useful lives of your assets.

The Auditor-General, on the other hand, has found that they don't really like the idea of that and are trying to force some consistency. When you're doing that at end of year, it's highly disruptive to the way you're preparing your accounts and the way you're reporting your results. If that is something the Auditor-General wants, then, in my opinion, the Auditor-General should speak to the Office of Local Government and say, "Let's put a standard together on this, and let's take the guesswork out of it." It's also going to be a lot more efficient. Councils across the State are spending thousands of dollars on preparing reports and preparing predictions and making justifications for their own schedules. If there was a standard, that would go away. What's your favourite other major reform, Bjorn?

BJORN LATEGAN: I think one of the challenges, and I believe it has been raised by a few other councils, is the concept of this revaluation that continues to haunt local governments, especially as we've seen an inflation in construction costs over the last few years. So too is the holding value of assets as we've been required to revalue them up. That ongoing revaluation hits our depreciation costs at an enormous exponential rate at this point. Affording that depreciation cost and still hitting the required FAC zero operating result expectation says that, if we are going to continue to have to maintain a zero operating result with growing depreciation, we as a council for example, in the last five years, have had to wear an additional $14 million in depreciation each year[8]. So that's $14 million of other costs we've had to save, purely because of the revaluation up of assets. I think that's a question mark to say, "Is that something that's sustainable in the long run?" From a cash perspective we're actually fairly cash neutral, ongoing.

The Hon. EMMA HURST: Sorry if this question has already been asked and I wasn't in the room. In your submission you say that the special rate variation process should be quicker and less resource-intensive to ensure financially challenged councils are not deterred from participating. We've heard similar from other councils as well that we've heard from in this inquiry. Do you have any specific suggestions in regards to how this variation process could be made a lot easier for councils?

TONY FARRELL: We don't have a special rate variation on the horizon for ourselves at the moment, unless there are new surprises that we haven't yet accounted for. However, if you are cash strapped, it is very time consuming, costly and risky to undertake a special rate variation process. It seems feasible that IPART could prepare a playbook that would allow councils to follow and save them the blushes of having to try and educate their communities on the financial realities of an individual council's situation. IPART has the expertise to look at a council and say, "Yes, you cannot continue without either dramatically cutting services or increasing your rate income or other revenue streams." Why should they have to go through the pain of the engagement process and the modelling process if, within the capability of those making the decision, it's already evident that something needs to give?

The Hon. EMMA HURST: Are there any other States that we can learn from in this space in regards to what recommendations should come out of this inquiry?

TONY FARRELL: I understand that Local Government NSW, our peak body, will be bringing forward some ideas, which I've been trying to get hold of but haven't been able to. Sorry, but my experience is limited to New South Wales. I know a little bit about what goes on elsewhere but it's usually the tip of the iceberg and people only ever want to give you the good news anyway.

The CHAIR: In the submission from Lake Mac, you talk about estimating that for every dollar spent on capital, an additional 6¢ in yearly operational costs is incurred for the life of the asset. I invite you to go into that further, and how you've arrived at that figure and what that means.

TONY FARRELL: That's averaged across our portfolio. Different types of assets will have different operating costs. Some of our assets and some of our facilities we can recover a high proportion of costs on. Things like swimming pools, where the community accepts that they will be charged an entry fee. Mind you, pools do depreciate pretty fast. There's always a new piece of legislation that says we've got to have extra lifeguards or turn the pool water over more quickly or whatever. Across the board, between depreciation and staffing these facilities and maintaining them, that's the average. At the moment, as I said, we're constraining our new asset spend because of the long-term cost of maintaining and renewing these assets. We are working very hard, every time we build a new asset, to make sure that we do it in a way that maximises its ability to either self-fund or to avoid costs. We require business cases for all our major assets.

I refer to your earlier question about BCRs—we do BCRs on our larger projects. However, when you're building community assets, you cannot always expect a positive BCR, unless you're prepared to quantify an amount for community benefit, which we sometimes try to do but, frankly, it's a fairly rubbery process. We also always look at the whole-of-life costs of any new asset. You can't get a budget bid up in our organisation unless we've got whole-of-life costs calculated and built into our long-term plan. That's both on new and renewed assets. These are measures we take to protect ourselves long term. You build something; it doesn't stop costing you the day you cut the ribbon.

The CHAIR: No. It's interesting to understand how other councils could possibly—whether there's replication that could be made across other councils from that work you're doing, if that doesn't already occur.

TONY FARRELL: We do get inquiries, and we host other councils fairly often. People are very interested in cash funding depreciation. It's a very hard step to take; it's a very painful one to take because you're effectively setting aside a significant proportion of your current income that you'd otherwise give yourself greater discretion in the spending of. We maintain an asset replacement reserve at about 85 per cent of the total value of

8 In correspondence to the committee received 8 July 2024, Mr Tony Farrell, Deputy Chief Executive Officer, City of Lake Macquarie Council, provided a clarification to evidence on behalf of Mr Bjorn Lategan, Chief Financial Officer, City of Lake Macquarie Council.

depreciation in any given year and we restrict spending of that reserve onto asset renewal. It's a way of self-governing the organisation's preservation of its assets. Like I said, setting it up is tough. It took about three years, initially, for us to get to a point—we started off modestly and then we built our expectations up. There have been years when we dipped below 85 per cent because we have pressures in any given year and other years when we've exceeded 85 per cent, but that's our target.

The CHAIR: Was there a cost involved in setting it up?

TONY FARRELL: Not a cost so much as just creating the discipline on yourselves—on the way you spend your money. It's basically an internally restricted reserve and you can fund a replacement project partly or fully out of the asset replacement reserve, provided it makes sense to do so and the renewed asset survives its business case assessment.

The CHAIR: In terms of the investments that you have as council, you've got some $300 million in investments and $200 million in term deposits, which strikes me as being quite substantial. Is that a matter of keeping that money in reserve, as you say, every year?

TONY FARRELL: Typically, for the asset replacement reserve example, that money comes in and out usually at about the rate of the total value of that reserve in a given year. So, like I said, it's an internal discipline to make sure we're spending the money in the right area to maintain our asset base. Our overall reserves—they're very healthy. Most of them are where they need to be. A lot of our internally restricted assets have been established in order to, once again, create internal disciplines around the way we spend our money. Sometimes we're effectively saving up for something, frankly.

The CHAIR: Is there a reason why you've been able to do that when other councils can't, do you think?

TONY FARRELL: We spend a lot of time educating our councillors on why sometimes having the new, attractive, shiny thing isn't as sensible as thinking about how you're using your current assets and facilities. We invest heavily in training in the first few months of each council term to bring people up to speed. People come in with expectations and promises—even if they're not expressed—in their own minds about what they'd like to achieve. We like to get them out on the table and—all credit to our council—council has a history of working collectively across political boundaries for the common good of both the council and the city. With that goodwill in place, we're then able to say, "Well, if we really want to achieve that thing in five years' time, we need to start now and we need probably to be talking about these sorts of spending patterns leading up to that time so that we can do the thing you're talking about." If I gave specific examples, I might embarrass someone so I'm trying to—our current mayor, she's not standing again, so maybe she'll stand the scrutiny.

The CHAIR: She's got broad shoulders.

TONY FARRELL: Yes. When she became mayor, she was already an experienced councillor, but she had a real desire to improve footpaths and shared paths across the city. It's not something we could just flick a switch on in one year and say, "Okay we're going to double our spend on footpaths." I know other places, they may have chosen to do that, but there would have probably been an overall expansion in total spending, because you wouldn't have been able to turn something else off in order to fund the new thing. We've worked over her term—and had a few key projects delivered—to increase spending on footpaths. Typically, if you plan for the long term, you don't have to make serious cuts to other service areas; you can simply hold them where they are and put any other revenue gains that you make into the service that you're targeting.

BJORN LATEGAN: Can I add, Madam Chair, of that $300 million that we have under investment, two-thirds of it is term deposits, with the remainder in things like the TCorp investments. A large portion of those are internally and externally restricted reserves so, like we mentioned before, $180 million is really coming down to the externally restricted funds, most of which are the section 7.11 fundings that we hold[9]. As a result, we've got them in term deposits until we can spend them. We're working, at the moment, to look at allowing more freedom in how we spend those funds in the new plans that we're looking to implement, as well as some of those restrictions that might be lifted from other regulations.

The CHAIR: That's all we have time for this session. The secretariat will be in touch with any questions on notice. Thank you very much for giving evidence to the inquiry.

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TONY FARRELL: You're most welcome. Good luck with the inquiry.

(The witnesses withdrew.)

(Short adjournment)

Mr MUSTAFA AGHA, Executive Manager, Policy, Business NSW, affirmed and examined

Mr BOB HAWES, Chief Executive Officer, Business Hunter, affirmed and examined

The CHAIR: Would either of you like to start by making a short opening statement?

BOB HAWES: Yes, thanks, Chair. I'd like to take that opportunity. I'd also like to acknowledge that I'm visiting and we're meeting today on the lands of the Gadigal clan of the Eora nation, and I pay my respects to Elders past, present and emerging. First of all, I would like to commend our submission to the panel. Business Hunter assisted Business NSW in preparing a submission and I commend that to you. Business Hunter didn't do an independent submission but, just for knowledge, I think you probably understand how Business NSW works. They're across the entire State, and have around 50,000 members and affiliates. Business Hunter is solely concerned—not solely, but principally concerned—with the Hunter region. We have about 4½ thousand members and affiliates across what is regarded as the 10 local government areas within the Hunter region. As a consequence we represent quite a diverse range of businesses in business size and also in diversity of sectors.

I'm going to quickly pick up on some of the themes in our submission and those of others and, in doing so, note some things that I think are worth pointing out to the inquiry. Firstly, the IPART review was pretty clear and noted that more than 60 per cent of business ratepayers said they were not comfortable with trusting their council to keep rates reasonable. They also went on to say that business ratepayers wanted more businesslike expectations of accountability and performance to be applied to councils in that concern. I think it's also worth pointing out, though, that the incidence of rates—in terms of an expense to some businesses—is not significant in some cases. In other businesses it is, but in many businesses it's well and truly single digit, in terms of their expense regime. Having said that, they do classify rates as part of the government charges red tape bucket that we frequently have to contend with and it features very, very highly as a concern of business—repeatedly—in the business conditions surveys that Business NSW conducts and Business Hunter participates in.

What are the anomalies that we think concern us and concern the feedback that we get from businesses? Firstly, rate pegging in and of itself creates a dome that does not offer mechanisms to protect sectors or individual business ratepayers from pricing variations and change. We see some of that very dramatically and I have seen evidence over the past few weeks, looking into some details, of incidents where in fact rate pegging is very, very low, but the individual business rate has gone up substantially more in part of that cycle.

I think the inquiry would know that the discretion that can be used by council to vary a rate and a dollar charge against the ad valorem elements can adversely impact those ratepayers individually. The use of UCV as a basis for ad valorem calculation creates some problems, particularly in the eastern part of our region because there has been some serious acceleration of land values, particularly over the last five years. It must create difficulties for councils, I can appreciate that, because they have to keep their total rate base under the peg, whichever it was included at in the first place. Some of the councils have lesser opportunity to be able to subdivide new development or create new lands over which they can expand or extend their rating base.

I'd note that a number of the submissions refer to strata title properties and the difficulties that causes in using UCV as the basis, instead of capital improved value, and I suspect the inquiry will look seriously into that. I think it's fair to say, reflective of a couple of other submissions that we noted, local government, particularly for business as well, has well and truly—as far as our rate charging is concerned—moved away from anything like being charged on a fee-for-service basis, or user-pays principle, and now it's more representative of another charge or a tax on land. As I said, the Office of Local Government submission points that out and I'm sure we may talk to that later as well.

Those sort of things are the things we get feedback from businesses that, in terms of a value proposition, a lot of businesses don't believe they're getting much from local government. They do understand the circumstances and the difficulties that they're in and from time to time call on them to be able to look for ways to assist, particularly in business improvement areas in town centres and so on. We do note that the process to strike up special rate variations has probably moved away from what it was initially in project-oriented opportunities to now be more catch-up on behalf of the councils, where they feel like they've got behind. From a business point of view, some of those projects and initiatives that they thought would be attractive get pushed further down the ranking. I think we're seeing that not just in the Hunter but in other parts of New South Wales as well.

The other thing I note that IPART did point out was that there was merit in exploring additional constraints to bolster ratepayer confidence in a future review. They noted that ultimately the democratic voting process holds councils accountable. That's true. But I do want to point out to the inquiry that unfortunately businesses don't vote. I think the City of Sydney is the only jurisdiction where that occurs. So while that might be respective for residential and other ratepayers, businesses by and large, even though they may own a property, do not have a vote, unless they own the property that they're operating from..

The Hon. EMMA HURST: I wanted to start with a general question how the financial difficulties facing New South Wales councils are actually affecting local businesses. Just to give us that broad picture and what it means for—maybe some examples, without naming which councils, of where this is happening.

BOB HAWES: Those look like two things. We'll just start off with the high street. Councils are responsible for the high streets. Often you find that councils who are less financially well off aren't able to maintain the high street to the same standard, which often sees shopping centres become the main part of the city, and often sees pedestrian traffic divert into other parts of that. So that's one way we see it. The second is economic development. A well-funded council is able to support their local chambers. They're able to invest in economic development and create more successful businesses along the way. Creating vibrant CBDs that are safe, that are well maintained, is the heart of everything that we see there for businesses.

The Hon. EMMA HURST: You state in your submission that there isn't a one-size-fits-all solution for council funding and rating, and that there's differences in individual councils' ability to raise income through rates or grant programs that must be recognised and accommodated. Are you suggesting that different councils should be subject to different rules or different rate pegs, depending on their individual circumstances? Can you tease that out a bit so I can understand that position?

MUSTAFA AGHA: Looking at councils now, we have a very different picture across the State. If you were to give every council $1 million now they'd use it very differently. We've seen previous grant programs that have demonstrated that where councils have strategic plans outlined to 2050, they're able to very quickly identify—I think it was during Covid—what needs to be invested in, versus councils that are really struggling to pick up the bins and do their job that way. For us, different rates and different regimes there are playing a catch-up game. How do we have the same level of social infrastructure and business infrastructure to serve the community? That's what we're trying to tease out.

BOB HAWES: I don't think we're asking for councils to be treated differently or independently, but I think there has got to be a recognition of the accountability for that whole system. Even just in the Hunter region, for example, the make-up of the rate, compared to whether it's a residential base and what proportion has been paid by business or rural or mining, varies enormously. That just creates completely different opportunity and challenges for the respective councils. They don't all have the same opportunity, but in a sense—in many respects—there are the same expectations of them from the community.

MUSTAFA AGHA: I think one more point to add is looking at the councils with significant density of businesses, often they've got extra revenue that comes through that doesn't require a lot of servicing. So we've got kind of an inequality with some of the services as a result.

The Hon. SAM FARRAWAY: Mr Hawes, from your Business Hunter perspective—we heard from the Lord Mayor of Newcastle earlier about wholistically the Hunter Valley and Newcastle, that one sort of relies on the other and talking about depreciation and rate pegging—they're all issues that have been a common theme from all councils across the State. I specifically wanted to look at funding programs and the equity of funding programs. We saw under the previous Government programs like Resources for Regions, that used to take a percentage of the royalties that were generated in somewhere like the Hunter, Singleton LGA or Muswellbrook, or even Newcastle themselves would get some of the cash and it was reinvested back into those communities. The way it was designed was that there was a base amount so councils knew what they could reinvest and they chose the projects—the infrastructure—and got sign-off from State Government.

My question to you is: In the Hunter, now that that program and funding is all but gone and cut in previous budgets by the Labor Government, what are councils like Singleton and Muswellbrook and neighbouring councils going to do longer term if they can't get a slice of those royalties to reinvest back into the specific infrastructure that they need for their communities on the back of mining, that they just simply couldn't get from their rate base?

BOB HAWES: It's a good question. I think part of the expectation for some of those councils is first of all to understand what will be their responsibility and what they will try to accomplish in some of their strategic plans. To some extent, with Newcastle, the case is a lot simpler at the moment. It's the regional capital so it suffers from—it sucks a lot of energy into the LGA which then, by simple virtue of the visitor economy or whatever else you want to call it, has to pay for or accommodate those things. The challenges for some of the councils in the Upper Hunter is going to be what that future does hold.

On the one hand, it could be very much—and I'm only throwing this out as scenarios to exaggerate the point. If you have shrinking economic bases and communities that are badly impacted by change that could occur up there, they may suffer as a consequence of diminishing value in their rating base—diminished responsibility as well. But if, on the other hand, we're able to realise some of the ambition that's now being sought up there, I have no doubt that local government as well as State and Federal governments are going to have to be working very closely together to make sure there aren't any gaps. We know the limited capacity that some of those councils have, notwithstanding that I'm sure the councils with mining lands may well have reasonably strong balance sheets at the moment. But if those uses change to other things and those lands are revalued or devalued, the situation may change.

The Hon. SAM FARRAWAY: Because you must see it across the Hunter, obviously with a huge amount of economic activity with mining more broadly. And that's a separate discussion about transition and the activity itself. But the reality is that there are expectations in those communities that council deliver a range of infrastructure to support the permanent residency and people that live in Singleton or Muswellbrook or in the outlying areas, but their rate base will never allow them to meet that expectation without an equitable funding mechanism or program that returns some of that activity back as cash to council—correct?

BOB HAWES: Yes, in lump sums, absolutely. But where there is opportunity for council—Maitland is a good example. I mean Maitland has been a real growth centre in the Hunter for a long time so it's been able to expand its rating base by virtue of being able to continually create new subdivisions, rezone land to residential and add that to their rating base outside the pegging system. Some of those other councils—you're right, they may well have limits on that and their ability then to fund large costs associated with readjusting infrastructure or providing new services and facilities is going to be limited.

The Hon. SAM FARRAWAY: What we have seen over the course of the last 12 months is a lot of funding programs abolished that delivered funding to local councils, or LGAs, as specifically around Resources for Regions for instance, or a set portion of funding per LGA to try and make it equitable—back to a BCR. I suspect it will have to be at least one or above Government's policy, but back to a contest. It's a bit like a beauty contest: There's only a small portion of funds and you've got to apply and you've got to meet the BCR. In your experience, there is infrastructure in particular in the Hunter that needs to be built that may not have a BCR of one.

BOB HAWES: Yes, definitely.

The Hon. SAM FARRAWAY: Okay. How do councils sustainably build infrastructure from a rate base that is unsustainable, which is what we've heard, without equitable funding programs? You must see this more and more because, as per your submission, the only other way is to get it through business or is to get it by other mechanisms that will actually impact the local economies.

BOB HAWES: Yes, you're right. The absence of those sort of support mechanisms, particularly through a period where we might see transformation, will be very difficult, because they simply don't have those resources available—subject to collaboration with what the State Government and Federal Government might be doing through other means. To that end, we do note that the net zero authority is hopefully going to get its wheels over the next few weeks. The State Government's moving with its future jobs and investment portfolio or programs and it would be nice to see what some of those will look like. We'll certainly be advocating and pushing for funding programs and initiatives to come out of those to support the strategies that both levels of government are seeking to develop in conjunction with the business and the community itself across the region.

The Hon. SAM FARRAWAY: From your perspective, though, do you feel—we were talking to the lord mayor about this earlier, who agreed with me, around better equity in the grants programs around trying to remove the contest. There should be a fair and equitable distribution of grants, so it's not so volatile for councils. Because if we do that in streamline and make that far more stable, there's going to be less pressure on trying to extract that extra cash that a council needs from other mechanisms that'll impact its economy. Has Business Hunter looked at any ways or equitable ways that councils could do that—separate to rate pegging and separate to issues like depreciation? We're talking about trying to streamline government support and funding.

BOB HAWES: I agree with the thrust of what you're suggesting. The only thing we would put on it—as we have noted—is the capacity and the capability of the councils does differ across the region, and some councils are much stronger in terms of their balance sheet and their financial security than others. If what you're suggesting is a base case, I think you would do well to make sure that part of the development of that base case does investigate those requirements. Because some may need a tipping up or a tipping down, depending on where they sit in the balance, and how much they're going to be impacted. That's the other thing across the region, that at the moment it won't be universal. It'll be quite different, those impacts, if we go forward 15 or 20 years, but it will be significant.

The Hon. STEPHEN LAWRENCE: In terms of the increase in land value as a consequence of zoning decisions, I'm curious whether either of you have a view about whether we're doing enough to capture some of that value for the public benefit?

MUSTAFA AGHA: On value capture and those kind of mechanisms, we've been proponents of it. Parramatta Light Rail, when it was first announced, proposed that mechanism. We were very supportive of that. Premier Baird, at the time, chose not to go forward with it. We've seen Parramatta stage two announced today. Another opportunity would have been to do that there as well. Many property proposals are facing a feasibility crisis. It's important that we don't tip them over the edge. We're dealing with a housing crisis. Our work at the moment also involves a Housing Now! alliance that many of you may have seen—we're pushing for more density. So it warrants investigation. These communities do deserve the infrastructure that they expect when they're moving into them. More work needs to be done. We're broadly supportive but we don't want to tip developments over the edge and have DAs that just don't go anywhere.

BOB HAWES: I think it is an important concept to consider. We're already seeing in the Hunter region that support in principle for what the Government's trying to do in relation to developing an increase in densities of specific nodes and so on. Because that hasn't been part of the fabric before, I think some of the local governments up there are scratching their heads a bit because they're not quite sure about the infrastructure capability and other things that they're concerned will be fronted back to them. If some of that value can be brought out of that process to develop or upzone or whatever you want to call it, that might be the catalyst that actually can make it happen, as opposed to having a developer with a stand-off with local government, or some other agency, about who pays.

The Hon. STEPHEN LAWRENCE: I imagine for your members that there's a balance between not wanting higher business rates, which are already I suppose higher than residential, but also wanting councils to have the resources to assist the business sector. In that context, are there any other particular proposals or policies that you would advocate for, quite apart from rates? And issues in relation to rates that would allow councils to be more financially sustainable?

BOB HAWES: I know in our region the special rate variations and our business improvement levies and so on form part of the picture. The process to review the whole situation you've got with local government at the moment should bear out where there is a desire and support within a particular area to do something—to consider that in a more timely fashion than it is at the moment. I know it's not going to make a substantial difference to the council coffers but it will relieve some of it, where you've got capacity for areas to want to contribute or to pay on the basis of an understood and guaranteed outcome.

A lot of the councils up there—from a business point of view, it's lazy collection of rates, if I can say it that way. You look at some of the industrial areas across the region and even though they're not the major proportion of the rates that the councils are getting overall, in and of themselves they're significant and they're not doing much work. Quite frankly, the majority of the demands on councils come from the general community, as opposed to the business sector specifically. I know that's very much a generalisation. We've got some very big areas down the eastern end of the region—significant land holdings that are highly valuable—and these businesses, they're not paying thousands of dollars in rates; they're paying hundreds of thousands and in some cases millions.

I don't think a lot of those cases would stand up to the test that they're getting that value. But, as I said earlier, sometimes the incidence of that rates in terms of their expense regime is not all that significant compared to, say, their labour costs or their input costs. That doesn't mean it should be ignored, because that whole value proposition should be part of this. Certainly, there would be small businesses and medium-sized businesses where they are paying thousands, but that incidence of those rates is far more critical at a time when many of those businesses aren't going so well.

MUSTAFA AGHA: I guess the only other point to make—it probably goes slightly outside of the scope of today—is what role State Government has to fund critical infrastructure for some of these councils. A lot of councils got very excited during West Best, when they thought they had a bucket they could apply for. It's a good example of where councils are crying out for social infrastructure. Every council will tell you exactly what they need for a little while, so the role of where councils and State Government fit in is really important.

The CHAIR: From your perspective, do councils procure goods and services from the business community as efficiently as possible?

MUSTAFA AGHA: No. There is more work to do there. We spoke about it at the procurement inquiry as well but there's more that local councils can do, both in the way that they engage local businesses but also in the timeliness of their payments to local businesses. We've had examples of a local business that engaged with the local council then wasn't paid for 4½ months. Local councils can do a lot to support the local economy by paying quickly. There's a few different things they can do and they're just not doing enough of it at the moment.

The CHAIR: There's a list of tenderers that are often pre-approved for councils. Basically, if you tick against a list you won't have to go through the process again. Does that system work efficiently? Are the right contractors on the list, would you say?

MUSTAFA AGHA: That's a tough question. Our members have a mixed experience with it. Some love it, some find it keeps them off it. It depends on whether or not you're one of the preferred suppliers and you get used often.

The CHAIR: How easy is it, would you say, for a cheap and efficient new business, that would essentially be great, for them to get on the list?

MUSTAFA AGHA: Not easy. The hurdles that they need to comply with and also at times they miss the window. The business that opens up—it depends on the council—may miss the window to join that list for a while.

The CHAIR: How important would you say it is for the local economy that councils provide secure local jobs?

MUSTAFA AGHA: Massive. In everything that we've done, good local jobs are the heart of every community. They provide economic activity. Often, they're mum-and-dad businesses; they're one-, two-, three-people businesses. They're providing opportunities to people who might otherwise not be employed. Also, importantly, it keeps them close to home, keeps them close to the child care, and it creates a real sense of community. So it's really important. More needs to be done and we support councils wherever they can to do more there as well.

The CHAIR: You said more needs to be done. Is this an area where the State can help local government?

MUSTAFA AGHA: I think the State can always help local government in everything that they do.

The CHAIR: So do local government, as I'm sure you've been able to tell.

MUSTAFA AGHA: Creating synergies and removing red tape where possible. Without speaking out of turn, I think last time we were calling for a portal that captured all procurement at all levels and for the State Government to take a leadership opportunity there. I think that's something that can really happen and something that's easy to do.

BOB HAWES: In the Hunter, we've made some great progress. The Hunter joint organisation does some work in that procurement area, but it is limited. We hear back from businesses in other respects that the singular dealings can be quite maverick, and you can't just say one statement that's going to apply to them all. Generally speaking, I agree with what Mustafa said, that if you're in the system, that can work very well, but if you're outside and you're trying to get your credentials up and get some experience and get that first contract, it can be quite difficult.

The CHAIR: Is there a greater role for the JO, would you say, to be used in that procurement space?

BOB HAWES: I think it would certainly be worth examination, particularly in that payment frontier and bringing it down to the lower levels—if there's a way those efficiencies can be brought, rather than each council doing that work independently and you having a different situation in dealing with a different council. If State Government is able to assist in providing some guidance with what they've just done with their procurement stuff and that can drop down to local government level, that could be something to look at seriously.

The CHAIR: That concludes the time we have for you today. Thank you for making the time to give evidence to this inquiry. The secretariat will be in touch if there's any questions on notice.

(The witnesses withdrew.)

Councillor DARRIEA TURLEY, AM, President, Local Government NSW, affirmed and examined

Mr DAVID REYNOLDS, Chief Executive, Local Government NSW, sworn and examined

Mr SHAUN McBRIDE, Chief Economist, Local Government NSW, affirmed and examined

The CHAIR: I welcome our next witnesses. Would any of you like to start by making an opening statement?

DARRIEA TURLEY: Thank you, Chair and Committee members, for the opportunity to appear before this inquiry today. My name is Darriea Turley and I'm the president of Local Government NSW, the peak body representing all 128 councils across the State, as well as related entities. This is such a critical inquiry for our sector. I commend the New South Wales Government for initiating the inquiry and for the terms of reference that focus on some of the key challenges facing local government.

Local Government NSW has long been an advocate for reform of the current funding model for Local Government NSW. The financial sustainability of councils has been undermined by rate pegging and other factors for over 40 years. This has resulted in the under-provision of community infrastructure and services and the deferral of infrastructure maintenance and renewal expenditure. The result of this is a significant infrastructure backlog. A growing number of councils are financially unsustainable under the current policy setting and the situation is deteriorating. The fact that both the Federal and the State governments are concurrently undertaking inquiries into the financial sustainability of local government adds weight to this conclusion, demonstrating a broad concern about the state of local government finances.

The major factors threating the financial sustainability of councils include rate pegging, cost shifting and the State and Federal government funding arrangements that are no longer fit for purpose. Firstly, rate pegging. In most other States and Territories, councils have more autonomy in setting their rates and charges than in New South Wales. Since rate pegging was introduced in 1977, rate pegging in New South Wales has constrained local government rate revenue rises. In the 30 years between 1989 and 2019, New South Wales rates per capita grew by just $139 to an amount of $591. This is an average increase of just 1 per cent per annum, the lowest in Australia. This has left rates per capita about 29 per cent lower than the Australian average of $839 per capita and means councils are not able to provide the services and infrastructure renewal, maintenance and investment in their communities needed.

Cost shifting. New South Wales councils are currently being asked to absorb cost shifting worth more than $1.36 billion each year. Cost shifting occurs when State and Federal government force councils to assume responsibilities for infrastructure, services and regulatory functions, without providing sufficient supporting funding. Cost shifting has imposed an estimated cumulative burden of more than $10 billion over the last decade. This now amounts to an average of $460 paid by each New South Wales ratepayer each and every year. This is $460 that does not go to the servicing infrastructure councils provide.

Councils are required to divert the rate revenue away from existing services and infrastructure to fund the unrecoverable cost of services, programs and functions imposed by the State and Federal governments. The largest cost shifts include the emergency services levy imposed on councils; forced rate exemptions such as for forestry New South Wales; pensioner rebate for rates, for which the New South Wales Government only subsidises 55 per cent of the cost; library funding, where, despite a substantial increase in the last term of government, the trend over decades clearly demonstrates that the New South Wales Government has reduced its share of funding for public libraries to well under 10 per cent of the cost.

When we look at financial assistance grants, local government has limited options to raise revenue and in many cases are highly reliant on financial assistance grants. Recent decades have seen a slight reduction in the proportion of total tax revenues going to local government. For example, financial assistance grants have declined from 1 per cent of Commonwealth taxation revenue in 1996 to just one-half of 1 per cent today. This is despite increased costs and expenditure service delivery from local government. Other significant threats to financial sustainability, more generally, include special purpose grants from the Federal and State governments, such as for roads and disaster recovery, which are insufficient to meet the task at hand. Increasing the community needs and expectations of councils cannot be met within that available funding. With short-term grant funding, councils are limited in the good secure jobs they can offer to their communities. For many communities in rural and regional New South Wales, the council is the largest employer.

Compounding all these pressures are the increasing frequency and scale of natural disasters. Councils do not have access to sufficient funding to invest in more resilient infrastructure and to build back better after disasters. The sustainability, resilience and productivity of local government and their communities depends on their long-term financial sustainability. The ability to provide the right mix of services and infrastructure that meets the needs of the local communities is essential to the long-term growth contributions and, ultimately, the liveability of New South Wales communities. Local Government NSW is calling on the New South Wales Government to, one, remove rate pegging; two, cease the practice of cost shifting; and, three, join with councils in calling on the Australian Government to restore financial assistance grants to 1 per cent of the Commonwealth tax revenue. We thank you for giving us the opportunity today to present our case.

The CHAIR: Thank you for the submission that we've received.

The Hon. SAM FARRAWAY: Thank you to everyone from LGNSW for turning up and presenting here today. Councillor Turley, I will come to you first. The Local Government NSW submission says:

> In February 2023, LGNSW was pleased to receive a pre-election letter on behalf of the current NSW Government that acknowledged that the decade long practice of cost shifting had undermined the financial stability of the local government sector and placed significant strain on councils and household budgets.

And then it goes on to say that at your November conference, councils unanimously resolved to call on the New South Wales Government to take urgent action to address cost shifting. My question is what has actually been done since the State election to support what was in that pre-election letter?

DARRIEA TURLEY: This inquiry. And I thank the Government for this inquiry. We actually have done a report on cost shifting and we sent that to this inquiry.

The Hon. SAM FARRAWAY: You don't feel as if this would be another talkfest, this inquiry? What specifically do you want from Minister Hoenig to come out of this inquiry?

DARRIEA TURLEY: I think we just listed that.

The Hon. SAM FARRAWAY: A lot of that was obviously stuff around financial assistance grants and other bits and pieces that are in the Federal sphere. I'm quite interested—obviously you've got a wealth of experience on Broken Hill City Council, you're a former mayor and we've met in passing—different things in government as well—so you're across the programs. What I would like to ask is do you feel that regional and remote councils are doing it tougher today than they were 12 months ago because of the change in funding programs like Resources for Regions, for instance, that Broken Hill City Council would have been a beneficiary of?

DARRIEA TURLEY: It's a good question. I think for all the councils, they are doing it tougher. They're trying to understand the new funding models that will be available. I'm not sure people are aware that for Resources for Regions, when the funding was announced, it took some time for Broken Hill to get on that list. We certainly were appreciative of it. We certainly knew that it was hard for all of us to get funding. We think at the moment—and going back to your question beforehand about rate pegging, and then I'll ask my CEO to comment.

The Hon. SAM FARRAWAY: I've only got limited time for questions. I'll keep moving because I've got to give my colleagues a go to keep it fair. Do you think it's equitable that the New South Wales Government, in a time of councils doing it tough—and it was obviously the now Government that referred the terms of reference for this inquiry. The point I make is, do you think it is fair and equitable to have funding programs dissolved, like Resources for Regions, that returned a portion of the royalty back to the community of Broken Hill for the commodities that are extracted out there? Do you think it's equitable that you don't get that slice of funding for your council to develop your town, your region, and the amenities that your community expect?

DARRIEA TURLEY: I might pass that question to Mr Reynolds or to Shaun McBride, because my understanding is that each council had to compete and apply for the funding. We didn't automatically get that.

The Hon. SAM FARRAWAY: No, that's incorrect.

DARRIEA TURLEY: Okay, I'll hand that over to Shaun McBride.

SHAUN McBRIDE: Of course we're unhappy to lose any source of funding that benefits our councils, but always with that particular scheme—from its origins—we advocated the West Australian model, which had two components. That meant a larger portion went to the mining councils that were directly affected and a smaller amount went to all the other country councils. Our preferred model was always different to the one that was available. It was shared—

The Hon. SAM FARRAWAY: But it was only for mining LGAs.

SHAUN McBRIDE: Yes, it was restricted. And at one stage it was only 20 or so councils and all the other country councils were getting nothing.

The Hon. SAM FARRAWAY: But I suppose, Mr McBride, it goes to my point—and I'm happy for you to contribute if you can, Councillor Turley—about equity. Whether you like it or not, the former New South

Wales Government had funding programs that did not require a BCR, that were delivered—didn't matter the size of the LGA, like Stronger Country Communities funding that was delivered—for every LGA in regional New South Wales and it wasn't a contest. They knew that funding was in the pipeline, a bit like the base amount in the R for R program. My question is it's all about equity. Don't you believe there was equity for your community of Broken Hill to have funding programs like Stronger Country Communities and the Resources for Regions program?

DARRIEA TURLEY: For me at the moment, with my hat on as president of Local Government NSW, it is about equity. But it also is about sustainability. You asked a question earlier about councils doing it tough, and they are doing it tough. And we really want to have a look at that for every council, not just mining councils. We really want this Government to not only hear our recommendations but for you to have the fight for those councils for those recommendations around rate pegging in particular.

The Hon. SAM FARRAWAY: We've heard in evidence so far with our hearings about depreciation, rate pegging—a very common theme and I suspect it will continue. My focus is around equity and it's also around regional councils. So I'd also ask you, as the president of LGNSW, do you believe that a BCR on any government grants should be mandated, in particular for projects and programs in regional New South Wales?

DARRIEA TURLEY: I think that's all our councils. As I said, we're all struggling and we all want to have the equity.

The Hon. SAM FARRAWAY: But the question is that obviously a council—like where you represent, Councillor, in Broken Hill, the BCR to deliver a project based on your rate base is very different to the contribution from the lord mayor of Newcastle here today. My question is do you think that regional councils should have a BCR on every single grant application from the New South Wales Government?

DARRIEA TURLEY: Mr Reynolds, do you want to speak on that?

DAVID REYNOLDS: I think our response would be if the BCR is the sole measure then we would be opposed in general terms to a BCR being the only determining factor about whether you're successful or not. In relation to equity, we would subscribe to a position of equity to access. We would like the ability to apply for funds. We would like the ability to compete. And I think more broadly, that's what we're hopeful for for all councils. However, we continue to make submissions to governments of all shapes and sizes around the fact that it shouldn't be a competition in how good your BCR is because you've got other resources to put that together. As well as the quantitative factors that might go into a project case or a BCR generally, there should be an assessment of qualitative factors. There should be an assessment about community need and it shouldn't just be a competition for the prettiest grant application, if I can put it in those terms.

The Hon. SAM FARRAWAY: I'd like to quickly turn to roads as something that I know just a little bit about. I noticed in your submission that LGNSW supports the comments from IPWEA, in particular around how the eligibility criteria grant should be less onerous to enable more flexible funding timeframes and the spending on asset maintenance and refurbishments. Do you continue to support the measures that the former New South Wales Government implemented—that I acknowledge that the now New South Wales Government have continued for the time being—around distributing funding, in particular to regional councils, for roads based on the size of their road network?

The reason I ask this question of you, Councillor Turley, is because of the equity question again, because there's no fairer way. The larger the network, the more funding you get. It shouldn't matter if it's a sealed or unsealed road. We have a budget coming up soon. We're talking about local government and the sustainability of its assets and infrastructure. Roads are probably one of the biggest pieces of infrastructure to manage. Do you believe that a funding model based on the size of road network, moving forward, is the only way to make it fair and equitable for councils to receive government support to maintain their road network?

DARRIEA TURLEY: I'll ask my CEO to address that.

DAVID REYNOLDS: In simple terms, yes. Length of road is a critical factor, but also the carrying capacity of the road, the load that it bears, the frequency of traffic and those traffic volumes. But of course, on top of that—and you've drawn the distinction to regional communities—there is distance. It's more expensive to repair things a long way away from other things. If you've got to cart your road base material in there, then yes, that's an additional cost. Length of road and those sorts of things are clear factors. We've come from the IPWEA roads congress today, and timeliness is another factor as well.

So where you have councils required to undertake works coming out of disasters within a three-year time limit, some of them can't even get out onto their road networks for two years out of that three to assess and quantify the damage. There's a skills question about available engineering expertise for all our communities, particularly regions, but for all our communities. So we're really conscious of those impacts for our rural and regional members, and generally have lots to say about that. Clearly length of road is a factor but also there are other factors as well.

The Hon. SAM FARRAWAY: From Local Government NSW's perspective, obviously the Opposition have been very supportive of this inquiry. Let's put it all out there. I know it is in some ways hypothetical, but what will be the view of your members if the current New South Wales Government don't take the recommendations of this inquiry seriously and the recommendations in your submission on behalf of your members?

DARRIEA TURLEY: Our members will be very distraught. We represent them. We are one voice. We have 128 members plus other entities. They're very invested in this inquiry and we're very grateful that it was moved into an upper house inquiry so it could act quickly. As we said at the beginning it's not only the State Government that has recognised the importance of it but also the Federal Government. So our members will hear from us constantly. They know we're presenting today. We circulate as much information as we can. I'm sure some of them will be online watching. It's a bit like the health inquiry that was held before—seeing those recommendations accepted was so important for us and we hope that the Government takes this inquiry as seriously, otherwise our members will know.

The Hon. SAM FARRAWAY: I quote from your opening contribution, "reduced tax revenues going to local government". I think you highlighted that is one of the issues facing local government since '96, from what you said earlier, Councillor. Would you agree that, squarely, an example of that is the abolishing of the Resources for Regions program, where a portion of that royalty was returned to local government to impacted mining communities, and that program has been abolished.

DARRIEA TURLEY: Can I say that the financial assistance grants, which is what I was referring to, has been a challenge for us which, as we said, have declined from 1 per cent from the Commonwealth taxation revenue in 1996 to just half a per cent today.

The Hon. SAM FARRAWAY: Your statement about reduced tax revenues in general, another example—from a State perspective, not a Federal perspective—is less royalty coming back into the communities where those commodities are extracted and that is a direct result of the now-Labor State Government abolishing the Resources for Regions program.

DARRIEA TURLEY: I'll take that one on notice because I don't think that's what I read.

The Hon. SAM FARRAWAY: I know it's not what you read, Councillor. I was making—

DARRIEA TURLEY: In fact, I probably should have added that we also experienced two freezes of financial assistance grants, which had an impact that we've never recovered from.

The CHAIR: Thank you for your submission and being here today. How much more money do councils need? We've heard it's a case-by-case basis, but it's important to quantify. Is it a 5 per cent underfunding, 20 per cent, 150 per cent?

DAVID REYNOLDS: I think you're right. When we've got decades of compounding underfunding, there is no one number that can constantly stay ahead of community expectation. Every electoral term councils are required to refresh their community strategic plan, which is a minimum 10-year plan. Within that they have a four-year delivery program and a one-year operational plan, which is their budget. There's constantly moving goalposts in front of councils about community expectation, which is entirely appropriate. On top of that, as you've heard from others, asset maintenance and depreciation impacts in an accounting sense as well.

What we've got since the '70s, when rate pegging was brought in, was a compounding decrease year on year of the rate peg not quite meeting expenses. Put on top of that since 1996, as the president has referred to, a decrease in Commonwealth taxation revenue from 1 per cent down to about half a per cent. Then we have shifting things around the need for councils to provide additional services, which might usually be the territory of other levels of any government. We've come today from the rural health inquiry, where we've given evidence that councils are providing housing, councils are funding workforces, councils are providing for skilled immigration into communities to make sure basic medical services continue.

That should not be the responsibility of local government in our realm of governance. Yet councils are doing that. Twenty-one of the smallest councils in New South Wales responded to a survey we did a couple of years ago. They're spending more than $2 million of ratepayers' money in critically short financial communities around those sorts of services. There's a never-ending list.

SHAUN McBRIDE: To try to put some perspective in dollar terms on this, for example, with the decline in financial assistance grants, if that were reversed and it was returned to 1 per cent—and took us back to the equivalent that it was in '96—that would mean an extra billion dollars for New South Wales councils, if we went back to that 1 per cent. That would bring us up to where we were in '96. It's a large amount of money. At the same time, to keep that in perspective, the amount that New South Wales receives now in financial assistance grants is currently exceeded by the cost shift of about $1.38 billion versus $1 billion that we receive in financial assistance grants. So we start adding up the billions there. That's how far councils are behind and they would need some rectification of that situation.

DAVID REYNOLDS: I might just add to that if I can. On 2021 figures, the estimated infrastructure backlog for the sector is $5.6 billion. So that's two to three years ago, during which time there's been significant construction price index increases and labour price index increases. That's a figure that's now some two to three years old. That gives you maybe an estimate of the size of an infrastructure question at that point in time. That's not even touching on the need to provide new facilities for new communities, which are funded by other sources, that we might talk about later.

The CHAIR: Your report suggests a $4.08 billion gap as a result of the rate peg deficit as of 2022. Is that correct? So that is the deficit that's been created, the rate peg deficit of $4 billion.

DAVID REYNOLDS: Is that page 39 you're referring to?

The CHAIR: I believe it's page 31.

Dr AMANDA COHN: I will ask a different question while you find it. Thank you all so much for coming and for your very detailed written submission. I particularly appreciated the graphs on page 17 and page 18 that really clearly demonstrate the particular issue in New South Wales that councils are in that's far worse than other jurisdictions in Australia. I think that really paints a clear picture of why we're here. I'm interested in your view on the best way to classify councils for the purpose of financial measures, including the rate peg, but not limited to the rate peg. So IPART is classifying councils as metro, regional and rural. We've heard other evidence that there should be a coastal classification, that there should separately be a remote classification. As the peak body for local government, do you have a view on the best way to classify councils?

DARRIEA TURLEY: I'm going to ask Mr McBride to comment on that.

SHAUN McBRIDE: Classifications are used throughout local government for different purposes and by different government agencies. It's a useful way of dealing with things. Talking about the current rate pegging methodology, it now recognises different categories or classifications of councils, to reflect that there might be a difference in their cost bases and revenue bases and so on and the cost drivers that affect them from year to year could vary. We find it's a useful tool. Yes, you could break it down to have lots more—a coastal, a small coastal, a large council—there's no end to the number of ways you could slice it. I think we find, though, that the data indicates that the differences at the end of the day are not that great. So the finer you slice it, it's not going to show massive differences from another category in terms of their revenue or their financial deficits and so on. They'll be quite similar.

Dr AMANDA COHN: I was also interested in reflecting on some of the evidence we heard from the various professional associations and unions that represent people employed by councils about skills shortages. And obviously they made some very clear recommendations around addressing pay and conditions. I was also interested in opportunities in the short term for resource sharing potentially between councils. So for example, small councils that can't afford a particular type of technical expertise in house, who might be going to the private sector for consultancy—has it ever been canvassed among your members to look at sharing those types of resources between councils?

DARRIEA TURLEY: I know a lot of councils have talked about it. Some are doing it, especially under the JO model.

DAVID REYNOLDS: That certainly happens. Whether it's through JOs or ROCs or sometimes sister city relationships between councils, I've seen it done. I was formerly employed by a metropolitan council who had a sister city relationship with a rural council. They needed a particular type of engineer and the metropolitan council had one and was able to loan them out and work out an arrangement where the costs were shared for that. 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.

The CHAIR: I believe the page is in your attachment, in the research.

DAVID REYNOLDS: It's figure 16 in the SGS report. For the rest of the Committee, if you go to figure 16 and then a comment, helpfully titled figure 17 down the bottom, it'll point out a $4.08 billion difference between a modelled CPI outcome as opposed to a rate capping outcome. I think that's what you're referring to.

The CHAIR: Correct. What I'm trying to understand is whether the $4 billion—are you presenting that in order to address that councils will have to increase rates by $4 billion a year?

DAVID REYNOLDS: I think what it's doing is indicating the size of the problem since 2013-14. Rate capping has been in existence in New South Wales since the 1970s. It's not going to be feasible to catch up in one fell swoop. Or even to catch up in a short to medium time frame. I think you're seeing different councils do it in different ways. Different councils are using SRV processes where needed or they're looking for efficiencies or economies in their service provision and having those discussions with their communities as best they can. They're hard discussions and they're discussions that change the level and nature of services provided or the cost of the provision of those services for people if rates do go up, either as a temporary increase or as an in-perpetuity increase through a full SRV process under IPART's terms.

The CHAIR: It's my understanding that councils make about $5 billion, give or take, in rates a year. So the $4 billion gap—to make that up with rates would need to double rates overnight, which I'm hearing. Is that the option? Is that what we do?

DARRIEA TURLEY: I don't think any council is saying, "Stop rate pegging and we'll double rates overnight". The reality is that you have the integrated planning system where you should be aligning your planning process and working with your community about where your rates are set. I think Victoria's just introduced rate pegging in 2016. New South Wales has had it for such a long time. We are way behind in our process because we can't go in and say, "Hello ratepayer, this is where it should be."

At the end of the day, the councillors and staff are part of the community as well. They will be working with their community to say, "Here is our issue". They need to share and get the community to understand the problem. But also what's the community's expectation of service delivery? So, of course, nobody is going to do a process of, "Thank you, State Government, for getting rid of rate pegging. We're now going to put it up to X amount." It will be about having that relationship with their community, making sure the integrated planning is a tool used to set their rates, rather than understanding the planning process with that. And, at the end of the day, if the community are not happy, they have elections.

The Hon. SAM FARRAWAY: You say that no-one's going to give the Government praise for removing rate pegging and they'll up the rates dramatically. But it's already happening, Councillor. I live in the Central West, I think as you know. Lithgow has had an SRV approved of 45.78 per cent. I live in Bathurst. Theirs failed because it monumentally backfired on the current council and they were trying to increase rates by 68 per cent over four years, which was essentially going to be approved but the community wouldn't wear it. We've seen Blayney increase theirs in double-digit percentages as well. There's clearly an issue here, isn't there?

DARRIEA TURLEY: Absolutely, and you're absolutely on target that these councils have been financially struggling for many years and that they've had to go to their community and say we are not sustainable, we may not meet pay—

The Hon. SAM FARRAWAY: What do you say to a council like Bathurst that hasn't put their rates up in decades and then tries to put it all up at 68 per cent in one go? That's mismanagement, isn't it?

DARRIEA TURLEY: I'm not sure of the reasons. But I think all councils that are sitting around the table now are saying, "We need to do something and we need to do it drastic." So you're absolutely right that big decisions are being made, tough decisions. They've gone to their community but they have to go to IPART and present a whole range of issues around how far that impact of cost shifting, of rate pegging, the financial assistance grants, the reality of the freezes—what this means. Plus the absolute disasters that we've had with our bushfires and our flooding. We've seen such a toll on the councils, so we're really appreciative that we can sit here today and say councils want a solution; they want to work to have a solution.

The Hon. SAM FARRAWAY: Although a council can't really blame rate pegging if they never put their rates up and never applied for a special rate variation, or used the mechanisms at their disposal to try and readjust and recalibrate their financial position.

SHAUN McBRIDE: I just wanted to clarify our position on that. In my long term with the association, we've always cautioned councils about declining to take up the rate peg. We've been doing that consistently for over 20 years for the obvious reasons that it does lead in many cases to these circumstances. Once the gap is too wide, catching up is almost impossible, as you've seen.

The CHAIR: We've got rates income in New South Wales that's lower comparatively to other States in Australia. But overall revenue is quite consistent. Is that the case for local governments?

DARRIEA TURLEY: We'll take that on notice.

The CHAIR: Mr Reynolds, you alluded earlier to the other ways that councils have found or looked at to raise money in the absence of the ability to fully fund activities through rates. Are there any other examples that you can think of of that?

DAVID REYNOLDS: Different councils will approach it differently and what we're seeing is more councils are actively considering their risk appetite around financial risk and other risks as they think about different income sources. So that does vary across different councils. Some of them will use investment decisions. Some of them will invest in particular types of investment products. Some of them will invest in property as an active investment class, which returns capital growth and lease income over time. We've seen that that can benefit councils, not just in the short term but also in the longer term when they might be able to divest or subdivide for profit in the market. I know that's something the Government is cooperating with councils on even now, to provide housing in different places around the State.

Obviously there's the ability of councils to levy fees and charges for the services they provide. They tend to come in two broad types. There are statutory types where the fee is set, usually around a pure cost recovery basis and there's a separate debate—which we don't have time for this afternoon—about whether that's a true, fulsome recovery. Then there are some discretionary services—things like child care, aquatic and leisure centres and the like. There's a number of ways that councils can diversify their income streams. It's difficult to make up all of the gap. They tend to be based around providing a thing. It's harder for them to be put back into general consolidated revenue for a council than to fix their backlog of potholes or go and maintain sporting fields. So there's a balance to those things. Often those community assets are subsidised greatly by the rest of council's general revenue. Of course, for new communities, there are classes of development contribution that come in as land is released and development proceeds. We've heard earlier today—I know you've received evidence around sections 7.11 and 7.12—of particular types of contributions that can be received.

Obviously, councils can work around voluntary planning agreements too to capture particular types of benefits that might not otherwise be available to them. If I think about the contributions framework generally, there are councils that would say that that only funds part of what they need to deliver for new communities. They can collect for land but not collect for libraries and the essential works list does not allow that. Also, when contributions came in with capping some time ago, that cap's never been indexed. So that's the cap above which IPART has to asses a plan, and of course that triggers the essential works discussion and consideration. Councils have what we would call generational social deficits around some of these financial impacts, too—so, yes, a diversity of sources, not quite covering all the needs. But councils are doing their best for their communities as they can. But we need a little more help.

The CHAIR: I want to ask you now about the rate peg, and noting the recommendations you've made in your submission around that. I'm interested in what alternate safeguards would be appropriate to ensure that rate increases are affordable.

DAVID REYNOLDS: Local government is incredibly highly regulated already. We're audited, as we know, by the Auditor-General. We're required under our regulations to have a very detailed and publicly consulted-on set of planning documents: the Integrated Planning and Reporting guidelines. We would say still that, even without IPART determining—or the Government determining—the actual rate peg for each and every council, there's a very fulsome and nuanced discussion in each place between council and its community around their service expectation and their willingness or capacity to pay. And that's going to be different in different places. Some would have a view around whether IPART should set a maximum or minimum. We would say within the IP&R framework, for that to be truly delivered in each council place, that needs to be able to deal with the question of what a community is prepared to pay for council to deliver the things that it says it should deliver.

What we're getting at the moment is the hybrid of IPART being removed from that community discussion, the council working with its community to set the expectation, set the service standard, set the frequency and interval of service, look at its planning, and look at what it's going to deliver. And then if that doesn't meet IPART's determination you need to head down either a process of reducing services to balance your books, or an SRV application, which is a difficult, expensive and sometimes divisive thing for councils and their communities to do. We would much rather argue that a better and more fulsome community discussion at a proper point in the community planning cycle is the best way for councils to engage with their communities on that point.

The CHAIR: And how do we ensure council will set a rate the community can afford to pay?

DAVID REYNOLDS: Who's the arbiter of what the community can afford to pay is a difficult question, I think. And I don't mean to be tit-for-tat in my response to you, or ask a question in response. But if a council's had the fulsome discussion with its community and a community's had a chance to have that input—these are democratically elected representatives, as the president's already alluded to. That's possibly the ultimate control and that's not something that should be said lightly. And it's not something that should just be the last factor in a proper planning process. But it's right for a community to engage with a council on those points.

SHAUN McBRIDE: I support those points. Short of removal of the rate pegging system, and perhaps as an interim measure towards the ultimate removal, there are some options that could be considered, like using the rate peg as a non-binding reference. That it's not compulsory. It's published each year publicly and councils would be free to go above or below that, based on their own justifications. But the fact is it will be publicly known that council's exceeded the benchmark for the year, or was below the benchmark of the year. It would be a welcome interim step and a lot simpler than the current process.

To simplify things, like with the special variation process, one option would be to have a margin above and below—above the peg that councils can apply and undertake moderate variations without having to do a formal application. So that's a slightly different version of the first one. It simplifies special variations in that you have a margin of say, 3 per cent to 5 per cent, where you can increase your rates by that amount without having to go through the special variation process. They're just a couple of options. There were another couple of recommendations we've made and that is to put a rate peg floor, or minimum rate peg.

The last review of the IPART methodology arose from a massive glitch in the old model, which didn't cope with the COVID recession very well and threw up a ridiculous result for the year of about 1.7 per cent for something, when at the same time the inflation rate was being referred to as being 6 per cent, 7 per cent, 8 per cent. This review was a response to that situation. I just want to put things in perspective about affordability too, that occurs to me. People think about the affordability of rates. The average residential rate in New South Wales is probably around $1,200 per annum. People don't think to compare that. Average strata fees, which are like a council rate but in a different form of local government, are probably around $1,200 a quarter, or $4,800 a year—four times as much. So when we're looking at impacts on residents and ratepayers, increases in their strata fees eclipse the rates by a long shot.

The CHAIR: In your submission, you've called for a more flexible procurement framework to enable councils to benefit from innovative procurement practices. We've just heard some more about that from Business NSW. Local Government Procurement is a business unit within LGNSW; is that correct?

DARRIEA TURLEY: It's a separate entity but we're the shareholder.

The CHAIR: Thank you for clarifying. I'm keen to understand more about what the issues are with procurement currently and how we can make it more flexible, if you could comment.

DARRIEA TURLEY: It's a good question. I'm going to ask Mr Reynolds as he does sit as an observer on that board.

DAVID REYNOLDS: For the Committee's records, I'm an associate director on the board of Local Government Procurement. It's an entity controlled by us under a partnership arrangement and is one of only two prescribed suppliers to local government in New South Wales, the other being Procurement Australia. Under the regulatory environment as it is for councils, our purchasing is quite controlled. There are very clear tendering requirements for councils on some specific topics. There are additional requirements about what councils must do in those environments. It then means that councils are in environments where they have to demonstrate best value for their community as well as complying with the regulations as they stand.

In relation to that, what it does is remove some of the ease of use of that system from councils. If councils would like to have arrangements where they prefer local suppliers or if they would like to have arrangements where they would like some more discretion, it's difficult sometimes for them to set up compliance schemes. What we see is that the greater compliance attention on those factors, the higher the administrative cost of complying. Councils are not ones to argue that we shouldn't comply or we shouldn't have standards, and councils are very much concerned with best value for their community. However, if you look at the way the State Government purchases, it has some different thresholds and some different layers of authority that it's able to use within its purchasing system. It also doesn't require full prequalification for all suppliers in the way local government does in relation to its tendering levels.

The reason that councils, for example, can't buy from the State Government panels for goods or services that are over the tendering threshold is because the State Government doesn't prequalify its suppliers. So they don't go through a front-end tender process to get onto a panel, whereas LGP and Procurement Australia do go through a full tendering process before a supplier is able to get onto a panel. That adds cost and complexity, but it means that when councils buy from those prequalified schemes, that tendering—quality, value, safety, performance, history, all of those things—is tested before the council buys from those schemes, which adds some efficiencies. Historically, you've seen councils come together and share through ROCs or joint organisations as well for joint or bulk purchasing, which is very effective. Some flexibility for those things would be helpful. Some ability for those contracts to continue to be at scale is helpful too.

The CHAIR: I'm interested in comparisons to other States and how New South Wales councils compare to councils in States like Victoria and Queensland. From your perspective, do councils in New South Wales have a different remit or a different income level, so are the services expected different? Or are they relatively comparable?

DAVID REYNOLDS: I think it depends on where you look. Obviously, if you take a capital city council like Brisbane compared to Sydney city, you've got a couple of different things there. Brisbane has much greater involvement in transport and other services, which we would see a State Government be responsible for here. Generally, they're similar but not identical. A span of operations is probably different. In terms of income levels—and I'm looking for the right figure to take you to—what we generally see in the other jurisdictions is, apart from Victoria in the last 10 years, less control of cost. Councils go through planning cycles and are able to respond and meet the community need, in partnership with their community, around those cost levels without a capped income level or revenue stream through the State Government.

The CHAIR: I'm particularly interested in whether there are best practices in other States that New South Wales could adopt. We heard earlier from the mayor of Blacktown, who had some examples about what other States, and indeed other countries like New Zealand, were doing. Are there any lessons we can learn or best practices to improve financial sustainability for New South Wales councils?

DAVID REYNOLDS: I think we would say that there's no perfect system, but if you looked at a system like a Queensland or a South Australia or a WA—the States without rate capping—where that control is left more centrally with the council, obviously in partnership with its community, we would say that system's probably preferenced to the current environment that we've got at the moment. But, again, I'd say there's no perfect system because it's hard to get a balance between community expectation, council capacity to respond, but the need of the State to work with a creature of the State.

SHAUN McBRIDE: I was just going to add, with Queensland and New South Wales, there is one significant difference with other States in that we both provide water and sewerage services outside the metropolitan area. That doesn't happen in any of the other States. So it's an extra, large responsibility on New South Wales councils that doesn't apply to Victoria, South Australia, Western Australia, Tasmania—only Queensland shares that.

The Hon. EMMA HURST: Thank you all for coming today. I know one of the core functions provided by local governments is around the registration of animals and operating of impounding services. I'm wondering if you've had any feedback from councils that you liaise with around the difficulties of funding of infrastructure and the day-to-day costs of running those impounding services.

DAVID REYNOLDS: Yes, we do. Councils do struggle to facilitate those services. It's another one of those areas where council is the on-the-ground regulator but doesn't stipulate all the rules that it has to regulate. Obviously it's a very sensitive issue for communities at times as well, with regulation of breeders, with community issues around companion animal safety and with community impacts when those things work or don't work. I think what councils would see—I talked about different types of fees that councils were able to collect before—is that whether there's true cost recovery in those fees I think is very much up for debate. We would think that probably the environment doesn't allow councils to collect all that they need. Even earlier this year, councils are reporting to us issues with the way the registration fees that they collect are remitted to the Office of Local Government and then need to come back to councils—the way that process is working in a practical sense as well.

We understand there's a need for all councils to do well in terms of the companion animal space and that clearly the councils that have the bulk of the registration do receive generally the larger amounts in reimbursement so they can run the larger programs. Whether that does enough to educate all and provide good services for all seems to be an ongoing point of consideration. Probably what we would argue for is a proper reflection on whether the cost or the fee is meeting the need and the expense of the service to be provided. And if that's to be reconsidered, a proper time for that to be reconsidered. Because with all of these fee settings, whether it's levies or companion animal fees, councils under the Local Government Act have to adopt fees and charges every year. They have to do that in line with their budget and their rating policy. They have to exhibit that formally for community comment for 28 days. Lots of councils are in that process right now or are closing that process to bring in an adopted budget from July. So if there are changes to those things, we just need time to respond as an industry to do that well.

The Hon. EMMA HURST: Something we've certainly heard in this inquiry is that I think it's about 80 per cent of the companion animal registration fee comes to council but that doesn't anywhere nearly cover the costs of the day-to-day running of an impounding service or contracting somebody else to do it. What do you think some of the solutions are? And how far off the mark is that covering? Is it covering, say, somewhere around 5 or 10 per cent? Or is it nearly there and there can be some kind of change of those fees that will help? Or does it need a complete shift in regards to how that's funded?

DAVID REYNOLDS: I'll take on notice the part of the question that goes to what could be done differently in a practical sense. I have to say I've not come prepared to deal with a companion animal series of questions. But I appreciate the context of the question. I think what councils would say is, "Let's have a discussion around the level of service. Let's have a discussion around council's ability to charge an appropriate amount for that and what the expectation from the community is around that service level. Let's have good engagement with successive governments about that."

But equally, you've got an environment that council's effectively the regulatory provider but the provider of last resort almost in that environment. Other entities with very good ambition and very goodwill can decide to provide or not to provide in some of those circumstances, and that leaves council almost as the last one in some places. I know some councils have invested incredibly heavily in trying to look after the needs of their companion animal community, and they're finding those animal rehoming facilities full from before day one. So it is an area where councils are trying to share resources and share the burden of cost, but the need seems to be outpacing what councils can do.

The Hon. EMMA HURST: I've just got another one in regard to rural councils. What we're hearing a lot about is that those rural councils that may need the funding quite desperately are often missing out on competitive grants and I'm wondering if you have any solution to this or if there needs to be more targeted funding towards those councils, identifying them and targeting funding.

DAVID REYNOLDS: We would say probably a couple of things around that. One—and I made the point around equity of opportunity to access these types of grants earlier—it shouldn't be necessarily the prettiness, for want of a better technical term, of your grant application that determines whether you're successful or not. There should be more nuanced discussion around need and community capacity to submit. We think, too, the more there are fixed-term grants tied to specific outcomes for time-limited periods, the harder it is for councils to respond. And the harder it is for councils to build long-term workforces if your job is two years or three years and then that program winds up. So there's a skill and capacity component that comes to those.

Where we would see the interaction between the State Government inquiry that we're here at today and the Federal Government inquiry, for example, is around financial assistance grants. Those grants from the Commonwealth are what's called untied grants and they're funds given to council based on formulas, but the council can then put that to the need that it identifies with its community. If it needs to build capacity in roads or engineering or sporting facilities or companion animal management, it can do that based on a discussion with its community because those funds are untied. That helps it then build capacity to go off and win money in other areas. That's probably part of it.

We're seeing that councils, particularly in the rural and regions, are suffering natural disasters over the last two or three years that are costing them more than—not just this year's annual operating budget, but this year's plus the year after and plus the year after to actually return to a normal operating level. They don't have an immediate capacity to respond to those things. The ability of Government to fund early and then work with councils to acquit for those funds, because we always want to be transparent and accountable about that. But early funding where possible, if the program is suitable—untied funding—so the council with its community can determine the expenditure. Those go to some of those key questions around that.

We think, too, that there's good developments so far in early discussions around tripartite funding agreements—for example, between the reconstruction authority, Transport for NSW and councils, where different parts of government are coming together to try and work positively to get money to the ground as quickly as we can for councils. That's an interesting model that's in its early days but I think is going to have some good learnings for us. I think the ability to use block grant funding out of government departments to give councils certainty over maybe a three- or four-year period, as opposed to a 12-month period, around how much money they've actually got to spend, is another thing worthy of consideration.

The CHAIR: Thanks so much to you all for appearing today at the inquiry. The secretariat will be in touch with you with regard to any questions taken on notice. That concludes the hearing for today.

(The witnesses withdrew.)

The Committee adjourned at 16:50.