REPORT ON PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

CORRECTED

At Passchendaele room, Tamworth War Memorial Town Hall, Tamworth, on Thursday 27 June 2024

The Committee met at 8:30.

PRESENT

The Hon. Emily Suvaal (Chair)

Dr Amanda Cohn
The Hon. Stephen Lawrence

PRESENT VIA VIDEOCONFERENCE

The Hon. Scott Farlow The
Hon. Sam Farraway

* Please note:
[inaudible] is used when audio words cannot be deciphered.
[audio malfunction] is used when words are lost due to a technical malfunction.
[disorder] is used when members or witnesses speak over one another.

The CHAIR: Good morning. Welcome to the fifth hearing of the State Development Committee's inquiry into the ability of local governments to fund infrastructure and services. I acknowledge the Kamilaroi/Gomeroi people of the Kamilaroi 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 here today.

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.

Councillor JAMIE CHAFFEY, Chairman, New South Wales Country Mayors Association, and Mayor, Gunnedah Shire Council, sworn and examined

Councillor RUSSELL WEBB, Executive Member, New South Wales Country Mayors Association, and Mayor, Tamworth Regional Council, sworn and examined

The CHAIR: Thank you very much for making time to give evidence today to this inquiry. Would either of you like to start by making an opening statement?

JAMIE CHAFFEY: Firstly, I want to thank the Committee for coming to Tamworth. We, the Country Mayors Association, believe it's really important, when there are committees of inquiries at a State level—whether they're upper House, lower House or whatever the mix might be—that hearings are held out in the region so there's an opportunity not just for us in local government but for those in our communities that are deeply affected by whatever that issue might be. I say that in anticipation of the locations being nominated shortly for the rural crime inquiry. We're hopeful that might be the case not only for Tamworth but also for further afield communities that are affected.

The Country Mayors Association, we believe, is the peak body for advocacy for councils in rural and regional areas. We represent 89 councils now, out of a possible 92 councils that fit into our category that are not metropolitan councils. Our advocacy is based on an annual survey where our members tell us what the largest issues are that they're dealing with at this point in time. We do that every April. A lot of the issues that we will talk about this morning relate to the single biggest issue both last year and in this year's survey as well, which is financial sustainability of local government.

It is by far and wide the biggest issue that our members tell us that they're dealing with, and the conflict within their own councils, their own communities and then sometimes their own household around the impacts on them as individuals as well in fulfilling their role as an elected member within their communities around the financial sustainability. So we do welcome it. We have put a submission forward that was endorsed by the executive of Country Mayors Association. I believe it's somewhere around halfway through the over 150 submissions that were received. We hope that you've had the opportunity to read through that information.

RUSSELL WEBB: I can only support what Mayor Jamie Chaffey has said. Just to add to that, the financial stresses that are now being placed on our local government bodies across New South Wales are increasing at an exponential rate. We're seeing that at many of the meetings that we go to and hearing from many of the mayors that the challenges they are facing and their councils are facing—we're going backwards at a rate of knots. One of the big imposts is the cost shifting from the State and Federal government—but more State Government—onto local government in terms of some of the services and costings that they are now starting to apply and leverage back to us.

A good example last year was the emergency services levy that had previously been funded to a degree. Of course, last year all of the councils had a big impact on that themselves. That, along with others, also adds up to about $460 per ratepayer across local government in New South Wales. It's a massive impost on the ratepayers. I'm finding it here at the moment too, in terms of the impact on people that stand for council, and in particular mayors—the pushback that we're getting and the attitude from the general population towards elected members when they hear that they're going to have some services cut, and at the same time they're also hearing that we're going to put rates up to try and cover some of those costs. We have many councils that have been to IPART for increases.

I think there will be an influx next year following the election where councils will actually go hand in hand and apply for special rate variations, waiting until that election is finished this year so that they can go with four years ahead of them. I'll use our example here in Tamworth because we did it this year. It was probably a wise move in some ways and a silly move in others. The fact is that the residents and ratepayers around the regions in New South Wales are really cranky, and they're getting crankier. There's been a real mindset change. I think it has sort of come about since COVID. People are feeling the pinch a bit. Now they're seeing service levels drop and they're seeing rates potentially having to go up. So many councils in New South Wales are really going backwards. I think that that impact has been felt by everyone in the regions and, probably to a lesser degree, it's still being felt by those in the city.

JAMIE CHAFFEY: Madam Chair, if I could just add one last thing that I did forget. Originally, when the Premier did task IPART with doing the investigation into the financial modelling and then that swapped, a lot of our members were quite concerned about why it was taken from IPART and then put to a parliamentary committee. Since then, the explanation from the Premier that it's about trying to get some outcomes faster and some change on the ground is certainly very much welcomed by our members. We look forward to the hearings completing and the report coming out. We anticipate there will be some great recommendations that will make a difference to our members.

Dr AMANDA COHN: Thank you for your time today, and particularly Councillor Webb for hosting us in this beautiful building—it is much appreciated. My first question is about cost shifting, which you have both mentioned in your opening statements. Local Government NSW has done a wonderful job of quantifying that at a State level, but can you give us some local examples of costs that your councils are having to bear now that they might not have previously?

RUSSELL WEBB: Cost shifting has been around for—I've been in local government a long time, and I can remember in the late '90s and early 2000s, cost shifting was a real issue at that point in time. I think there's been such a variety of areas where cost shifting has occurred. I'll just use some examples. In some cases, there will be some programs that are delivered to our communities through State funding with the support of local government. As those programs move on as the years go on, you will see the funding for those programs become less and less and less, and local government has to pick up the difference. Some road safety officers were appointed many years ago and were fully funded by Transport for NSW, but it would have been under a different name then.

Over about three or four years, the funding arrangements for those changed to a point where local government had to fund those positions on their own. With many councils that had those road safety officers, they just had to stop that program. They just couldn't afford it into the future. Little things like that all add up. As I said, the emergency services levies last year were a massive impact on local government. I think we've spoken about that in the past, but there are a lot of different—it's a bit hard for me to start talking about so many of them. I don't have a list of them in front of me, but the list would be as long as my arm for the past 10 years. It has been successive governments that have done this.

JAMIE CHAFFEY: Just to add to that, in our submission we talk about many different aspects of cost shifting. A lot of those are detailed in the report from Local Government NSW that Mayor Webb referred to. Particularly some of the more recent discussions that have been had indicate that there is no change. The cost shifting that has happened over decades and decades in local government—in fact, I'm sure it almost feels like a sport for some MPs. "If we need to fix a State budget, we'll see what we can shift onto local government." That certainly is the mood. It might not be the intent, but it certainly is the mood to most of our members. The cemetery conversation is another one. Just recently, there's some more about water safety around dams, as well, which will come back to a responsibility of local government.

The problem is we are the best located in our communities, particularly in regional communities, to provide these services. We understand that, and we won't shy away from that responsibility. But what we ask is that, if there is an extra task, we actually have the remuneration—the funds—to be able to deliver on what those services are. Because our communities look to us to provide those services—any extra services outside the base services that people know and love us for what we do around roads, rates, rubbish, libraries, pools, parks and gardens. That's our core business. But in a lot of our smaller communities it's our responsibility because no-one else will do things like, in some of our smaller communities, aged care, childcare facilities, providing homes for doctors—even rent-free premises for doctors—if we want to have those other services.

We know we're the best to provide it. But without having support from State or Commonwealth governments to be able to provide those, we get into this cycle of a special rate variation being required to make sure that we have those extra funds to stay functioning, to provide those services. That is the real concern with this. It's not the responsibility shift, necessarily, but it's the responsibility without the extra income. So, therefore, the money has to come from somewhere if we're to provide all the services, and then we get into this cycle of a special rate variation.

Dr AMANDA COHN: Thank you. There are some really helpful examples there. In these instances where local councils have shown leadership and provided the services that their communities expect at cost to the council's bottom line, you mentioned that the only option for many councils is to go to a special rate variation process. Councillor Webb, you've just been through one. What was that process like to go through?

RUSSELL WEBB: Look, it's difficult. It's a very difficult process. Could I just hone in on another one that comes to mind? Whilst it's probably not a cost shifting exercise, it does actually turn out to be one in the long run, and that is pensioner rebates. Pensioner rebates started in the '90s. Back in those days, when many of you would have probably not shown much interest in local government, we had a situation where pensioner rebates from the State Government basically covered about half of the rates of a pensioner, and that was in dollar terms.

Those dollar terms haven't changed. Today, the pensioner rebate issued by the State Government is something that doesn't count for a lot in terms of a rateable property, so those pensioners are now finding it difficult, in many cases, to be able to afford their rates. The pensioner rebate they get from the State Government is very minimal in terms of their overall rate bill.

The pensioner rebates are broken into two sections: one is for your general rates, and one is for your water and sewer. What we're having to do in our local area is that we're going to have to start topping those pensioner rebates up. So, in effect, I feel that is a cost shifting in itself. We at local government level are now going to have to look at how can we actually top up those pensioner rebates. It started out with some great ideas from the State Government. It was very well intended, but it was never continued on to actually support the pensioners across our State in the way it was initially enacted. Now we're seeing some real costing there, I think, into the future as local government itself is going to have to pick up the shortfalls there.

Dr AMANDA COHN: Councillor Chaffey, I wanted to ask a question that's from the Country Mayors Association written submission, which was specifically about disaster funding claims. You mentioned the experience of a number of rural and regional councils with the time frame of payments, but also that there was an issue with disaster funds not applying to water and sewer in some cases where rural and regional council are actually the local water authority. Could you explain that in more detail?

JAMIE CHAFFEY: As you know, in local governments with the metropolitan councils, their water and sewer is not managed by local government. It is by Sydney Water or Hunter Water. But once you get out of the metropolitan areas, it is the responsibility of local government for the rest of us. That is well understood. The problem with the disaster relief funding—there are a few issues with this, so I might just address the timing of payments of funding to start with. That is a massive issue for a lot of our members.

We surveyed our members only a few months ago to find out where they actually sit with natural disaster declaration applications. We had 42 of our members that responded to us and gave us a snapshot of applications that relate back to as far as November 2021 events that were declared natural disasters and claims then put forward. Out of those 42 councils, there was almost $1 billion outstanding of funding that they were still waiting for. Many councils, through—whether it be community pressure or just simply the fact that their agricultural outputs would stop unless they borrowed money or used other funds, general funds or funds that they may have had set aside to go and do that work. They made that choice in the early years but are still fighting to try and get that money paid back to those councils, and other councils that have made the choice that they simply don't have those funds and haven't been able to do that work.

So there's a lot of animosity within regional communities, particularly those that have chosen to wait until they receive the disaster relief funding before they go ahead and do that work. There's also a massive loss in productivity and damage to plant and equipment from many of the roads that are in desperate need of repair because of those natural disasters; that's one point. But our members have also told us during that consultation process that there were other assets around sewer and water that were damaged that weren't eligible for funding.

RUSSELL WEBB: May I just add a little bit to that, and that is the fact that when those funds are so long in coming and councils have to put the scope of work off because they can't afford it in their own right, the cost of doing that work in two or three years time—we're talking back to 2021, so the cost of doing that work today is probably up 30 per cent to 40 per cent. So all of a sudden there are going to be shortfalls in the money that's available to do the work that needs to be done anyway. It's a little bit like everything we do—we're told we're funded for it today but we don't get those funds for another 18 months or two years or three years. By the time we get around to doing that job, there's not going to be enough money there to do it.

JAMIE CHAFFEY: Just to expand on that point, I spoke to a mayor just this morning—a local mayor that's fairly close—who explained to me that their review of the actual cost of the raw materials to do some of this road work has increased 17 per cent this year—in one year, 17 per cent.

Dr AMANDA COHN: Another issue that the Committee has heard specifically impacts rural and regional councils is the issue of road maintenance. Obviously your members would have significantly more road assets to maintain than metropolitan councils. I was interested in the Country Mayors submission, specifically the issue of depreciation, that councils are required to account for the depreciation of country highways that the councils may never be expected to actually replace but that ends up being funded by grant funding. How is that accounting standard impacting your members?

JAMIE CHAFFEY: Depreciation is a major problem—a really significant part of the financial stress within our membership in local government. In fact, I think we've got something like 18 of our regional councils at the moment whose rate base each year doesn't even cover the depreciation costs of their assets. That's simply not sustainable, but when you look at the accounting standard and the requirement for depreciation, I think it's well and truly overdue for review. The roads are a particularly good area to start with when, for most of our councils, our local and our regional roads will have something like a 50-50 split from sealed and unsealed. But the gravel roads—we have a budget and we also have some funding from Roads to Recovery that comes annually. That is specifically targeted for us to be able to maintain—and a component of the Federal Financial Assistance Grant is also attributable to our road network in regional communities. Then there is annualised grant funding at both State and Federal levels. All of our councils focus on that when it comes to any major works that we need to do, whether it's re-sheeting or sealing a gravel road.

Quite simply, the funding isn't there to be able to make that choice to do that by yourself in regional councils. If you wanted to seal a gravel road, the amount of money it costs to do that per kilometre is unachievable for anybody. Without grant funding—and sometimes those grant funding opportunities are without a requirement for a co-contribution; other times they are for 25 per cent and, more recently, 50 per cent federally. Councils look to grant funding if they are to do that major work. For us to be depreciating the costs of that road network, which is the single biggest cost in our depreciation—and therefore it becomes one of our single biggest costs in every regional council's financial statement—it's really not achievable for us to continue to deliver the services if we have to depreciate our road network.

RUSSELL WEBB: If I may, we could just point out that the number of councils that have reported depreciation being greater than their rate income from 2021-22 to 2022-23 has more than doubled—the number of councils. It's a growing problem.

Dr AMANDA COHN: I wanted to quote something that the Minister for Local Government has said in Parliament. Just to be very clear before I quote him, I don't agree with or endorse this statement at all, but I'd like to read it out because he specifically mentions you, Councillor Webb, and I actually wanted to give you the opportunity to respond to that, since you're in parliamentary *Hansard* today. He said:

> Mayors from a variety of councils have been coming to see me and writing to me, talking about the financial sustainability of local government. I point out to them that financial sustainability is not about rate increases; it is about getting their own finances in order. It is about monitoring their own finances and making sure that they are accountable for their own expenses. They are democratically elected to do so. Judging by the Auditor-General's report, local government has got a long way to go to fix its own financial accountability.
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> They are very good at putting their hand out and taking a 3½ per cent increase from the Local Government Remuneration Tribunal, and spending their time making submissions to upgrade their categories to earn more fees when we are putting through legislation to freeze our own salaries and that of senior public servants. They are quite happy to embark upon some egregious expenses.

He goes on to have a go at Kiama council and Ryde council, but he then says:

> In 2018 Tamworth council spent $13,000 on overseas travel, including a trip by the mayor to Nashville, Tennessee.

Would you like to respond to the Minister's comments?

RUSSELL WEBB: I'll talk about the Nashville trip first. I wasn't mayor at the time, but I will talk about it, and I'm very aware of it. Most regional cities, and cities within New South Wales, have sister city arrangements. Those sister city arrangements are, in many ways, productive in terms of forming relationships with countries overseas. We form business relationships; we form cultural relationships. I think it's a very important part of any organisation's activities to build on those relationships. We have a number of sister cities in the region that I am mayor of. Of course, a lot of those relationships are built around activities. In Tamworth, we have built those around country music. Nashville is obviously the country music capital in America. Of course, we spend a lot of time working with them. We haven't gone to Nashville since then, obviously for COVID reasons and some others. We also have a relationship with the village of Gore in New Zealand for very similar reasons. They were here this year. We haven't been there for some time either.

Cost constraints have held us back, but I think it's just part of our duty as a regional city to build relationships with overseas centres and maintain them. It's not a huge amount of money in the overall scheme of things, and I think it would be foolish of us in local government, especially regional cities that have got sister city arrangements, to just let them fall by the wayside. In terms of wages and so forth, our wages are obviously governed, as you all would understand, by the awards that are driven down by both governments and, of course, by the industrial commissions and fair work. So we don't have any control over wages. Our directors and general managers—actually, this coming next year is starting in July, and general managers will be the only ones on contract; the rest will be on a salary arrangement. We'll have no control over how that's worked into the future.

With all due respect to the Minister, the CPI has been much higher than what the rate caps have been for many years. Rate capping, as many of you probably would have read, was orchestrated in 1976 and implemented in 1977. It has been around for a long time but, really, the impacts of those over the past few years have been a lot more severe than they had been in the early years of rate capping. With all due respect to the Minister, I think he probably needs to have a closer look at how we do—and we do—find efficiencies in our organisations. We have spent many years reducing some of the fat out of our organisation, cutting back and changing the way we do things to try and save money.

The efficiencies that we have found in our organisation—and I know that company members are all doing the same thing. We are finding efficiencies across the board, but there is a point where you can go no further and you've got to look for more funding to come your way. The only way that we can raise funding is through extra rates or, hopefully, get extra money from the State and Federal governments. I must say, if the Federal Government gave us a 1 per cent FAGs allocation, we'd all be very happy and we probably wouldn't have to worry too much about what we are sitting here today talking about.

JAMIE CHAFFEY: Could I also add a comment to that point? The local government Minister is quite colourful in many different comments that he makes. One comment that I do agree with the local government Minister on is his position on depreciation and the fact that their financial—the whole system within local government is desperately in review. So I hope that becomes one of the recommendations from this Committee and then that will roll forward and there will be some major action around it. As I note, because I've heard him speak on numerous occasions about a change to depreciation, that would make a significant difference. I would also like for some responsibility for cost shifting to be taken by the local government Minister and consultation had with the industry prior to making decisions and simply just putting them out there without any consultation and without any regard for members like myself and Mayor Webb to have an opportunity to talk about the unintended consequences that may be there from decisions that are made.

The Hon. SAM FARRAWAY: Councillor—

The CHAIR: Sorry, we're just having some issues with audio, Sam. We're having trouble hearing you in the room.

The Hon. SAM FARRAWAY: Can you hear me now?

The CHAIR: That's much better.

The Hon. SAM FARRAWAY: Good to see you, Webby, even if it is only virtually, and you too, Jamie. I wanted to talk about, in particular, your submission. You have the graphic regarding the proportion of grants in total income for the smallest councils in New South Wales. With regard to special rate variations—probably to you Jamie—do you believe that the situation is probably compounded and made worse over the past 12 to 18 months due to the lack of grants that those councils have been able to access from the State Government?

JAMIE CHAFFEY: It certainly is going to make a difference, because we've actually got a survey out to our members at the moment, and that survey is asking for them to complete, both at a State and Federal level going back over a five-year period, on an annual basis, from each of the funding streams that were available and that are currently available, what funding they've been successful in receiving. We'll be able to clarify that data, hopefully, by our August 9 meeting about what that actually looks like, and we can do a comparison. We'll be able to give you far more factual information then.

It's fairly clear on the ground that it has become quite difficult to receive grant funding over the last 12 months, particularly, in comparison to the grant funding that was available, let's say, over the five-year period prior to that. That's the feel on the ground. But, of course, we need the data, so that's why we're surveying our members to see what that will be. We know that inflationary aspects have been fluctuating between sort of 4 per cent and 7 per cent. We know that the recent IPART changes to the way that the rate peg is set are going to make a difference. The problem with all of us, though—smaller councils particularly—is that we are coming from a base where the cash position is almost non-existent at the moment because we're in financial stresses and industry is concerned.

If we go back to have a look at special rate variations—I'll just depart a little bit, but it might expand somewhat on that question—we've done a comparison back to 2012 through to those that have already put their hand up to 2025, which is only a few at the moment compared to the ones that we think will. There have been 194 special rate variations over that 14-year period. That equals roughly 14 special rate variations per year. The majority of those are rural and regional councils. We know that the modelling is wrong. We know that the rate peg is not accurate. It's almost a cycle. If you look at 2014, '15 and '16, there were almost 70 councils that had to do a special rate variation. If you call it a 10-year cycle, we're just at the peak and the next couple of years are going to be very uncomfortable for our membership.

The Hon. SAM FARRAWAY: So to that point, Tamworth Regional Council is one of the largest regional councils in New South Wales. Russell, do you know how many grants that Tamworth Regional Council has been able to successfully obtain from State Government over the last year, or over this current financial year to the previous two or three financial years? How has that compounded council's ability to deliver new community infrastructure in your communities?

RUSSELL WEBB: I can't give you the number, but the speakers who follow us will probably be able to provide you with those figures. I can't give you the exact number so I'm not going to try and take a guess at that. But I can say to you that some of those applications that have been unsuccessful have really had a major impact on some of the developments that we've been looking at doing—both Federal and State, I'm talking about now. It has had massive impacts on what we're considering into the future and how we're going to deliver some of those programs.

The Hon. SAM FARRAWAY: Back to you, Jamie. As chair of the Country Mayors Association, what sort of feedback are you getting from councils that are looking at their sustainability around mining communities? Obviously Gunnedah, where you live and you are also the Mayor, is a big mining community. What is the impact in recent times of the scrapping of a Resources for Regions program that delivered baseline amount of funding for these councils that have to deal with the impact of mining in their communities? Has that funding being removed by the State Government resulted in those councils having to expedite the need for an SRV or expedite the conversation for an SRV?

JAMIE CHAFFEY: It has made a major impact. I can talk from practical experience. Obviously Gunnedah is a mining community. It's the second biggest component of our economy. I do speak to many mayors, particularly those in the Hunter Valley, that are seeing a significant impact on their financial position because of those funds that aren't there. They're funds that generally we use to do community-type activities that you simply struggle to find funding in any other aspect—or have in the past—to be able to provide, whether they be amenities for a growing community, particularly, but sometimes they may also be there to top up things like roadworks. Now that they're no longer there, the communities are still prospering because mining is still surging ahead. I know that in my own community at the moment our unemployment rate is 1.5 per cent and there are hundreds of job vacancies at the moment in the community.

We still have to sustain all of the services that our growing community expects. As I said, the second biggest economic driver in my community is the mining industry. That's typical for a lot of the mining communities in regional New South Wales, if not the more dominant ones. You still have all of the responsibilities of providing those people with the services, but we don't have the income. If you're going to provide the services, you really only have two options—that is, you borrow money or you've got to go for a special rate variation and put that impost back on the ratepayer, if it's accepted by IPART, which adds a lot of human pressure to our communities.

The Hon. SAM FARRAWAY: We've heard in your submission, and from councils across the board, about the volatility of relying on grant funding. From CMA's point of view, what is the best way to make grant funding equitable? Should it be—as the previous Coalition Government did, for instance—based on LGA, where every LGA got a fair share? When it was done via road funding, it was done by the size of road network. In your view, if we're to look at a way of making it more equitable, as a recommendation out of this Committee, what works for regional New South Wales councils?

JAMIE CHAFFEY: At Country Mayors Association, that's our mantra. All we want is equity, whether it's within our own membership or whether it's in comparison to metropolitan councils. We need certainty as well. If there was non-contestable grant funding that was annualised, you could plan ahead. In local government, our financial plans are over a 10-year period. When there is uncertainty, you can't plan for that. You may be successful in year two, three, four or year eight with a huge amount of money that will make a big difference, but you can't plan for that. The only way that you can have some certainty to your community, if the rate peg is not in line with what your actual needs are to provide the services, is to go ahead with a special rate variation. That special rate variation conversation—and I know Russell can speak to it very personally after, over the last six months or so, going through that journey here in Tamworth. We're in Tamworth, but it's typical of what's happening right throughout our membership.

That anger, that human cost in our communities, scars people. It's not only the residents that have that massive bill shock. And I put that down to the failings of the financial system that we need to deal with. Everybody who works in local government in New South Wales doesn't do it for the money; they do it because they love their communities and they want to provide and make sure that they grow and prosper into the future. If we have to remain with this crazy system of being behind the whole time and doing a correction on a cycle, then we're going to get a situation where there are good people who won't stand for council or won't remain on council, or young people who have got plenty to offer who simply won't put themselves in the line of fire because they see what happens when a community needs to have that conversation around a special rate variation and the impacts on individuals because of that.

The Hon. SAM FARRAWAY: My last question is to both of you, but I'll start with you, Jamie. It's around road funding. Obviously, "rates, roads and rubbish" is the mantra of the three Rs for local government, but roads in regional areas are something that communities appreciate that we use every day of the week. They're so important. In the recent State budget, is there any new road funding for regional councils? Has the Government followed the path of distributing road funding based on size of road network, including unsealed roads, across regional New South Wales?

JAMIE CHAFFEY: One thing that stood out to me in the State budget—and I'm no expert on that budget. I've been through it, but sometimes it's quite difficult. There might be overarching information, but to break that down into the level of detail that we need per council, you simply don't have that information in the budget report. One positive thing I did see within the budget is the allocation of $3.3 billion for natural disaster. We talked about natural disaster funding a little earlier. That, to me, seems to be an increase on previous years. Hopefully it's enough that we'll see money start to come much faster into the communities that have desperately been waiting.

As I said, some of that goes back to November 2021 events. It's my hope that there are enough men and women on the ground to be able to complete those assessments and get that money out as quickly as possible to make a difference to the road network, because it is having a huge impact on the productivity of our regional communities. I know, even in my own shire, there were several businesses that were so affected by road closures that they were very close to needing to close the business down. For one particular business, that was 50 people that would have been unemployed.

The Hon. SAM FARRAWAY: Russell, obviously Tamworth has not the largest but a very large regional road network that you maintain—a local road network. One of the criticisms or one of the points that was always raised with me in a former life was that unsealed roads were never covered. Tamworth has, like a lot of regional councils, a lot of unsealed roads. Do you feel that State Government is supporting local government enough with their unsealed road networks across the State?

RUSSELL WEBB: I'd have to say we never get enough funding for our road network and I think probably over the last couple of years across regional New South Wales—so all councils are affected the same way. The cost of doing your roadworks has more than doubled in some areas; it has gone up by 40 per cent in some cases. Because road construction and road maintenance costs have gone up so much, they're probably about twice as much as what country councils have been able to raise out of rate income. A big part of a lot of special rate variation applications will be seeking money from our ratepayers to add to some roadworks into the future.

I can talk about our own particular rate variation that we've just gone through and we've just approved. About two-thirds of that rate variation is to go towards roadworks. It would be a lot more acceptable to the community if the Government were helping us a little bit more in those spaces. We've got over 3,000 kilometres of roads and those roads vary from, obviously, a couple of thousand kilometres of unsealed road. The road categories can be either local roads, regional roads or State roads. If the State road component is funded through a different program altogether, which you're aware of because you were past transport Minister, then the funding for them can be managed by the State and by Transport for NSW.

The Hon. SAM FARRAWAY: Sorry, Russell, my question is, obviously a new program was developed on the back of significant road damage where we were looking for equity. My question is about equity and about making sure that a council like Tamworth, for instance, that has 3,000 kilometres worth of road network, continues to be funded based on the size of road network and not essentially a beauty contest in applying for road funding. My question is: Do you support whoever is in Government to continue to fund road maintenance and that the support from the State Government is based on size of road network? By doing it that way, does it actually make a big difference for a council like Tamworth?

RUSSELL WEBB: I do believe across all of regional New South Wales, and in particular a council like ours that has such a big road network, there is just not enough funding coming our way to do the work that needs to be done to keep those roads in good repair. We've taken a lot of money out of reserves to try and patch up some of the shortfalls in that funding. You can't keep doing that and you can't borrow money for long periods of time.

You can't continue to borrow money to do roadworks and maintenance; you can only borrow money for construction. We do need more money. We definitely need more money. We need a lot more funding.

JAMIE CHAFFEY: If I could just add, when you look at the Financial Assistance Grants that are allocated and then distributed through the local, State or Territories grants commissions, there is a factor in there that's related to the road network. I think a similar type model to that could possibly be understood by the State Government if you're looking at road funding into the future. The other comment I would have around roads too is the disappointment of our membership around the natural disaster claims and the fact that there is no ability for betterment in particular areas of the effect from natural disasters.

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

RUSSELL WEBB: If I may, just to answer the question a bit further, the country councils—they struggle to maintain and satisfy the needs and expectations of our public in regards to safety standards and that. They've been doing this for many years, so we just need a better approach. I think what's been happening in recent times and has been happening for some time is that the unpredictable and declining year-to-year approach of funding has allowed councils across country New South Wales to see declining assets, in terms of road assets. It's a terrible shame for country people.

The Hon. STEPHEN LAWRENCE: Thanks, witnesses, for your submissions. I wanted to ask a couple of questions firstly on the income side of things. I note in the Tamworth Regional Council's submission at the top of page 6 it states:

> Interesting to know that over the ten years from 2009 to 2019, our FAG has increased by 14.6%. During the same period, the overall inflation rate, measured by the CPI, has increased by 23.4% …

What I think the submission is pointing to is the imbalance between the increase in expenses and the increase in the FAG grant. There are similar things in the Country Mayors' submission, and in the light of that and on the income side of things, would you agree that the two most significant factors that we should be thinking about on the income side of things is the indexation of rates and the indexation of operational grants? Are they the two most significant things that we should be thinking about in terms of the financial sustainability of local government?

RUSSELL WEBB: I think through the whole of the Country Mayors submission—you'll get to talk to some Tamworth representatives shortly. But I think, in terms of Country Mayors, our submissions really highlight both of those areas as significant areas in the failings of the system. Those failings in that system have caused councils like many that are members of the Country Mayors Association—many of those councils, in particular, our own here—have had to go through special rate variations and ask for more money to meet some of those needs to really get our infrastructure up to a level, and keep it at a level and maintain it at a level, that not only satisfies the public but keeps it safe. The two indices that you talk about are definitely two that we need to be focusing on.

The Hon. STEPHEN LAWRENCE: Mr Chaffey, do you have a response to that?

JAMIE CHAFFEY: My comment would be the current modelling and the way that funding is distributed to local government desperately needs a review. IPART on rate peg not that long ago completed and made some changes there, and I think they're positive changes that we'll see, once we get back into a financial surplus type situation in the majority of our councils on a cash basis. I'm hopeful that it'll remain in line with the inflationary pressures and we might be on the right pathway to break the cycle of special rate variations. Federally, if you look at the Financial Assistance Grants from the original intent to when indexation was frozen back in 2014-15 and that impact where we were basically sitting around 1 per cent of Commonwealth taxation revenue to now be less than half a per cent—that impact. Councils desperately rely on that finance. In fact, it's paid forward at the moment and a lot of that money's already used by our councils. So we're almost a year in advance in that crazy situation at the moment. That's how desperately we're looking.

I think there was notice to say that 85 per cent of that was going to be paid shortly as well for next year. I think that our reliance on Federal government through—you talked about roads earlier, Roads to Recovery. We're seeing that there will be an increase in the coming years there that will make a difference to us in our financial position and ability to provide the service. If we're able to look at the methodology in the way that the distribution works in the Financial Assistance Grants—it's crazy to think that, in our submission, you'll see the type of income from Financial Assistance Grants the City of Sydney get, and what fraction that is of their overall operating budget versus what it would be for a small council like Gunnedah or a typical rural council.

It's insignificant for a metropolitan area, but it's very significant and much sought-after funding for a regional council, so that desperately needs to be modified. I know we're talking at a State hearing but, federally, there are some major impacts that could change our position quite quickly if they were addressed. But, at a State level, there has been work done through IPART and that change—unless there is a recommendation that might come from the hearing that, potentially, we go away from rate peg asset by IPART into some other system. We would certainly be interested to be part of a consultation if that was one of the potential outcomes or recommendations from the hearing.

One thing from Country Mayors Association: We've been working quite hard for a number of years now at a bipartisan level to try and get as much advocacy and understanding about our members and our needs through to the State Parliament. We want that to continue and we desperately need to be part of the consultation before a lot of decisions are made, if at all possible, to make sure that we might just be able to share some information that you might not have taken into consideration about the unintended consequences for the people who decide to live here in regional parts of New South Wales.

The Hon. STEPHEN LAWRENCE: Would you agree that the indexation of rates and the indexation of operational grants are really where the nub of the problem lies in terms of this question of financial sustainability of councils? There can be talk about short-term capital grant programs and different things like that come and go, but I'm interested in whether you fundamentally agree that those two things are the main issues in terms of getting on top of this growing imbalance between income and expense in local government?

JAMIE CHAFFEY: I think we need certainty. I think it's pretty clear that, for us—our planning in local government, financially, is a 10-year cycle. It's a 10-year plan. We review it. We update it every single year. But you can't plan for things you don't know, so if you were to take uncertainty out—and grant funding is an opportunistic thing. You may spend a lot of money putting applications together and never receive a cent, or you may be successful with every application that you put forward for grant funding. But that's no way to try and manage and plan for the future.

RUSSELL WEBB: I do believe that we need to be talking about apples and apples, not apples versus oranges. You look now at the moment in our records, here with our report—you'll see in there that the unrestricted cash reserves from the 85 New South Wales councils are less than 40 per cent of the unrestricted cash reserves of the 15 city councils. There's a real difference there. There's a real problem in the way those funds are distributed. Just as an example, which you'll read in our report, the City of Sydney received some capital grants worth $148 million when they have over $400 million in unrestricted cash reserves. I don't think that's good spending of those monies.

I think what you're talking about needs to be managed and we need to be comparing apples with apples in that case. At least 15 of the councils across country New South Wales and that Country Mayors represents have zero cash reserves and some of those councils—in fact, three of those councils—have negative cash reserves. They're in the red. That clearly indicates there's a problem in the way these grants are distributed. So when we do try to manage the indexing that you're talking about, we need to do it on a basis that actually sends the money where it's needed.

The Hon. STEPHEN LAWRENCE: On page 26 of the country mayors' submission, there are some predictions about the consequences of the worsening financial position of local government. For example, it talks of consequences of that worsening financial position, including reducing road maintenance; reduced levels of services in parks, mowing and maintenance; reduced hours of libraries, swimming pools et cetera; closing some sporting fields; reduced activity in economic development, tourism and marketing; and there are a number of other things that are pointed to. I thought I would give you both the opportunity to talk about what you think local government is going to look like in 20 or 30 years if we don't get on top of this worsening situation.

JAMIE CHAFFEY: It would look much different to what it looks like today. Our community relies—and, in fact, State and Federal government relies—on the work that local government do and on the people that are employed in local government to provide a lot of those essential services to our community. If we don't get on top of the financial modelling, and if we don't make sure that our councils can survive financially to provide those services and maintain an environment where people want to work for local government as well—we still need to compete in that open market of workforce.

In a lot of regional communities, we're struggling to get population to house people to bring them in. Therefore, a lot of our communities are fighting over the same pool of people. A majority of our communities are well below—particularly those that aren't in the western part of New South Wales—the State and the country's average as far as unemployment is concerned. If we can't compete and we can't keep those people, then we don't keep that knowledge and experience about our communities and we can't provide those services. If we don't have the funds, you really don't have a lot of options open to you. You either look to do something like an amalgamation or you sell assets off. You can't trade insolvent, so if there isn't a special rate variation option—effectively, they're the three options unless we get our financial modelling right so that we can ensure our income is in line with what our costs are to continue providing the services.

RUSSELL WEBB: Just to add to that, I'd say that the State's revenue is the revenue that they get out of country New South Wales. Regional New South Wales is a producer. We create income, we grow crops and there's mining in our areas and across New South Wales. The farming activities create a huge amount of money. There is a bit of manufacturing across country New South Wales. There is a lot of goods produced, and they're sent off to port and then sent away.

What the State Government has probably lost focus on is the fact that we are the regions that actually produce for the State. There's not a lot of production in the city areas. There is some, but there is nowhere near as much as you will have in country areas. If we don't start looking after country areas in a better way, then we cause the list that we've got here to continue on over the next 15, 20 or 30 years. The production levels in our State will drop considerably, and therefore the income for the State Government itself—from the production of agriculture, mining and otherwise—is going to drop off. Therefore, the State Government will have less ability to fund what we really need in the bush.

If we start funding what we really need now, then over the next few years we can probably stave off that downward slide that we're on now. Over the next 20 or 30 years we're going to see all the things that are listed here, like reduced hours for community services in country areas where people won't want to live. They'll want to move to the city where there's more things to do and there's a more liveable community. Every one of our councils in Country Mayors is trying to create a liveable community and attract people. We attract people, we attract business and we attract productivity. If we can't do that, and if we can't build vibrance within regional New South Wales, we lose that vibrance and we lose that ability to be productive and successful. We lose that ability to support the State Government in the future with the funds they need to run the State in a proper way.

The Hon. STEPHEN LAWRENCE: When I was on council in Dubbo, I was a supporter of a value-capture mechanism whereby, under planning agreements, a developer would be levied a percentage of the increase in land value. For example, you have a spot rezoning, and the land value might jump very considerably. Then the developer would be liable to pay a significant percentage of that land increase to council. I'm just curious whether that's a proposal or an idea that either of you are aware of, or think might have merit, in terms of trying to address this problem of income versus expenditure in local government? It was quite controversial in Dubbo and opposed by people in the business quarters. Ultimately, we shelved it. But it's something that was talked about at the time as not being a feature of regional local government but something that might perhaps be worth exploring. I'm just raising it in the context of this inquiry because it seems to me that it is one mechanism to substantially get some revenue for our councils in regional areas.

JAMIE CHAFFEY: I'll start with that, Russell, and let you finish. This is not something that our organisation, Country Mayors, has discussed or debated, so I'll make a comment that will be my comment, not representative of the organisation. All of our communities are doing the absolute best they can to attract industry and business. We've got amazing food and fibre that we grow right throughout our communities, Dubbo included. What we want to do is value-add that product. Without getting processing, manufacturing and investment into those areas, we simply can't grow. We can't build on the population. We won't have those people coming to invest, to build homes or infrastructure.

I personally would want to see any developer pay their own. Would I want to see developers pay overs to compensate for the failures of any other tier of government? I think, if we do that, we won't see the investment come. It's too easy to invest in other areas, and they won't come into our communities. I personally don't think that would be something that we should be focused on. I think there are many other areas in retaining the people we've got, training them and keeping them in our communities. Further, attraction of both people as well as industry would be where I'd want to start.

RUSSELL WEBB: I think it's a conversation we can have. Again, it's not mentioned in any of our reporting. It hasn't been discussed. However, I think what we've got to look to do is try to create some diversification in our regional centres. We need to try to bring in and grow businesses in regional areas. We need to take the pressure off the coastal strip, and government needs to look at ways and means of doing that. By doing that, decentralisation—which has been talked about for many, many years—is something that we need to promote. That promotion is not only with State government agencies and bodies, but we need that decentralisation to be promoted by government for the public sector. They need to be able to do what they can to try to promote the relocation and establishment of businesses in country areas.

If we look around the Western world, America is a great example of where they build and have built great cities inland. Most of their productivity is coming out of those cities. They've steered away from major centres along the seaboards. I think that Australia, for example, is one that hasn't done that. We've had our major centres all on the seaboard. Of course, a lot of that is to do with water security and water availability. As a nation that's growing—we're growing in numbers and we've obviously got a migration policy that is bringing a lot of people back into this country—we need to look at diversification. How are we going to encourage people to come to the bush and set up their businesses? That will take the pressures off some of those major cities along the seaboard. That's something that we need to think about in the future, because in 20 or 30 years time—we're talking long term here, and longer than that—we need to grow regional New South Wales. We need to grow regional New South Wales more than we need to grow the populations along the strip of the coast. That's just a sensible way to go for any business. If it was a business you were running, that's what you'd be trying to do.

The CHAIR: Thanks so much for making time to give evidence today. The secretariat will be in touch with you if there are any questions on notice.

JAMIE CHAFFEY: Thank you for having the hearing in Tamworth.

RUSSELL WEBB: Thank you for coming to Tamworth.

The CHAIR: Thanks for hosting us.

(The witnesses withdrew.)

Mr PAUL BENNETT, General Manager, Tamworth Regional Council, affirmed and examined

Mr RAMI ABU-SHAQRA, Chief Financial Officer, Tamworth Regional Council, affirmed and examined

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

PAUL BENNETT: Yes, thank you, Chair. Thank you for the opportunity to come today to speak with you all. I'm going to keep my opening comments brief. I believe that the value in the process is not about reiterating the contents of our submission, which obviously is taken as read, but rather to provide you with the information and answers regarding anything that would help you in your deliberations. Tamworth Regional Council has just completed the onerous and stressful task of completing a special rate variation process to increase our general fund rates by a total of 36.3 per cent over the next two years. The complexity of that process and the extremely detailed financial analysis required to be undertaken to demonstrate the need to IPART has laid bare the current and future challenges faced by Tamworth Regional Council in particular and by local government generally.

First, the historical and cumulative impacts of rate pegging are exposed with the ever-increasing gap between available revenues and the ability to simply maintain existing infrastructure and services. Second is the impact of the consistently increasing burden of cost-shifting from other levels of government to consume large amounts of local community resources to achieve State and Federal outcomes. Third is the obvious reduction in support from the Federal Government through the Financial Assistance Grants, which have declined from 1 per cent of Commonwealth taxation revenue in 1996 to around one-half of 1 per cent today.

Our submission provides examples of the cost increases we have experienced across our operations, examples of the cost-shifting we've had to endure from other tiers of government and the challenges faced by regional councils like ours with dispersed populations that all expect similar levels of infrastructure and services without having the capacity to pay at a local level. We would be happy to explain or elaborate on any of the issues contained within our submission, or on any other matters where we may be able to add a regional government perspective.

The CHAIR: Thanks so much, and thanks for hosting us here as well.

The Hon. SAM FARRAWAY: Thank you for appearing today and, whilst I'm not there, thank you for hosting. I love Tamworth. It's a great spot. We were talking to your mayor, Councillor Webb, about equitable funding. I'll start with roads because roads is a big thing in Tamworth. It always has been and always will be. We were talking about equitable funding and support from State Government in and around roads. In your view, from Tamworth's perspective, is State government—whoever is in government—distributing funding based on the size of road network an equitable way to support local government with the maintenance of their road networks, both sealed and unsealed?

PAUL BENNETT: My response to that would be I don't think there's ever enough road funding. Everybody demands a higher level of service. Certainly out here in the bush with the distances we cover and having to get produce to market—essentially from paddock to the port—there will always be a desire to have higher levels of funding. In Tamworth's case, we have one of the largest road networks in New South Wales as a council—about 3,300 kilometres of roads, both sealed and unsealed. For us it comes down to the strategic planning side of things and the recognition of the value-add that improvements to the road network have. It shouldn't just be that everybody expects to have a tarred road out the front of their property, but you've got to address the choke points that exist in the system. The State Government may well maintain the highway network and so on, but you've got to create the connectivity to be able to get, through your local road network, the produce onto those major thoroughfares.

I think the strategic planning side is where we are let down. Our area here, the Namoi group of councils, conducted an exercise a few years ago where we looked at the aggregate need across the group of councils rather than the individual local government area. There is no point being able to run a B-double or a B-triple to the boundary of Tamworth Regional Council and you get to Gwydir and you have to decouple everything and have numerous trucks then take it on. It's looking at the complete freight supply chain, if you like. We looked at where the choke points exist in the system.

We've now expanded that exact same process with the Regional Cities New South Wales group— 16 major inland and coastal cities outside the Sydney, Wollongong and Newcastle area—to again look at how do we eliminate the choke points that allows us to better utilise the State system that's in place. Look, do we get our fair share? I think every council would say they don't get their fair share. Do we spend it in the best way? Not necessarily. I think it's largely about the largest voice, and there is no doubt some politics behind it as well. But it really needs to come down to the strategic plan to ensure the money is spent the right way.

The Hon. SAM FARRAWAY: My point, Mr Bennett, is obviously that the amount of the total of the money is one argument and one consideration. To be frank, that's something you'd have to talk to the Government about. But what I'm keen to know from your perspective is the more equitable way to distribute money. If there is a pot of money, I am not a believer in this whole beauty contest of councils having to apply and compete—for Tamworth to compete with Uralla and Armidale and Dubbo and everyone else—for the same pot of money. It's not so much the total quantum. That's up to the government of the day. But it's how it's distributed. I think, for years, it's fair to say that a council like Tamworth and a council like Lachlan shire, which also has a large unsealed road network—the unsealed road network was never included, it was never thought about and there was never any funding for it. I am more interested in your view about, whatever the pot of money is moving forward, what is the most equitable way to distribute it to councils and where is the equity?

PAUL BENNETT: Look, I'll be blunt: I don't think there's an answer to that question. The reason I say that is because the methodology used by different councils in the way they construct their roads, the way they maintain their roads, the way they deal with water ingress into the roads system—essentially, whether they build good, sustainable, resilient road networks or whether they are just patching things and then, in the next rain event, the road falls apart again. I think it's more about having a different standard of delivery to ensure the money is being spent the right way. There is probably enough money there if it is spent the right way.

The Hon. SAM FARRAWAY: On a separate issue, will Tamworth be impacted by the oversize, overmass movements of wind turbines, for instance, on the New England and through some of your communities?

PAUL BENNETT: Yes, we will. Obviously the New England Highway—it's going to come up from the Hunter through the New England Highway. There are numerous renewable energy projects to the north of us and also to the east of us that are going to have significant movements with significant investment in infrastructure. That is going to leave a very long-lasting, expensive legacy for the local council to maintain.

The Hon. SAM FARRAWAY: There has been talk, in particular further south of Tamworth on the New England, especially around Muswellbrook, that the State Government, in terms of the enabling infrastructure to move oversize, over-mass movements, is going to use the local road network rather than upgrading the road network. How will Tamworth essentially deal with that when you will have these oversize, over-mass movements on your local road network causing significant strain? How will that compound your issue about sustainability, with roads being one of the top issues that you have to confront in your budget on a daily basis?

PAUL BENNETT: That goes without saying. The truck movements are in the thousands. From our perspective, one of the issues we are having with renewable energy projects at the moment is the fact that they are looked at as individual projects, and they talk about the impact of an individual project but not the cumulative impacts of those projects on a road network. One project might say, "We're going to move 10,000 trucks." We'd say, "For 10,000 trucks it's going to have this amount of impact and you'll have to do your before and after." But when you have five projects running simultaneously, who is responsible then for the repair of the network?

How do you distribute those costs? How do we reinstate the roads? Who becomes responsible? It's a major concern for us. Not only that, even to use some of the local road networks, they're going to upgrade intersections, take culverts out and put bridges in. Once these projects are finished, we are going to have infrastructure in place which far exceeds the needs of the local community, but we're going to be left with the legacy to maintain them forever.

The Hon. SAM FARRAWAY: How will the wind turbine get across the bridge and, down via Peel Street, onto the New England Highway on your road network?

PAUL BENNETT: They'd actually take it off the New England Highway to the south of Tamworth, but then it's got to go out through Nundle, which has major impacts. The size of the cuttings and some of the bridges they've got to build—there's a spot out there called Devil's Elbow. There will be 20-foot-high battered retaining walls in some areas for them to cut into the mountainside. Who maintains that infrastructure into the future once the project is completed?

The Hon. SAM FARRAWAY: Going via Nundle will mean using the Tamworth local government road network, won't it? That's your local road network.

PAUL BENNETT: Yes.

The Hon. SAM FARRAWAY: So unless there is significant investment injected into your council to compensate for the significant maintenance and disruption, not only to the community but, obviously, the shear excessive wear and tear on that road network, there is no way that your council would be able to maintain that or sustain that. If it was forced upon you, that is essentially cost shifting, isn't it?

PAUL BENNETT: It is cost shifting, but I will say that the danger in all of this is that councils start to argue that they want some sort of up-front payment to compensate them for that. It's actually a long-term legacy issue rather than that. If we get an up-front payment for some sort of perceived damage to the road network, it will be through a political process, whittled away and spent on something else that creates another liability for the local council rather than having a long-term revenue stream that will maintain that asset over its life.

The Hon. SAM FARRAWAY: Changing topic, I asked a question of Mayor Russell Webb earlier about the quantum of grants over the past 12 or 18 months made available to Tamworth from the State Government. He was not able to answer the question, but he said to ask you, as the GM. Has there been a reduction in the grants that you have been successful for and the quantum or total number of grants that you have been able to apply for over the past 12 months?

PAUL BENNETT: The short answer is, absolutely, yes. I am not here to play politics. My role as a general manager is to just state the facts. But, certainly, we received significant grant funding through the previous Government around things like aquatic centres, road funding, tourism, infrastructure and so on. We have found it very difficult to attract grant funding recently. In fact, in only the last week we had submitted four very strong projects, we thought, under the active New South Wales program. We missed out on all four of those, which is extremely unusual. We have a professional grants writer in our council. We were a bit astounded as to why we missed out. We did an analysis of that, and we found out that The Nationals seats got zero allocation out of that grant program, and $29 million of it went to the current Labor seats. We're a bit disappointed that that process is actually happening, but we are seeing that through a number of different grant programs where previous funding commitments from government are being held up at the moment. Whether that's because of the State's current financial pressures, I am not aware, but we are struggling to maintain the same levels as we have historically.

The Hon. SAM FARRAWAY: If you were to take that experience and observation and really home in on Tamworth, that must compound the problem locally for you, as the GM, but also your councillors and the mayor in having to go and say to the community—and the special rate variation. This must be compounding that towards the need for an SRV and the toxic nature that comes with having to propose a higher rate for ratepayers, must it not? Do you think this has all been brewing more so over the past 12 or 18 months, because you have to, fundamentally, attract more revenue to keep Tamworth Regional Council sustainable, and to pay the bills and open the doors.

PAUL BENNETT: Look, I'm not sure those comments are entirely accurate. The need for the special rate variation is something that is manifested over many, many years. In fact, our council did a special rate variation about 10 years ago. We asked for 19 per cent and were only given 11 per cent through the IPART process. The 36.3 per cent that council's asked for through the current process has nothing really to do with grants or future infrastructure; it's about maintaining existing levels of services and facilities. I think of the SRV as really like a correction in a normal open market, in that you get to a point where you simply can't continue without some sort of major enhancement. We see councils go through this cycle every eight to 10 years, where they get to the breaking point. They then have to have a major correction, like we are doing now and like many councils have done over recent years. Then they're probably in a good situation for the next few years, and then they'll go through another correction because of the underlying issues that exist with the way that we source our revenue and the way we receive increases in income.

Dr AMANDA COHN: Thank you for hosting us in Tamworth today. It is much appreciated. I was interested in one of the recommendations in your written submission that was about allowing councils to raise special levies for items that have community support. The submission states that the current process required by IPART is "onerous, timely and costly". Could you explain in a bit more detail the current process, from your perspective, and examples like a special levy that you would want to— **PAUL BENNETT:** Are you talking about individual special levies?

Dr AMANDA COHN: Yes.

PAUL BENNETT: Okay, I'll speak to that firstly. Rami is very well versed in the SRV process. But from a special levy perspective, there are unique circumstances in every community that warrant a community saying, "We are happy to pay for something." We've seen it in the past. The beautification of Peel Street in Tamworth is a great example, which was done quite some years ago but was a special levy on the businesses in the main street.

We delivered a product that's recognised as one of the nicest main streets in regional Australia, probably. But we also went through a process a few years ago where, because of our world-famous country music festival, we asked for those businesses that benefit from the festival to actually make an annual contribution towards the cost of hosting the festival, because they are the beneficiaries of the increased economic returns. That was an extremely onerous, difficult process because, again, you have to go through an IPART process to get that special exemption to raise that additional revenue.

Whereas the local community was largely supportive of it, then suddenly you have the vocality of those that are not actually affected by the levy impacting the outcome. Businesses were saying, "Yes, we're supportive. We believe we should make a contribution. We're happy to do so," but everybody else was saying, "No, that's unfair" and "I don't benefit from it, so therefore I shouldn't pay it." There are circumstances in local communities where, as a whole—maybe not as a whole but as a majority—the community is saying, "This is something we want." The council should be able to just say, "Outside of the normal rates process, this is something our community's asking for" and we should be able to levy and undertake those activities on behalf of the community.

Dr AMANDA COHN: What do you see as the best way of ascertaining what has community support or not if you were to remove the IPART process? Is it just the IP&R framework? Would you need to actually have a poll on an election day?

PAUL BENNETT: No, I think it's the IP&R process. We have a democratic system. We have councillors that are elected to represent the community. They obviously face the electoral process every cycle. But if they're taken through a process—and there has to be a level of community consultation, but it doesn't need to be universal support. I think the councillors are there to make a decision and to represent the people that elected them. The way that I look at the way the rating process works is that there is actually quite a simple answer. I think the rate pegging is a good thing if its intention is to say, "If you do exactly the same next year as you've done this year, this is the increase you could apply to your rates."

That's essentially what IPART do. They say, "This is the change in the cost of providing the services you've provided in one year to the next year." But communities change every year. If you can demonstrate an uplift in service delivery through your IP&R process—through something the community's asked for, through something the local elected councillors support—then that should be an additional amount on top of whatever the rate peg is. An increase in service levels, an increase in facilities that have been asked for by the community should be an additional amount that's added to whatever the rate peg is for what's done in the previous year.

RAMI ABU-SHAQRA: I would very briefly refer to the other jurisdictions where the rate peg or the rate cap doesn't exist. It's pretty much everything that we need to engage with the community and convince them that this is what we are planning to do into the future and this is how we're planning to do it. We would have the discussions and the consultations. If the community is convinced, then that's basically what it's going to cost us and this is their fair share of sharing that cost and paying for it, in addition to other commercial avenues. I wouldn't see why that wouldn't be the case moving forward. What we went through with the special variation and the burden of all of this financial modelling and all of these workshops, the fact that we had, all of sudden, to catch up with all of the previous years of the rate peg, with inflation and cost-shifting, was hitting us hard.

We didn't want to take action during COVID, but if we just keep it moving forward, that's going to be exacerbating the problem. The community, understandably, is really frustrated with the sudden increase that they're going to see in the coming two years, but our responsibility is to make the council financially sustainable. We wouldn't have been in that position if we were allowed to engage with the community and say, "Inflation has increased this, this and that, and we need to increase the rate not to the 2 per cent but the 5 per cent or 6 per cent or, alternatively, we will cut this service or scale back these services to you." We reach an agreement where it's happening every year, and the impact would hardly be felt by anyone.

On top of everything, we had to go before IPART and tick the boxes to prove that we have demonstrated that we have achieved all of the six criteria that they're after. That took a bit of work, expenditure and time from the staff and the councillors. There was a lot of angst from the community in the community consultation. It's a process that, in my view, could have been avoided if, like Paul referred to, on top of the rate peg, a specific levy could be imposed on something that the community is after, as opposed to going through this formalisation with IPART. That's one option. The other option is to scrap the whole rate peg to start with and have elected councillors, and we make that decision on a yearly basis.

Dr AMANDA COHN: While we're talking about the rate peg, you have both talked about its intent as capturing the cost of business as usual moving forward. I was interested in the table on page 6 of your submission, which compares the rate peg against CPI and against your actual costs in employees, materials and services. Some of those figures are quite staggering. For the 2022-23 financial year, you had a rate peg at 3.7 per cent when the CPI was 6 per cent and your materials and services cost at 37 per cent. Do you feel that you're an outlier compared to similar councils? Has something particularly happened at Tamworth that has made that cost so much higher than CPI or is it that using the rate peg or using CPI is not actually keeping pace with the local government sector at all?

RAMI ABU-SHAQRA: The CPI is a general basket of products. It takes in so many other things. What we pay for, especially on the materials side, is very focused stuff that we use to maintain the infrastructure—the roads, the buildings et cetera. That was hurt by not just inflation but the supply deficits and shortages. With what happened after the Ukraine war, all of a sudden the plant, the spare parts, the material and the contractors, all of their prices jumped in the double digits. The CPI doesn't really reflect the increase of cost of doing business for a council like us. That's where you see the materials, in particular, have jumped that big. Again, maybe the minimum that we were asking for is for that rate to match with the CPI. But even that, to a certain extent, does not really address what we have been through for the last few years.

PAUL BENNETT: Yes, I think Rami's answered that very well. Our biggest costs are obviously around our road network. The question earlier about the size of our road network and then the cost of materials—so the extraction of goods—I think we use an example in our submission around our bridge tendering process. It used to cost us about $6,000 a square metre for a bridge; now it's $18,000 a square metre for bridges. We have a lot of bridges in Tamworth and we've replaced quite a few of them. Other costs around water and sewer networks and so on—the cost of concrete pipes, the supply of concrete pipes and the demand for them has just driven the price through the roof. Lastly, that is not just about the actual cost of the materials; it's the fact that the Government did intervene and put a lot of money into stimulating the economy, which meant that the cost of contractors to actually undertake works—they were having a field day. They were making very large margins because they were in very high demand and the market drove those costs. That's a large reason for those increases.

Dr AMANDA COHN: When we heard from IPART at the start of this inquiry, they touted that their rate peg methodology does actually take into account a standard basket of goods for local government as distinct to CPI, which is about households. They've obviously ended up with a rate peg for 2023-24 of 3.7 per cent, which is nowhere near that 9.95 per cent or 37 per cent that you've calculated. Are the recommendations we should be making about the rate peg methodology itself? Should we just be removing the rate peg?

PAUL BENNETT: I think the methodology is definitely an improvement with the categorisation into the three, but I guess coming back to my point that Tamworth Regional Council is very different to Hunters Hill and Tamworth Regional Council, in fact, is very different to Orange because of the distances that we cover around the city, we have a large distributive network. We run pipelines from Tamworth all the way out to Kootingal to supply water and so on. We have seven water supply networks. We have six sewerage schemes. We have 28 public halls. We have so many things because of our dispersed population across 10,000 square kilometres that our costs are very different.

Our basket of goods is very different than a council that has a much more condensed area. That's the thing that I think they miss. The way they are now approaching it, at least, with three categories will go some way towards addressing that. Again, the underlying issue is that the peg is set based on continuing to do exactly what you currently do and what the cost increases are on that basis, not about a growing, expanding regional city with increased services, increased business attraction and everything that the community demands to allow us to attract people to live and work here and provide the services we require.

RAMI ABU-SHAQRA: I would second that by saying that's exactly the point. The rate peg—we hope that moving forward the 3.7 per cent was the last year where IPART followed the old approach. It was back looking into—that's where you would see the inflation. The years prior to that were relatively low and that's where the 3.7 per cent as opposed to CPI of 6 per cent came from. Next year is going to be 4.9 per cent and, hopefully, moving forward, we will not be in a position to go through the special variation again. That's what we hope for but it's yet to be seen.

But, again, the thing is, the 4.9 per cent or whatever rate peg is going to be is not addressing the mismatches that did happen in the past and we hope that with this special variation that will be basically captured. The thing is this has to actually be there just for us to continue delivering what we're delivering today. There is no account there for any growth, either growth in population or the growth of the network. That, in our view, needs to be addressed through other ways of revenue. We can't stretch the community hard enough to pay for the expansion of the future because that would be asking them for too much so the growth, in our view, needs to come from other sources of revenue—the grants and other sources of revenue as well.

The CHAIR: I might turn now to a couple of questions about your financial reports, if that's all right. In your financial reports from 2018-19 to 2022-23, I note that you show consistent deficits before capital income every year. In terms of the total cash assets, cash equivalents and investments and your annual financial report for 2018-19, this was $114.6 million of which $20 million wasn't externally restricted. In your most recent financial statements, your total cash assets, cash equivalents and investments were $160.2 million, of which $29,567 is not externally restricted. I note also that what isn't externally restricted is internally restricted, which is obviously a good practice to be in, in terms of bringing money in and then allocating it to various purposes. Despite those persistent deficits in your operating results before capital income, you actually gained $46 million in investments and your unrestricted cash balance went up $9 million. How did you manage that?

RAMI ABU-SHAQRA: The results that you see there are on accrual basis, which means this is the performance where we take the revenue minus the expenditure, both of which are on accrual basis, not on a cash basis, whereas what you're referring to is actually the cash balance. There is a difference between the two. You can't be in a financial performance deficit and you are actually increasing your cash. One way of doing that is simply to scale back on the operations, or get the suppliers to deliver the work and not pay them or pay them late and collect your revenue in advance. That's something also we do with the rate paying. We collect four times a year. If you manage your cash in a way that that can happen, keeping cash aside—and I think the numbers that you're referring to are the consolidated balance sheet as opposed to the general fund. So a lot of that cash is coming also from the water and sewer fund. That is jacking up the—the problem that we have in here is with the general fund, to be honest, not with those other two funds. I hope I have explained that.

The CHAIR: That is consistent, I think, with evidence we heard yesterday from some of the other regional councils about the general fund versus the wastewater-sewer fund. Mr Bennett, do you have anything to add?

PAUL BENNETT: Yes, just to maybe enhance that a little bit. Funds like water and sewer—obviously we have our long-term asset management strategies around those, as we do with general fund. The difference between the two is we're not constrained by rate pegging in the way that we can generate our charges for our water and our sewer. As we look forward with our growth—we've got our Blueprint 100, which talks about our trigger points for augmentation of sewerage systems and water treatment systems and so on—we're able to increase our rates and charges to ensure we hit those reserve targets that we require for those major capital expenditures in the future so that we get that intergenerational equity. That's been a real focus for the council, especially around water, sewer and waste where we're not constrained by the rate peg. General fund is a different story. In fact, in general fund we've had to, I guess, cross-subsidise or make borrowings against our internal restrictions in the general fund to fund some of the other works, such as responding to natural disasters or the storm activity we've had in recent years. We took $7 million out of our restricted assets to increase our roadworks program. The increases are largely towards those non-pegged funds.

The CHAIR: In terms of capital works, do you take a management fee off the top of capital works that helps with other line items?

PAUL BENNETT: You're not allowed to do that. It's illegal, unless you have a separate company. We certainly build in risk factors into the rates where we undertake work—let's say on behalf of Transport for NSW. Our approach is that we always expect that those variations will happen both ways. If we're able to deliver a small surplus on some roadworks, you'll notice we have a restricted asset around transport provisions which means that if we then have an overrun on a future project that restricted asset has been set aside to cover any of those overruns. We manage it in a way where we don't rely on that income or a profit margin from those types of works, but we make sure that we maintain a margin that helps us offset any future risk around increased costs.

I can illustrate that. We built a large roundabout out on the highway near the airport, and we had a grant from both the State and Commonwealth governments, as well as a developer contribution. But when we started undertaking that work, there were major issues with the substructure and the soil, and we had to remove additional soil. The project went over budget by about $2.5 million, but that didn't have a major impact on our budget in that year because we'd set aside some of the surpluses that we'd made across jobs to offset that overrun. That's a prudent way to manage our finances.

The CHAIR: In terms of the deficit, even though it looks like you're in deficit, if you have a consistent flow of capital works, is it that you can improve your financial position?

PAUL BENNETT: Yes, that's exactly right. The basis of the SRV is to be able to fund those demands from our assets moving forward. Essentially, the underlying deficits at the moment are because we're consuming assets quicker than we're replacing them. The largest proportion of the current rate variation—about $8.7 million of that per year—will be allocated to the road network to offset the depreciation that we're incurring.

The CHAIR: In terms of your asset depreciation, your report says you lost $32,377,000 through asset depreciation in 2022-23. Does that line up with how much you spent on maintenance or asset replacement?

RAMI ABU-SHAQRA: You're referring to the infrastructure renewal ratio, the benchmark of which has to be 100 per cent, which basically divides the expenditure on the infrastructure or the amount we spend on infrastructure over the total depreciation, amortisation and impairment. If it's 100 per cent, it means we are adequately allocating funds towards renewals. The $32 million includes not just the depreciation and amortisation but also the impairment of assets. We've taken, in that year, a big hit of impairing one of our administrative buildings—Ray Walsh House—because of the asbestos. It went down by $7 million to $8 million. So, again, that was added to that number. This is where you would not achieve the target of 100 per cent.

The reason why we went to the special variation is we were struggling to adequately allocate enough reserves and funds to properly maintain—not just maintain—and renew all those assets once every five or 10 years or whatever. Whenever there is about to be major rehabilitation that needs to be happening, those funds more often than not are simply not there because the money is not there. Again, that's one of the things that IPART picked up on from our application, and the reason why they approved the special variation is to help us maintain a percentage of 100 per cent for the infrastructure renewal ratio.

The CHAIR: If it doesn't fully represent the cash you spend on upkeep of assets, is it a useful line item to have?

PAUL BENNETT: No, it's not a useful line item at all. Coming from a finance background and being in local government a long time, one of the ironies of local government is that we consider things to be assets that are actually long-term liabilities. Trying to maintain a line on the condition of those assets and what actually needs to be spent, when you have so many variables, makes the depreciation line item a nonentity. It really does need to come back to more of a condition-based assessment of whether the overall condition of a group of assets is better or worse than it was previously, rather than trying to provide some straight line or even a depreciating value methodology. It does not truly mean anything to the local community. They are only going to judge it based on the quality of the asset that's being delivered.

RAMI ABU-SHAQRA: I'll just briefly add to that. In a period of high inflation, the replacement cost is usually not fully represented by the historic depreciation. Depreciation is based on, again—despite the valuation that happens every now and then, in high inflation, where you need to spend material and contractors on the thing at the time, what you have reserved in terms of non-cash depreciation in the last two years was basically not really adequate enough for that to happen.

PAUL BENNETT: The bridge would be a great example of that. If we built a bridge five years ago that cost us $100,000, it is now going to cost us $300,000. We're only depreciating $100,000, not $300,000.

The CHAIR: That's all the time we have for this session. I thank you both so much for making time to give evidence to this inquiry. If there are any questions on notice, the secretariat will be in touch with you and you'll have 21 days to answer.

(The witnesses withdrew.)

Mr ADRIAN PANUCCIO, General Manager, MidCoast Council, before the Committee via videoconference, affirmed and examined

Mr PHIL BRENNAN, Acting Director Corporate Services, MidCoast Council, before the Committee via videoconference, affirmed and examined

Councillor CLAIRE PONTIN, Mayor, MidCoast Council, before the Committee via videoconference, affirmed and examined

The CHAIR: Good morning. Welcome to our next witnesses. Would any of you like to start by making a short opening statement?

CLAIRE PONTIN: Yes, I'll do that. Thank you to the Committee for the opportunity for us to appear before you today. I'm going to start by giving a bit of context for MidCoast Council and then move on to some of the issues we'd like to talk about. MidCoast Council is an amalgamation of three rural councils that were merged in 2016. We were merged again with the local water utility a year later. We were amalgamated because two of the councils were struggling financially, and we still are. Amalgamation has not fixed the underlying issues. Financially, we are fine in the short term. Our cashflows are adequate to cover our day-to-day costs. We're managing our restricted funds properly, and we're addressing long-term financial sustainability.

But we're struggling to maintain our $5 billion asset base. Addressing infrastructure renewal and backlogs is our biggest challenge. MidCoast Council is spread over 10,000 square kilometres. We have 195 towns and villages, all of which require services of some sort. MidCoast has a population of 98,000 people and over 3,600 kilometres of roads, 11 libraries, nine swimming pools, seven ocean pools and swimming enclosures, four admin offices with a total asset value of over $5 billion. We're also a water utility and have six separate water schemes, 14 sewer schemes and over 2,400 kilometres of pipeline. We have 55,000 rateable properties with over 11,000 of these, 20 per cent, receiving pensioner rebates. We have the oldest demographic in New South Wales, with 33 per cent of our population over 65 years.

Our main issue this morning is to mention that the rate peg hasn't worked for us. Recent changes to the IPART formula have attempted to address some of these shortcomings. However, MidCoast Council and many regional and rural councils are still dealing with the historical impacts of rate pegging on asset renewals and the provision of services. Evidence that is not working is seen in the high rate of SRV uptake in recent years, with surveys indicating many more planned in the near future. It is designed to protect ratepayers, but it has an accumulating adverse effect on asset maintenance which eventually must be addressed through SRVs. Rather than working to stop bill shock, it promotes it in the longer term.

In our council it has led to decades of deferred asset expenditure and an increasing backlog. We are still suffering from the impacts of forced amalgamation. While there are economies of scale and opportunities to be more efficient, these take time to realise. One size doesn't fit all: metro, regional and rural; large and small; coastal and inland. Councils all have different cost and revenue drivers and constraints. Some of the issues we would like to touch on today are cost-shifting, which does have disproportionate impact on us due to low ability to pay; rates exemptions, and we can discuss some of those examples; and the inequities in the formula for allocating Financial Assistance Grants. Thank you for that. We're happy to take your questions.

The CHAIR: When you're answering questions, could you talk as directly to the screen as possible. Some of the audio was a little challenging at times, but the good news is we've got it all on *Hansard*.

Dr AMANDA COHN: Thank you for making the time to give evidence. I am particularly interested in your relatively unique position, compared to some of the other councils we've heard from so far, as an amalgamated council. The previous Government, in 2016, did provide some one-off funding to the councils that were forcibly amalgamated to help cover some of those costs. In your opening statement you alluded to there being an ongoing financial impact of that. I was hoping you could expand in more detail what some of the ongoing financial impact of that amalgamation is and what support you might need in addition to the one-off that was provided in 2016.

ADRIAN PANUCCIO: I can probably answer some of that. MidCoast was merged in 2016 from three entities: Greater Taree, Great Lakes and Gloucester Shire. Council received a one-off $5 million startup contribution on account of the merger. Comparatively, metro councils received $10 million. Argue whether that's sufficient or not—that's a separate discussion. But there's certainly an inequity. Council than merged again, in one way or the other, with MidCoast Water in 2017. Council didn't receive any additional financial assistance on account of that. I've advocated in the past that it needs to be at least, I would have thought, the same as the metro councils.

As my mayor correctly pointed out, MidCoast is over a large area of 10,000 square kilometres and we're quite diverse. We have the second largest road network in the State. We are a group 5 council. Our road network is 3,600 kilometres, half of which is sealed, and our asset base is $5 million. Comparatively, group 5 councils have their own transport network of 1,280 kilometres. There's significant disparities even within the group 5 level of councils. We're different. We have challenges as a merged council. We're still in the process of ensuring our systems and policies align adequately, and that's an ongoing piece of work. As far as financial assistance, that pretty much ended on [inaudible]. There were some grant opportunities available, but that largely ended on the day of the merger, with the $5 million grant.

Dr AMANDA COHN: We've heard from a number of rural and regional councils about having to, essentially, show leadership and step in when other services, typically funded by State and Federal governments, haven't kept up with community need. I've heard a lot of feedback from your local community about health services that haven't kept up with community need in that region. I'm interested in what impact that's had from a local government perspective. Has there been additional demand on the services that you provide to try to fill that gap?

CLAIRE PONTIN: We haven't stepped in, and we don't provide the services. We're just unable to do that. The community is suffering. We have, as I mentioned, the oldest demographic and one of the poorest performing hospitals in the State. We have been seeking additional funding for that. There was increased funding given in the recent budget, but we have a shortage of GPs, we have a shortage of allied health professionals and we have shortages at the hospitals. It is very challenging for all the community.

The Hon. SCOTT FARLOW: We've heard from a lot of councils in terms of the rate determination and how that's just one part of the picture. A lot of it comes down to fees and charges. When it comes to country councils in particular, those fees and charges are capped. There's not really much of an opportunity to be able to levy some of those fees and charges. I'm just wondering, MidCoast Council, is that one of the issues that you face as well?

CLAIRE PONTIN: I might lead off on that and see if my colleagues want to add to it. We have many charges, obviously; most councils do. We have increased many of them by the 5 per cent, similar to the rates this year, but there is a whole batch of statutory fees which are not indexed. They are the ones that we can't put up and we haven't put up, and many of them have not been changed for decades, I believe.

ADRIAN PANUCCIO: Yes. The challenge with statutory fees is that those costs get passed on to the general fund and the rate cap won't cover it. An example would be DA fees, I suppose; that's a statutory fee. It costs a lot more to assess the DA in relation to the fees that we are actually collecting. There's a lot of work involved on DAs. If we can't pass those on, there's a real cost to the community.

The Hon. SCOTT FARLOW: Do you have an assessment, particularly for DAs and the like, as to what the differential is between what you're charging, in terms of the fees, and then what it costs council?

ADRIAN PANUCCIO: I don't have the actual amount, but I can take that on notice. We can try to provide some figures.

The Hon. SCOTT FARLOW: If you could take it on notice, that would be great. The other thing I think you make a good point of in your submission is with respect to the rate peg and what sort of community expectations that builds. I think you make the point that, effectively, the community's view because of the rate peg is, "This is what the cost of services are actually going in." You make a point quite well that that might be the case in an average but, realistically, you're forced into this position of special rate variations because the cost of services and the impost on a council like MidCoast Council are significantly greater. I'm just wanting to understand from you the sort of discussions you're having with the community about the real impact of rate peg, and what the real understanding should be from the community in terms of what council can provide, and sometimes those tough decisions council has to make about how they expend their resources.

ADRIAN PANUCCIO: What council can and should provide should be determined in accordance with the integrated planning and reporting framework, first and foremost. The rate peg doesn't actually capture the real cost and true cost of running the business. The discussions with the community—we received a whole heap of community feedback on this year's DPOP and our rates. An element of the community weren't supportive of even adopting the rate peg, for instance, because they see that as the additional cost of providing the same or additional services that we do provide the community. It's only when you have a real, true cost of future projections that you're able to adequately budget for and apply an equitable rate.

The Hon. SCOTT FARLOW: I know my colleague the Hon. Sam Farraway has many road questions to ask as well, but I think you make the good point in your submission in terms of the metre road length per capita calculated. There's a stark contrast between MidCoast Council and other councils. I'm just wanting to hear from you in terms of whether the community has an appreciation of that, in terms of your responsibilities when it comes to local roads?

ADRIAN PANUCCIO: We try to, as much as we can. The council recently adopted a road strategy on 1 May which outlines the challenge not only for MidCoast Council but also statewide and nationally. The roads issue isn't—we're not isolated in that. We all know the significance of weather events over the past two years. Metro councils are also facing the same challenge. For MidCoast, though, each of our residents contributes to 38 metres of road. Compared to the group average of each resident contributing to nine metres of road, there are massive disparities even within the group.

If you look at rating income per kilometre of road, we're generally $25,000 per kilometre of road. But you have some metropolitan councils—I'd talk to perhaps North Sydney or Waverley. North Sydney received—just rating income per kilometre—roughly $325,000 and Waverley are $375,000 per kilometre of road. There are massive disparities, and what we would say is that we endeavour to educate our community. We go out to the 15 parts of our community twice a year to have a conversation with them, and we always talk roads. For MidCoast, roads is always at the top of the list. When you have the second largest road network in the State and a relatively low—comparatively—rating base, it's going to be an issue. We're always having those conversations.

CLAIRE PONTIN: If I could add to that, I think the part of it that the community doesn't understand—and we have tried very hard to inform them of this—is they see us maintaining roads, and we put money regularly into maintenance for roads, but because our roads are in such poor condition because they haven't been adequately maintained over the last 50 years, it's going to cost us an awful lot more to bring them up to acceptable standards than they would have had we been able to put regular money into them all through that 50-year period. That's the challenge we've got at the moment. It's got to the stage where we have to fix the problem and the residents just say, "Why haven't you fixed it already?" It's a very complicated discussion to have.

The Hon. SCOTT FARLOW: I was going to leave the roads question for my colleague the Hon. Sam Farraway, but I think he might have dropped, so I might just ask these and he might have some further ones if he gets back online. With respect to that roads funding, how important is it for you—the grant funding—to be able to help you in terms of being able to look after, maintain and improve those local roads?

ADRIAN PANUCCIO: We rely heavily on grant funding. What we would say is that we prefer grant funding not being competitive, being equitable across the State having regard to particular cost indexes. So we welcome—per kilometre distributed across relative LGAs; that's somewhat helpful, but there are other cost factors that apply that's unique to MidCoast and many rural or regional councils. When you have networks such as ours and such as [inaudible], it may not just be per kilometre. We do look at untied grant opportunities to maintain our network, give us discretion as to where those funds will be spent[1].

The CHAIR: We might move to Government questions. If the Hon. Sam Farraway jumps back online, we can throw to him also. Thank you so much for appearing today, MidCoast Council. I wanted to ask you a more general question. In terms of councils with historically low rate bases, do we need to do more to allow these councils to catch up, or can they just go through the SRV process?

CLAIRE PONTIN: I think that there is a need to address it. It has been the rate peg that's caused that historical problem to accumulate. We note that there are an awful lot of councils going through an SRV process. We haven't got to that stage yet. We've had a recommendation that we should, but we are not in a position to be able to pursue that and think that there's a lot of work that we need to do internally before we get to that stage. I would advocate for injection of funds to rural councils who are in this position, who have such a large network of roads for us on the coast that have been very badly affected by the recent rains. That makes it even harder for us to catch up. I think there's a case to be made that, given the inequalities in funding over the decades, that a catch-up funding of some sort would be beneficial and very much needed.

ADRIAN PANUCCIO: I would support that. I would also add the uniqueness of regional and rural is we don't have the benefit of different funding streams that may apply to metropolitan councils. We can't charge people to park in our towns like a metro council can. We can't generate that income. It just needs to be fair across the area. I've heard other speakers talk about looking at cost indexes across different categories of councils and while we are a group 5 council, there are differences even within group 5. I think that's where we needed to be headed. We need to be classifying councils as much as possible like for like, so that we can meet the challenges and increase some revenue.

PHIL BRENNAN: If I could just throw in, I probably have a more general comment in relation to your question. Yes, the rate peg has had an impact across 50 years. The question around should there be a catch-up or an addition, let's take into account that decisions were made by those councils over those previous times. They deliberately chose not to take that rate peg when it was available. There were good reasons at the time why councils made that decision, but the cumulative impact is being seen today. I would think, within the confines of what's available today, is full use of their IP&R requirements, particularly the long-term financial planning, together with a modified or much easier process to go through an SRV process or through the rate pegging, tied to very strict compliance with IP&R.

[1] Email from Adrian Panuccio, MidCoast Council, clarifying evidence given at the 27 June 2024 hearing

So rather than "We're now going to reset the base and here is an additional amount of money to catch up on what has been forgone", it's "Here are the confines in which you can now start to get back on track." In a conversation we had many years ago the director of IPART said, "It took you 40 years to get into this situation; you're not going to get out of it with one special variation." It is a long-term issue to get out of, but there is probably more flexibility required in the rate peg area if it's to go forward to allow that to occur.

ADRIAN PANUCCIO: Certainly the principle that additional payments to the regions would allow them to catch up would be supported by MidCoast.

The CHAIR: If we resettle councils to a baseline that might better capture the services and costs that communities expect, do you think the new IPART rate methodology would keep those councils solvent, absent any major crisis?

CLAIRE PONTIN: That has certainly been a big change for us. We were able to charge 5.2 per cent this year because we've got the population increase. That's one of the reasons why many residents have actually reacted to it—going back to a previous point. We had a submission of 600 signatories complaining about the 5.2 per cent increase because we have trained them to accept the 2.5 per cent increase. I think the IPART changes to the rate peg formula are likely to help, but it's missing out on that.

ADRIAN PANUCCIO: While it will help, it also doesn't take into account other cost indexes or issues, like the cost of construction. We have lots of construction contracts. It doesn't take into account that. It doesn't take into account the cost of wages. The population growth factor would help those councils that are growing, but when you're rural or regional you have populations that are potentially even declining or growing at a much lesser rate. While it is helpful, it is just one factor. There probably should be other factors that need to be looked into.

The CHAIR: You mentioned construction costs. We have certainly heard a lot about that so far this morning and yesterday, including the cost of road materials. Do you currently get a good deal through the procurement process that you use? Is there any way that the Government can examine procurement to allow councils to get a better deal?

ADRIAN PANUCCIO: I can't answer whether it's a good deal or not; what I can answer is that it's important that we have our guidelines and governance around procurement. That needs to happen. Perhaps more reliance upon panels determined by the State that councils can tap into on some of those larger contracts. That might prevent some [inaudible] councils the administrative burden of tendering for a certain scale of works that they may not necessarily need to. That could possibly help. That said, when you have smaller scale work, you still need to consider and assess, on merit, local providers as well. Certainly for the larger ones, if there is an ability to increase the scope of preapproved providers, that would assist, but particularly for rural and regional you also need to allow, in a competitive sense, those providers to tender and be assessed for works.

CLAIRE PONTIN: The other thing I'd add to that is, over recent years, we have seen quite a lot of road funding, through grants, become available, which is fantastic. It's been very useful, but that has increased the competition for the contract companies out there, and we have struggled at times to secure suppliers for our roadworks because every other surrounding council is trying to grab them. I'm sure that has impacted on the costs.

ADRIAN PANUCCIO: If you have a large bridge program or grants for bridges and you've got half the State applying for new bridges, it's not great in a competitive environment. We tend to apply for what we can deliver, as much as we can, and that's why we would advocate for untied grants, so we could actually plan the work in the future as opposed to just trying to do it within a short time frame and tooling up for that particular purpose.

The CHAIR: I note that you have two recommendations in your submission:

Recommendation 1 – Best approach – Abolish Rate Capping

Recommendation 2 – Second Best – Redesign Rate Capping

What alternative safeguards would you suggest would be appropriate to ensure that any rate increases are affordable for communities?

ADRIAN PANUCCIO: With respect to item 1, if rate pegging is abolished, the IP&R framework ensures the process that, one, we engage and, two, council is accountable. That's first and foremost, but as far as safeguards, there will be nothing preventing IPART or government announcing, for a group of councils, what's the appropriate rate or rate peg. If that's made publicly available, then it's up to councils either to follow that or not. If councils—I'm not going to say unjustified large increases to their rates. But if the Government can hold council to account by looking at its financial indicators, in circumstances where councils up their rates substantially and their financial indicators are moderate or modest, that's an indication that it's unjustified. Likewise, if you've got a council that does not increase its rates at all and it puts it in a deficit position, that's an indicator, as well, of where the Government can step in and hold them to account[2].

The CHAIR: Do you think we could better customise the rate peg for each council or provide a peg in a range to give a greater element of flexibility? Would that help?

ADRIAN PANUCCIO: Yes, 100 per cent. Ideally, you could develop a cost index for a group of like councils and then provide an additional range—be it 2 per cent up to 5 per cent or whatever it is—that allows the council to engage with the community and be held accountable for works and what it sets out to achieve with respect to that additional rate. So, yes.

The CHAIR: How do we then ensure that council will set a rate that the community can afford to pay?

ADRIAN PANUCCIO: Council determines its competing priorities through its IP&R process. More reliance upon that IP&R process determines that the council allocates its resources appropriately and according to what the community is after.

The CHAIR: Leaving aside the rate peg for one moment, are there other ways that you would suggest we could look at to ensure the financial sustainability of councils?

ADRIAN PANUCCIO: Yes, there are a couple. Before I get to cost shifting, rating exemptions could be looked at. For us, for instance, we have—not an influx, but we have quite a few manufactured home estates. Manufactured home estates don't help us in a rating sense or an income sense because it's essentially charged upon one rateable property whereas we might have a couple of hundred residences on those premises, and we can't charge rates for that. So that's looking at the rating exemptions. Secondly, when we look at independent retirement living, for example, some of those establishments are run by charitable institutions. Again, due to rating exemptions, we can't rate those properties, so there is a drop in income. Pensioner rebates is another category. We've got 11,600-odd properties that are subject to the extra rebate. It costs approximately over $2 million a year. There's some areas there.

Probably something out of the inquiry that we would hope it would be able to comment on, at least, is the impact of cost shifting on local government. Without getting too much into the emergency services levy, that is a burden for the council. It was only yesterday when the council had to determine a matter on an SES facility in one of our 95 villages[3]. There's grant funding available to construct the facility but the council has to give up land or assets to construct. SES and emergency services levy are worthwhile causes, but they shouldn't be put onto local government. The other obvious one is waste levies. Simply, we're not getting enough money back from the waste levy to justify the amount that we expend.

The CHAIR: Are there other opportunities for your council to raise revenue, say, separate from that rate-pegged income?

ADRIAN PANUCCIO: Yes, definitely. There's [audio malfunction]. So internal efficiencies—this council's looking at a business transformation program at the moment where we're looking to generate savings. We've projected that in our long-term financial plan so they're realised. Service reviews—a great thing mandated by the State, but we're doing it anyway. We're looking at all of our services and where we could be more efficient and respond to the community. Looking at our property portfolio—council's convened to establish an asset advisory committee that assists council on its property portfolio and various investments[4]. Yes, there are opportunities and councils need to explore those. My view is that council needs to at least explore all that before it goes down an SRV path, in any event, because you need to ensure that you've been as lean as you possibly can and you don't pass a burden onto the community before your own house is in order.

[2] Email from Adrian Panuccio, MidCoast Council, clarifying evidence given at the 27 June 2024 hearing
[3] Ibid
[4] Ibid

The CHAIR: We've heard a lot of evidence about the issues being with the general fund as opposed to water and wastewater. I note in your submission that when you received MidCoast Water that they carried significant levels of debt related to major infrastructure projects. How much of a problem or a challenge has that been for your council?

PHIL BRENNAN: As the Committee would be aware, the water fund is externally restricted, so what comes through those funds, it funds its own operations. Because of the high level of debt that former MidCoast Water had, what it's done is probably delayed the continuation of capital works programs over probably a 10- or 15-year period. The water fund, they were paying enough to continue with operations. The debt is coming down and has been for a number of years—and will continue to do so—but the ability to renew assets at the pace that would be desirable has been delayed while that's occurred. The water fund is now coming out the other side and we are now starting to ramp up in the capital works space again. But there was a need for a, I suppose, breather for a few years while they maintained their financial sustainability through that. But that's also not uncommon in those very heavy infrastructure funds where the capital expenditure is large and long.

The CHAIR: In the latest AEC report for your council it says that you've done well to keep your cash position relatively stable, but that you're not investing in long-term asset renewal as a result. Is that a fair assessment?

ADRIAN PANUCCIO: Yes, we don't disagree with that. The reason we commissioned the report is to have someone look at it independently so we could try to improve the situation.

The CHAIR: What can you do to change this or improve this, as you say?

ADRIAN PANUCCIO: The things that we're looking at are getting the most out of our property portfolio, the most out of our investments, being more efficient and trying to generate more cash.

The CHAIR: In terms of your rates, you've got the sixth lowest average rate for residential and fifth lowest for business rating categories compared to neighbouring councils. As per the OLG data for 2021-22, MidCoast Council is the lowest for farmland average rates and second lowest for domestic waste management charges amongst the group 5 councils. How did this come about? Is there opportunity here?

CLAIRE PONTIN: I mentioned earlier that we have this year put a lot of our fees and charges up more than we have previously. I think that one of the fundamental issues facing this council is the ability of residents to pay. I mentioned that we've got the highest demographic in New South Wales. We have 20 per cent of our ratepayers on a pensioner rebate—fixed income. Putting up rates this year by the IPART's recommended amount of 5.2 has created a bit of a storm out there because they can't afford it. The claims are that they can't afford it. The prospect of SRVs in the future is something that we all said we'll need to consider, but there's a huge reluctance because there is knowledge that the community cannot afford to pay.

PHIL BRENNAN: I was just going to add to that. The reason why is it's historical. We have inherited the rate structures of the former councils. They would've been low within their categories, so you bring it together and we don't get that uplift. It's reflective of what was there in the past.

The CHAIR: You have somewhat pre-empted my next question. Is there anything that you can do to change that rating structure or that you would suggest could be done to change that rating structure to improve things somewhat?

PHIL BRENNAN: I'm not sure that there's a lot. Council went through the process of harmonising its rate structure, which it was required to do by legislation after the protection period. We've tried to keep that at a level where it is still affordable, but there were swings across the various categories and subcategories. Without major increases in the level of rates, realistically we're not going to move up the comparison with the other councils in our category. Realistically, the only way to increase or be higher up that list is more rate income coming in. We can look at—and council will need to in the next term—the rate structure and see where that burden is falling as to whether we are underrating or overrating any category within our rate structure. As far as where we compare with the rest of our category, that's a function of how much we actually levy in rates.

The CHAIR: Taking into consideration all you have said about the affordability issues within your community—and, obviously, the latest increase and the level of opposition or concern that has created amongst the community—what other avenues have you looked at in order to raise your revenue without causing that hardship? I know you have mentioned a couple of other examples. Are there any other opportunities that you would suggest to the Committee?

ADRIAN PANUCCIO: As far as sources of revenue, pretty much 30 per cent of our revenue is generated through grants. Being mindful of when grant opportunities arise and that we apply for grants that aren't going to hit us with a future financial burden, so they're more sustainable—we've got to be more cognisant of that.

We need to ensure that we manage our assets sustainably as much as we can—spending our rating dollar more wisely on our infrastructure so that the burden isn't way down the road. They're probably two of the other ones I'd mention.

The CHAIR: I note part of your strategy to get back into surplus includes pricing fees and charges so they at least cover costs. Why were they ever below cost recovery?

PHIL BRENNAN: Once again, it's historical. We've started with the level of the fees that were applied by the former councils. We tried to harmonise those to an extent. The council in this last budget period has taken a very strong stance on it. We've had staff going through the process of justifying cost of service—and is the fee actually recovering the cost of service? There have been some significant shifts across our fees and charges schedule for the upcoming financial year to make sure that if a fee is a full-cost recovery fee, it actually does that. Similarly, where there are opportunities with our fees and charges to make a profit on some of those areas, we are doing that—where it is something that's required by a person that is obviously going to have benefit from it, but they're paying market price for it; where it's statutory, we've got to deal with that; where we've determined that it's a full-cost recovery, we're making sure that it does; and where it's something that we're competing with the private sector, that we're actually getting a return on our investment. It has taken us a while to get to that just through harmonisation.

The CHAIR: Thank you. Finally, in terms of the SRV process, I noted at the start and you mentioned that you were entertaining the idea of an SRV and that that's perhaps not on the table any more, or off the table for a bit. Do you have any suggestions around that SRV process and how, if possible, we could streamline that or improve that?

ADRIAN PANUCCIO: In our submission, we briefly mentioned the Victorian SRV example where it's more council led as opposed to reviewed by an external body. So in circumstances where a project applies to a particular part of the LGA, council could consult with that part of the LGA similar to like it would for an IP&R process. If there's significant support, or adequate support, then it should be able to run with that process as opposed to going through the whole gambit of what's required under SRV. What we tend to forget is not only the applications that were made by a council that actually start a process—which is fine because starting the process is an engagement—and then, similar to perhaps the Victorian example, go out to community. If you don't have enough support or you don't generate support because you haven't taken it to council as a body politic to say, "Don't proceed with it." Giving more flexibility or discretion to the council on particular projects being generated in [audio malfunction].[5]

The CHAIR: Thank you so much for making time to give evidence to this inquiry today and, again, for your submission. The Committee secretariat will be in touch with you for the questions that were taken on notice, and you'll have 21 days to respond.

(The witnesses withdrew.)

(Short adjournment)

[5] Email from Adrian Panuccio, clarifying evidence given at the 27 June 2024 hearing

Mrs TONI AVERAY, General Manager, Uralla Shire Council, sworn and examined

Councillor ROBERT BELL, Mayor, Uralla Shire Council, sworn and examined

Mr MICK RABY, Director Infrastructure and Development, Uralla Shire Council, affirmed and examined

The CHAIR: I welcome our next witnesses. Thank you so much for making time to give evidence to this inquiry today. Would any of you like to start by making an opening statement?

ROBERT BELL: As the Chair will note, Toni and Mick have just come to make sure I don't make a complete mess of this, and I appreciate their attendance. Good morning and thanks for the opportunity to provide information to the Committee. As I said, my name is Robert Bell and I am the Mayor of Uralla shire, which is a small rural council located in the Northern Tablelands, supporting 6,150 residents. I am also a qualified engineer and have worked in local government for over 35 years, including in Tamworth. Uralla has provided the Committee with a submission which touches on the subject matter being considered by the Committee. Members of the Committee will note that I've taken a slightly different tack. I am happy to answer questions that members may have.

I guess my first point is that rate pegging is not the primary cause of our financial issues; rather, it is the huge restriction on our council to respond to the pressures caused by the Federal and State governments. I will go through the list. Number one, the Financial Assistance Grants from the Federal government are approximately half of the 1 per cent that was promised to local government. Two, the return on the Federal government fuel tax to roads is less than 50 per cent—in fact, probably somewhere between 30 per cent and 40 per cent. Three is the increase in pensioner rebates due to an ageing population, combined with a failure to increase the State government contribution. Four is the increase in compliance costs for audit; audit, risk and improvement committees; and environmental and regulatory framework. Five is the increase in emergency services contributions and other emergency services obligations.

My second point: I strongly agree and support the submissions made by the Country Mayors Association of 29 May 2024, Local Government NSW and the Local Government Professionals of 26 April 2024. Point three: I am a huge advocate for removing the red fleet from our books. It no longer makes any sense. This Committee probably will have heard a number of examples, but in some ways I blame the old Shires Association. I know when the legislation was drafted, they said you've got to keep control. We now have a thousand members of the Rural Fire Service that wear white shirts and us fellas out in the bush that wear yellow shirts. The council has no control. Trucks go where they need. It's a nonsense, so the sooner that's removed, the better.

I am also supportive of a detailed review of regional roads. I do not expect all the roads to be reclassified again. I was very concerned, as an ex-engineer, to see that we were having a discussion with Transport for NSW who are never going to support taking regional roads up to the same KPIs that they required for State roads. I think we lost the argument about how we can fix that. We still have one road that we were more than happy to discuss with the Minister for Regional Transport and Roads when she visited our shire, based mostly on renewable energy transport, not so much on whether we think our regional roads should be put back. Again, I go back to the old shires association. The Minister for Roads at the time invited the president of the shires association in for a cup of tea and said, "Look. We'd like to give all of these roads to you. You know where they are. We'll give you a bit of money each year and you can fight for improvement money. That would be wonderful, wouldn't it? Yes, thank you very much," and he walked out. That has cost local government in regional areas millions.

My fourth point is that council is often seen as the last chance for community support such as aged care, community services and community transport. Uralla Shire Council provides all these services. The fundamental issue for us is, basically, to provide the best service possible on a break-even basis, not to make money. As I say, the issue for our aged-care facilities is that that's probably the number one issue for council and the community, that we maintain a high level. The fifth point is renewable energy. Uralla is the centre of the New England Renewable Energy Zone. We expect $10 billion in capital expenditure. However, we have to fight for 1½ per cent and are then being directed where we spend it. There is pressure on housing, transport, materials and environment, and so it goes on. The thought of 6,000 people coming to our region in employment—very few will bring families. Most of them will live in accommodation. We've already seen graphs provided of rental accommodation going to zero and house prices going up by over $150,000. They are all being tracked formally rather than just anecdotally.

The sixth point is waste management. The community expectation and compliance regulations combined with the challenges for recycling are a huge financial impost on council. Council is in preliminary discussions with the University of New South Wales and the University of New England to look to recycle solar panels. We already have 10,000 damaged panels stored in our shire, and that's only the first solar project. If we can find a way to make that a viable industry, then that is what we will do. The seventh point is water and sewer. Council provides both water and sewer reticulated services for Uralla and Bundarra. Uralla is a town of 2,500 and Bundarra about 400. To meet the recent upgrades, main repairs and increasing compliance requirements, we took the unpopular step to increase access and usage charges above CPI. This, however, highlights how much easier, with full public consultation, this process is rather than having to go through a special rate variation required for general rates. We took the fall, and we believe we are heading in the right direction.

Point eight is depreciation, which is seen as a wonderful tool to maintain current assets and ensure funds for a replacement vendor service. We need a mature debate regarding infrastructure-funded grants and items that may not be replaced at the end of useful life, and robust asset management plans are key to this. As an engineer, I am frustrated that we can get $3.5 million for a new bridge and the accountants can tell me that we already lost one-hundredth of that value in cash at the end of the project. I never understood that, and I am actually blaming my engineering colleagues for it. The other part that I then wanted to highlight is that I believe there are solutions for the State Government. The first one is—and I actually looked this up—you can ensure the grants commission refines its funding model for rural versus metropolitan councils. For those members who have read Professor Drew, he talks about horizontal fiscal equalisation—I had to look it up again this morning. Basically, city councils don't need the money they do, and we do. I am happy to have that argument with city councillors.

I did listen to one councillor from Waverley complain that the parking meters down at Bondi Beach weren't paying all their road maintenance costs. I can't tell you what I said to him after—basically, to remove the red fleet from council books. It's just like having a burr in your backside. All emergency services to be funded by the State Government; return pensioner rebates and library subsidies to their original level; review funding for regional roads, including reclassifications, where appropriate; rate State and Federal government land, including national parks and schools—and even forestry, which is an income-generating stream—appropriately; and allow council to include rate and electricity-charge relief in the planning agreements with the renewable energy developers, including EnergyCo.

The issue for Uralla shire is that the option to do nothing is no longer an option. Similar to the Federal Reserve, we only have one lever to pull. The only way for us to increase funding, without the grants process that we've been fortunate with in the last few years, is to increase our rates. All of our neighbours have had special rate variations. For the last 2½ years the council has been absolutely diligent, with our general manager and our director, to ensure that there isn't any waste. There's no fat on the bone. There are no areas where we thought we could improve efficiencies. We're at the stage now where, yes, we look forward to having robust discussions with the renewable energy developers. However, we can't put parking meters up our main street. We've only got two blocks in our CBD. I can't tell you what the locals would think of that. We have fees and charges now at a level that matches CPI increases. I guess, at the end of the day, as I say, we need a better way. Thank you very much for your time.

Dr AMANDA COHN: Thank you so much for coming to give evidence today and for that very comprehensive opening statement. Through this inquiry we've had a number of discussions about the broad range of services that local governments are providing, particularly the distinction between metropolitan and rural councils. I'm particularly interested to hear from Uralla because I understand that you provide an aged-care facility, which is a tremendous example of leadership in local government meeting community need where State and Federal governments are not providing that service. I'm interested to understand how the aged-care facilities are currently funded and provided, and what it would mean for your community if council was no longer able to provide that service.

ROBERT BELL: I might step through. When council first built the facility at Uralla, a 36-bed hostel— and we have one at Bundarra for nine beds. Now, I know it's old technology, but the one at Bundarra was set up as low care; the one in Uralla was basically set up as a mix of high and low care. I understand now there are much more distinct divisions that include dementia in our facility. The latest review we had suggested that we probably needed to get to 50 beds, around the challenges around providing full-time nursing care and how we manage that. Council's financial position has been to work every day to make it break even, not to make a profit. We don't draw funds out of it or anything put aside.

The biggest challenge more recently has been the confusion between State and Federal awards and when they might come into play. Staff see something on the TV that says they're all getting an 18 per cent increase and then find out that that's been put back. Council have actually twice now guaranteed that they'll be paid the money, and whenever it's all sorted out we'll sit down and finalise what the final figure should look like. Attracting staff has obviously been a challenge. If you can imagine, to bring somebody from an agency in to provide nursing care on the weekends is about $5,000 a weekend, which makes our staff, who work really diligently 35 hours a week, anxious about that.

But at the end of the day, the community absolutely want the facility. Most residents have either had a family member in the facility or their wives or their partners have. Even though we're only 25 kilometres south of Armidale, it's amazing how much easier it is for people to travel if their family member is in the town, rather than having to go the 25 kilometres. People are talking about once a day versus once a week, which surprised me about how much care people need. That makes it part of the community's area. Our friends of McMaugh committee, a huge fundraising group, have been very supportive from day one. One of the fortunate things for us is that we have outstanding staff who are absolutely committed to it. I'll be honest: It's not the sort of environment that I could work in, but those people do an amazing job. There was a second question, Dr Cohn, sorry.

Dr AMANDA COHN: I think you covered both in that answer. I also wanted to ask about the renewable energy zone, which you mentioned in your opening statement. It's obviously providing a huge benefit to the whole State. You described really well the pressures that the renewable energy zone is putting on your community and on council assets. What support do you need, either from the State Government or from the developers, to make it workable for your community?

ROBERT BELL: Where do I start? Twenty years ago, we all would've liked a really good plan of how this was all going to fall into place. That's my opening statement, and that's non-political. The issue that I have taken, and that our council has taken, is let's not argue about renewable energy not coming or coming, or whether we think we should have gas or nuclear or how we do it, but ensure that the benefit for our community is the maximum that we can expect. Together with the members of the Coalition of Regional Energy Mayors, we sought to have that 1.5 per cent. At the time, if we look back through our 7.12 charges, our capital investment charges were around 1 per cent. That has now been transcribed by the Department of Planning into $850 per megawatt for solar and $1,050 per megawatt for wind turbines.

The reality is that the challenges around transport will be huge. For a wind turbine, we're talking eight oversize vehicles, including the three that have got the actual vanes on them. They're now talking between 60 and 80 metres. One of the wind farm developments wants 100 kilometres of internal road. Assuming they're only four metres wide and 200 millimetres thick, you can imagine the gravel that's involved. Not only are we seeing the actual items coming into site, but each turbine might need between 500 and 800 cubic metres of concrete, plus all of the gravel. All of that has to come from within our region.

The positive has been that, to date, we have already got 400 megawatts produced from a solar farm with one million panels on it, and they're going to stage two later this year, so we basically have zero unemployment. One of the things, if you asked me 15 years ago about the challenge of living in Uralla, it was about youth not having positive things to do. We don't have that issue. Anybody that wants employment can find it, including if they want a job with Uralla Shire Council. I'm more than happy to talk to them. The other part is, as we saw at the end of COVID, when families were looking to move out of Sydney, we went through a period where you couldn't buy a house. We went from being a really affordable market to probably adding about $150,000 to $200,000 on that market. That has made it so that instead of getting families, we're getting single male or female workers, so that's a challenge.

We have seen some advantages in the region, because we had capacity at Tamworth with their flight training centre, which basically closed down, and also with the University of New England, where the number of full-time students has diminished, so they had residential accommodation available. We have seen a lot of that taken up. We're now going through a process where, if a company wants to develop, if you like, a donga or a workplace thing, we try to find some sort of legacy program so that when they do the development, at the end of that time, if they take their buildings away we're left with water, sewer, kerbs, gutters, footpaths and the like that we can then reprocess for affordable housing. We're trying to have those discussions with developers. There is some interest but, again, the timing's a challenge where they say, "Well, we want to start work in two years time", but we want to work through this process.

Council are doing a lot of work in that space. We have released an RFQ for a housing review, which goes back to one of the frustrations that I have. Because we had very little population growth, when we applied originally for funding to do a housing study, the Department of Planning said, "Well, you've almost no growth", to which we said, "Well, we're about to get 6,000 people in the area", but we still didn't match their funding guidelines. We've been able to fund that through EnergyCo, through the $250,000 per annum that they've offered to do. We had those discussions to say, "We need to do that."

Our staff—and we've now also got a strategic planner to review the scoping reports that have come in to council. We've had two scoping reports in the last week come to council. We expect that number to increase. We've had probably 10 to 12 developers speak to council, so when I show you a map of where the developments are currently on the books, that's probably a third of the reality of what we expect to face. It's fair to say that the map I have has been coloured in by—it looks like the whole shire's coloured in with either wind or solar. It's not quite like that, but we expect somewhere between 400 and 500 turbines in our shire. We've already had approval from the Independent Planning Commission for 32. We think that's only the start of the process. We expect with the solar farm, as I say, probably another million solar panels.

The issue for us, and for me as the mayor, is that I just want to see us get a fair shake-out of how this works for our community. If we can walk away at the end of it—because we know that 6,000 jobs will come become 60. It's not like mining progress where you set it all up and then you've got ongoing work for the next 30 years. We need something that's positive and that we can look into the future and say, "This is how we're set up. We know that there'll be funding coming under the voluntary planning agreements"—although I'd like to take the word "voluntary" out. I'd like to see the State and Federal governments put their hands up to say, "If we're going to spend all this money on renewable energy, then what projects can we bring to your shire? What projects can we bring to your town?"

Uralla is in a fortunate position at the moment. The original solar farm was negotiated with landowners and it's not right in people's faces, so apart from having to wait a bit longer at the pub for a meal and, as I say, the accommodation issues, we haven't seen the angst, but if you go down the road to Walcha, I can assure you that it's a very hot topic, where they're talking about 100 wind turbines. We're just on the edge of it—including a council meeting that they had last night. There is some of that pushback. I can manage it better in our community if I can say to people, "This is what's coming. However, this is the advantage you'll get and we think, as a community, we'll be better off playing our part in the transformation." I was pleased to hear the Minister for the environment and energy say that she didn't want to be the Minister that turned off the lights. None of us want to do that.

Dr AMANDA COHN: That's answer was very comprehensive. If I could just ask a very quick follow-up and then I will pass to my colleagues—this one you may well want to take on notice or pass to your senior staff. I'm interested if any work has been done to quantify that impact of the renewable energy zone. You mentioned things like the impact on your road assets and on waste management. Have you actually done any calculation of what that quantum is?

MICK RABY: I've got some fairly accurate, but I would call anecdotal, input. Our experience with the existing solar installation, which is about 980,000 panels—approximately 10 per cent of the panels have to be scrapped at construction stage. They'd either come off the ship as broken, or they're faulty, or they're damaged during the installation process, so that's 100,000 panels from stage one of a three-stage project, of which there will be possibly 10 other projects of similar sizes; so 100,000 panels. I'm not confident there is, for example, an appropriate recycling industry to deal with that level. We had been doing some research ourselves, working with the University of New South Wales, for example, who have a professor and post-doctoral students working on recycling techniques.

One of the issues with recycling solar panels is that all the good stuff is stuck to the glass and nobody's found a way of getting the good stuff off without breaking the glass and that sort of thing. The University of New South Wales appears to have cracked that problem with a low energy type of recycling process, but it's only capable of doing single panels at the moment and we're going to host them to come up and set up a sort of test facility at Uralla. Hopefully, we can modularise that and expand it, if it works et cetera. There'd need to be a white horse investor come in to fund the whole thing at some point; but if it works, all that sort of thing's doable. That's the first thing I'd say about the recycling.

There was also, during the construction phase of that single installation of 990,000 panels, for about a seven- or eight-month period there were probably two tipper trucks of cardboard waste coming off the site. That couldn't be dealt with through our facility. There are certainly opportunities there. I guess one of the things I'd say is, as the mayor was pointing out, we're not anti-REZ. We're trying to be immune to the whole argument; rather, it's a happening thing. It's got to happen. I think everybody understands that. It's been—and this isn't something to lay at the table of the State Government or previous State governments. It's hit the whole country, I think, that these things are now necessary, but it's happened at very short notice.

I think one of the things the State Government might consider would be putting in some stronger processes around the staging of these installations. Left to their own devices, investors will decide to invest when the timing is right, based on return. That could see five or six of these installations going on simultaneously, which would see our population double for a period. The construction phase for each of these things is about two years long for each installation, so you've got significant increased numbers. If that was to happen all at the same time, there would be—as the mayor was pointing out, not enough gravel to build this stuff within the LGA. We've got a significant number of quarries that deal with normal situations pretty well, but the impact on this would increase their output a hundredfold overnight. You just wonder about how that might turn out.

The issues with the increased population from construction staff could be of enormous benefit to the town in terms of increased local business activity, but what we went through with the first installation was rental properties going to zero, people being outbid. People who'd been long-term residents in Uralla were being outbid for rental properties, as would naturally occur, and many of those have left town and won't return. We want to protect ourselves against that. To go back directly to the recycling thing, the recycling of solar panels I think is an issue. There still does not appear to be any planning around the decommissioning at the end of the 30-year life span of a wind tower, for example, so I'd like to see some research on that. We haven't even started, but I think that could be more appropriately done at the State level. The cardboard, the very flimsy timber pallets that these things get shipped on, three or four hundred tonnes of that on a monthly basis during the installation process, and that's just from one of potentially 15 or 20 that are yet to come.

The Hon. SAM FARRAWAY: It's very good to see you again, Mr Mayor. I was in the fantastic Uralla last Saturday and I called into the Top Pub. It's a great little spot there. I want to take on some of your commentary and observations about oversize and over-mass vehicles, while we're on that topic. Has Transport for NSW or the State Government spoken to you about your local road network, how it will be impacted with these renewable energy projects and how that is going to be managed so it is not just another form of cost shifting?

ROBERT BELL: I think there are a couple of issues. While it comes up the New England Highway, that's obviously Federally funded and State managed, and the challenges there have already been identified, particularly around Muswellbrook and Singleton. I understand there's funding in the budget to work through Muswellbrook. Singleton, I think, has enough to draw a line on a map and a couple of pegs in the ground, but that's all at this stage. The issue that we've been focused on is that the project at Walcha was originally going to go from Bendemeer—and I'm sorry if I use geographic terms that aren't familiar to the Committee—to Walcha on the Oxley Highway. The Oxley Highway has one bad corner onto a bridge near Walcha Road, and it also has no pull-off areas.

So the alternative offered by the developer was to come towards Uralla and then go across a local road, down the TSR and back on the Thunderbolts Way, which is a regional road, hence our discussions with the Minister for Regional Transport and Roads to say that we don't know how to manage the maintenance and upgrade of this road, given that not only will Winterbourne be given approval but we also now have Hillview solar. We have the BESS program that's been talked about—battery energy storage program—and we have EnergyCo wanting to do up a major transmission line. All of those are co-contributors to the destruction of a road that is set up to carry 500 or 600 vehicles a day, of which probably 10 per cent are heavy vehicles. Some way or another, we have to find a way that we, as a community, end up with a road that's hopefully better but doesn't fall apart.

The Hon. SAM FARRAWAY: To that point, Mr Mayor, we heard earlier from Mr Bennett, the general manager of Tamworth, about how, in terms of funding the infrastructure needed to enable these renewable energy zones and these projects, one-off payments to councils are not going to solve the problem. That's what I really wanted to home in on with you, if that's all right. A one-off, up-front payment to Uralla Shire Council for the disruption and wear and tear on the roads is not really going to cut it, is it? There needs to be a far more holistic view. That is what Mr Bennett said in his evidence around the long-term maintenance of that road over the duration of the project and while that energy generation is happening, because there's going to be more travel on those roads, and it's not about just the construction initially, is it?

ROBERT BELL: No, and I'm not going to argue with my learned colleague from Tamworth. I will make one comment. One of the roads in Uralla that went to the solar farm was completely given over to what is now ACEN and was UPC—became UPC\AC. They were responsible for all the upgrade of the road including the maintenance and now have a bonding process with council. Through that construction period, they were fully responsible for the maintenance. But, because there was only minimal rural traffic on that road, there was no issue with us saying, "Sorry, but it's 100 per cent your responsibility." They were carting something like 56 heavy vehicles a day on that, and a significant amount of it was gravel trucks but also, obviously, the solar panels coming into the site and then the transmission for Transgrid and the generators that were needed.

The issue that we didn't get—and the council will not be caught like this again—is that we didn't accurately identify the roads where gravel was going to be used to access the site. From the western side of the shire where gravel was carted to the solar farm, when they hit the highway and they went on to ACEN's road, that was fine, but they used a number of local roads. Two of them they destroyed. We then had to negotiate to get them repaired to an appropriate level.

If we go back in history, in my days as engineer, we didn't need to worry about the old section 11 charges on gravel pits because all the gravel was used in the shire. If it went out of the shire, people couldn't pay a levy. We've now had to go back and look at gravel pits that had 2,000 or 3,000 cubic-metre approvals per annum to wanting 30,000 to 40,000 cubic metres per annum, and for them to have to pay a levy. We've already had the argument with one developer. They said, "We're not paying the levy", and we said, "Well, we're not letting the gravel come out of the pit until the levy's paid by somebody." Some of that's confrontational. Some of that ends up with our lawyers. As I say, we're a small council. I never did a law degree so it's all a bit of an interesting time. I appreciate the fact I've got good staff with us.

The Hon. SAM FARRAWAY: [Audio malfunction] As you've said, Mr Mayor, Uralla shire would have a lot of unsealed roads. Do you support that when the New South Wales Government is distributing road funding, it should be based on the total size of road network, including unsealed roads, to make it equitable so those regional councils that have unsealed road networks and larger road networks should be receiving equitable and proportional funding from whatever the funding pool is, rather than a contested pool of money, a bit like a beauty contest?

ROBERT BELL: I would appreciate any increase in the road funding in Uralla. The issue I'd raise is that if we talk about gravel roads and we know the amount of traffic on that road, obviously our director of infrastructure has a program where they'd be graded once a year or twice a year as to whether areas need to be gravel or not. We also have, historically, roads in the south-eastern section of our shire that were only bitumen because there were fruit trees in the area and they didn't want dust on the fruit. But where our major traffic routes are is a real focus for us. The amount of heavy traffic on them is increasing. We would strongly welcome a formula that comes up that gives us more road funding and allows the director to allocate those assets across the shire.

The advantage for Uralla—and I guess this has come out in the rates inquiry—is that we've been able to maintain, hopefully, 95 per cent access for all rural communities through whatever the conditions are. If we need to repair a section of road, we've been able to afford to. Recent grant funding has made some of that possible through the flooding system. Obviously we're at the top of the table, so we've never looked the same as Lismore or Forbes. But our challenge is that without the grant funding, we would not have been able to meet that requirement.

The Hon. SAM FARRAWAY: I have a question around grants before I've got to wrap up, possibly to the general manager or to you, Robert, if you can answer. We've heard that it can be very volatile waiting for grants or applying for grants, which is one issue. But over the course of the last financial year, has Uralla been successful in obtaining any State Government grants, and has Uralla shire seen a reduction in the amount of grants from State Government that they have been able to apply for?

TONI AVERAY: We have been very fortunate in recent years with grants. We're actually still in the process of undertaking the programs of works associated with those grants. We are still busy rolling out programs of works funded by grants, but we do expect that that generosity may decrease in the future. We're certainly keeping busy doing that—in fact, to the point where we've engaged a dedicated civil infrastructure project manager to roll out projects under the grant funding, and likewise in our water and sewer area. We're very grateful for those—

The Hon. SAM FARRAWAY: Sorry to cut in, but I've only got limited time. I suspect you're talking about grants that were from maybe a couple of years ago that are still in the pipeline. My question was, have you been able to secure any new grants in the last financial year from State Government, and have you seen the grant funding opportunities decrease in the last 12 months?

TONI AVERAY: We certainly have secured a number of grants, but not significant ones. I don't recall any particular significant grants that we have secured in the last 12 months. They have all had a gestation period prior to that. I might ask my colleague if he can recall any in the last 12 months in the infrastructure delivery area. I think they're all funding that we previously had applied for or had been awarded. Many of those are related to the disasters of recent years—a lot of the recovery work, for example, and so on.

MICK RABY: I understand the member's question. Some of the larger grants we've received—the block grants for transport and roads, and those sorts of things—continue to flow and have increased slightly. It's sort of a CPI increase, I guess. I would say—and this goes back to prior to the current Government—that there's a track record of what I would suggest is excellent support in Uralla's case, particularly around the disaster response type stuff. We were smashed with a couple of floods. The response through State government entities, especially Transport for NSW—we have a fantastic local relationship going on and we have been very well served. The issue, of course, is not just the money; it's actually getting the money spent to good effect. In Uralla's case, that's certainly an issue because contractors aren't readily available, for example. To answer the member's question, there are no particular issues from our end on the grants issue. We are fully aware, though, that that may change into the future for a whole range of reasons.

The CHAIR: I might jump in with a final question before we finish up. On your website, I noted that you make the general manager briefings of councillors public. I wondered if that has an impact on the sorts of decisions that are made or if you have any thoughts or feedback around how that operates currently.

TONI AVERAY: Thank you, Madam Chair, for that question. It's an interesting issue. There was a previous political position by members of our current council that everything that happens in council should be open to the public. I found that a little bit limiting in terms of some of the opportunities to have open and frank conversations with councillors. While that isn't necessarily a different position, it's simply that we also need to have the opportunity to have conversations with council and brief them on matters to ensure that they're fully informed before they're engaging on matters in the public arena. We do take the opportunity to do that, as well as ensuring that we have as much open communication and engagement with the community as possible.

ROBERT BELL: If I can pick up on that, the issue has been highlighted by the renewable energy developers. Their first step is they talk to landowners. Once they've got landowners signed up, they then come and talk to council. At that stage, it's commercial in confidence. The director, the general manager and I, and maybe our strategic planner, might meet with them. Our first step is to say, "When you get to a position where you can come and address council, once you start your public consultation process"—which goes to the heart of when I look at a map of what's now on our website, it's only 50 per cent of what we know is coming. On the challenge about public access to information versus private information, quite frankly, if the general manager and I have a frank and friendly discussion, it's not public. I can assure you of that.

The CHAIR: That's all we have time for in terms of questions today. For any questions taken on notice or supplementary questions, the secretariat will get in touch with you around the details of that. You'll have 21 days to respond. Thank you again for making time to give evidence to the inquiry today.

ROBERT BELL: Thank you very much for the opportunity. As I say, if you get a chance to spend a bit more time in the tablelands, we're more than happy to see you. Thank you very much for your time. We appreciate it.

(The witnesses withdrew.)

Ms KELLY STIDWORTHY, Director Corporate Services, Gunnedah Shire Council, sworn and examined

Mr GREG McDONALD, General Manager, Upper Hunter Shire Council, sworn and examined

Mr WAYNE PHELPS, Finance Manager, Upper Hunter Shire Council, sworn and examined

The CHAIR: I welcome our next witnesses. Thank you so much for making time to be here today and to give evidence to this inquiry. Would any of you like to start by making an opening statement?

KELLY STIDWORTHY: Thank you for the opportunity to appear at this inquiry and for holding some of the hearings in regional areas. It's very much appreciated. Gunnedah Shire Council's submission identified that financial sustainability is a complex issue for local government as every council is different. The old adage that councils' core functions are roads, rates and rubbish couldn't be further from the diverse entities that councils are today, and our complex regulatory environment is not well understood by most people outside of the local government industry. Recognition of this is important as councils have not been permitted to be masters of their own destiny in terms of financial sustainability.

The negative impact of the rate peg and cost shifting over time has meant that councils have had to continually do more with less, and this has not always been in the best interests of the community. It's not well understood by most people that the effect of the rate peg over time has meant that many councils have reduced spending in important areas. A recent report released by the Grattan Institute, which was entitled *Potholes and pitfalls: How to fix local roads*, found that spending on transport had fallen from almost half of local government spending in the 1980s to about 21 per cent today. It also found that an extra $1 billion is needed in the next 12 months just to keep roads in the same condition as they are today.

At Gunnedah Shire Council this does concern us. We have a 1,420-kilometre long road network and we've conservatively estimated our infrastructure asset renewal backlog will rise to about $30 million in the next 10 years and we don't have access to funding at this time to address this. We would support an increase in funding towards roads to assist with addressing the current roads asset renewal backlog that we face and to reduce the financial burden that we'll ultimately need to pass on to our ratepayers in the absence of having access to additional State or Federal funding.

GREG McDONALD: I'll do a short statement; I want to leave as much time for questions as possible. I'm the general manager at Upper Hunter Shire Council. I've been in local government for 30 years and I've experienced small regional councils and large metro councils. Regional councils are struggling to provide basic services, and the facilities that we do provide, such as aged care, saleyards and airports, which are not the normal type of facilities that local governments would normally do, are often subsidised by ratepayers. They form a greater benefit to not only our LGA but the wider New South Wales and the regional areas as well, but we find that our councils are subsidising these areas.

I know there's going to be some questions later but we'd probably like to focus on some of the things where we think there are some funding model solutions—a better distribution of the current funding models so that basic services can be provided in regional areas. We're still suffering from amalgamation burdens 20 years after amalgamations, so the amalgamation issues didn't resolve the issues they were supposed to have addressed. There's still cost shifting—and most of this is in our submission but I'm happy to take further questions later. We're seeing increasing audit costs, which don't actually provide any direct benefit to our community; it's just another financial burden that we have to manage within our limited funding amounts.

We've been relatively successful in getting capital grants but that's not what we always need; we need operating funding to just deliver the services. We can't use capital grant funding for a lot of the services that we want to provide. We have a housing crisis, and we've provided some opportunity to the State Government to try to address that using land that we own and making suggestions. We're in a self-help type situation. We want to bring something to the table to assist, but we need some assistance from the State Government to allow us to address the housing crisis, and that'll address both housing for residents and housing for workers moving through our area.

Finally, we're in the situation where we've had to go for an SRV. Our council is one of the very few brave councils that's chosen to do it in the lead-up to the September elections, so we're consulting with our community over a 10 per cent rate increase over the next three years, so 30 per cent in total, or a cumulative 33 per cent increase over the next few months leading up to the September election, because we have no other option than to go for a special rate variation. I'll leave it there and I'm happy to take questions as we go through.

The CHAIR: My first question is to the Upper Hunter council. You've been persistently in deficit for some years now and your current debt is three times your revenue base. What's gone wrong?

WAYNE PHELPS: Typically, what's happened is that we had a lot of major development that was undertaken. One was around saleyards, the redevelopment of our saleyards facility, that happened right at the point just before the drought. Everything was approved, everything was going through. We had forecasts going forward with numbers that projected a strong economy. The drought hit and effectively the numbers fell through the floor. We've been carrying a substantial loss-making facility over the course of the last five to six years, so, unfortunately, we're in a position where we've increased our fees as far as we can go. We do have a large debt against it, which effectively we had a $12 million upgrade, which effectively $8.4 million of that was loan funding. We've got some grant funding, but not significantly enough. The State Government provided a small amount, but it was money from Federal.

The next one was effectively upgrading our airport facility and also a tourism aspect to try and increase tourism and popularity to our region. We upgraded our facility at the airport because it was in dire need and required a runway upgrade. We put in a tourism facility called the Hunter Warbirds, which is for old wartime planes. We had a lot of modelling done around it. Those numbers haven't come to fruition from a tourism aspect, which was disappointing from that angle, so we're carrying a fair bit of debt from that. We effectively had about a $7.8 million debt from that. Other debt that we had to go into was around some road funding as well. As probably the Committee understands, we had a road along Coulsons Creek near Merriwa, between Merriwa and Willow Tree. We undertook a lot of construction out there and that road failed badly, which the State and Federal governments have come to the party in regards to correction of that failed road. That road's now starting the construction phase.

In the meantime, to get the heavy vehicle traffic from the west to the New England Highway, we had to partner with the State Government—about a $3 million loan—to undertake rehabilitation of that Bunnan Road, or Main Road 62, so we've got a debt from that coming through as well. Effectively, it's been a very, very lean and hard road to haul over the last probably six years. We're feeling the effects of that investment coming through with some loss-making facilities. We also have other facilities that are losing money, like the aged-care facilities and our child care when COVID hit, so we've got child care as well. To answer your question in regards to the debt, the debt has come mainly through capital injection back into the facilities, and the actual running of those facilities hasn't come to fruition, from what we anticipated in our initial budget.

GREG McDONALD: I would add that there has been no new debt taken up in the last three years.

The CHAIR: In terms of your rates income—and I know that rates make up only one-third of your income as council, or 28 per cent—obviously, you are going through that SRV process at the moment. To fix your problems you would have to increase rates enormously. Are there other ways that you are looking at to fix this situation that you are in?

GREG McDONALD: Absolutely. You're right. Our rates income is generally just short of $12 million at present. The SRV will raise approximately $2 million extra over the SRV period. It's not going to resolve our issue. That $2 million does not really get us out of our financial problems. What we have done, though, in the last three years, in my time, is we have reduced our operating expenditure significantly. I've taken $600,000 in staff positions out of the organisation, mainly management roles, not front-facing roles—all management roles. That's reduced our annual operating cost by $600,000. We've looked at other operating reductions to the tune of about $300,000 to $400,000. In total, we are carrying about $1 million in savings forward from those savings.

We've looked at new income streams. Most of those are fairly small and, again, they're not going to resolve our financial issues, but we've increased fees and charges around those facilities that are considered more commercial operated than service operated. Airport fees went up considerably two years ago. The saleyards fees have been going up considerably over the last couple of years. We've increased fees at our facilities and wherever we've had opportunity to get new income streams through sponsorship, as well, for any of our buildings. The other thing I should probably point out is that our wages bill alone is $14 million. Our rates don't even cover our current wages bill, and our wages under the award are going up another 3½ per cent next week, plus a $1,000 bonus to all staff, which is part of the award. Let's say 4½ per cent, for ease of calculation. That's going to be offset by any rate capping that IPART gives us for the new financial year, and we'll be further behind.

The CHAIR: In terms of your airport, your submission says that you run your airport with a subsidy. How much is that subsidy?

GREG McDONALD: Have you got the figures, Wayne?

WAYNE PHELPS: Effectively, our subsidy running at the airport is around the $400,000 mark. That's with the loan facility that we had to take out to undertake the works as well. We receive some grant funding coming through, and it's effectively a facility that was losing about $150,000, if I remember rightly, and it will be losing probably another $250,000 to $300,000.

The CHAIR: Is the detail of that subsidy available in your financial reports?

GREG McDONALD: Yes.

WAYNE PHELPS: Yes.

The CHAIR: In terms of your submission, I also note that it talked about the challenge of the distribution of the Financial Assistance Grants from the Federal Government. How would you like to see that distributed?

GREG McDONALD: We've always asked for a bigger pie to start with so that everyone gets to share a greater amount. Certainly, we would see that some of the distribution between the metro and regional councils just probably isn't proportionate. Whilst I realise regional councils probably get more on a per capita basis, the cost of servicing our community, when you've got 2,000 kilometres of road for a rate base of 6½ thousand assessments or 14,000 people, it means that our costs of delivering those services are much higher than a 28 kilometres squared community in the North Shore of Sydney with 200 kilometres of fully asphalted roads.

We find that, when we're looking at the distribution of the FAG grant, the funding amount that is going to regional councils, in our belief, should be increased. It's a very broad calculation. It's based on road length, number of bridges—it's not a very fine-tuned funding model. When you're looking at councils like ourselves that are providing aged care services to a facility in Merriwa—which has a 16-bed facility, but we're only operating at 13 beds at present—again, we're subsidising that facility. The easy decision at an economic level is to shut the facility down, but that's 13 families in Merriwa that no longer have their grandmother or mother in a facility close to home.

What do we do? Local governments in Sydney aren't facing these service problems, where they're picking it up. We're subsidising medical services in Murrurundi and Scone because we're trying to attract doctors to our towns. We're giving them reduced rental on clinics and reduced rental on residential homes. Again, the economic decision says, "They're doctors. They can pay their own way." But they just won't come to town if that's the solution. I don't have the actual break-up, but there's got to be more money thrown to the regional areas if you want the regional areas to continue to prosper. We have to recognise that these basic services need to be provided. If I look at Sydney councils, they've got excess cash and they're spending it on leisure centres and performing arts centres. That's great. It's great to be able to provide that cultural level of support to your community. But when there are communities that don't even have the basics, we need to readjust that distribution.

The CHAIR: Finally, I have a couple of quick questions for Gunnedah Shire Council. Gunnedah council achieved a surplus of $4.8 million last year and delivered 112 per cent of the required asset maintenance to maintain conditions. Your asset renewal ratio is 150 per cent, and 76 per cent of your assets are either in excellent or good condition. That's a marker of a successful regional council, is it not?

KELLY STIDWORTHY: It is, but I guess to qualify the results a little bit, they are a point in time. What we've found over the past few years is that because of the presence of what I would call an extraordinary level of grant funding available, particularly around things like the natural disaster response, council has been receiving significant amounts of external funding that it has then had to allocate to its capital works program. The capital works program, obviously, is only reflected in the operating result by way of the depreciation effect. The reality is we've had a massive repair bill, following the 2022 and prior floods, that is still ongoing.

The receipt of some of that income does come through and is recognised as operating income. But in actual fact, if you strip that away and you also have a look at our underlying general fund performance without the effect of water, sewerage and also waste operations—because we can't use waste funds to subsidise things like roads; money for waste has to be spent on waste, as you'd probably be aware—we actually are projecting and would have been booking reasonably significant deficits. When you take away the effect of those extraordinary items and take away the funding that has to be allocated to externally restricted reserves, the amount left over doesn't cover the level of depreciation that we're incurring year on year. That's what our current forecasts project, because obviously they take out some of the impact of those items.

Additionally, we've been quite fortunate in the grant funding space, not just around natural disasters—which probably would have impacted all councils—but for other grants as well. That has led to us being able to do a reasonable amount of work on our roads, but it's largely one-off, large projects. Because of the effect of the renewal on those particular assets, our ratio has been higher than the benchmark. But, again, it's a one-off impact. Over our forward projections we're sitting more closely in the level of about 50 to 60 per cent for our asset renewal ratio for our road network.

The CHAIR: How much of your success would you attribute to the mines in your LGA?

KELLY STIDWORTHY: It's a good question. We do get some level of funding by way of the presence of coalmines in the region. Generally, how that comes through is that they're ratepayers, on one hand, so they form part of our rate base. Obviously, there would be a significant effect if those mines were no longer in the region and paying rates. That rate burden would have to be distributed back over to other areas of the rate base, so there is a positive impact from having the mines from that point of view.

The other way that council receives funding is by way of voluntary planning agreements. They have to be negotiated with the property owners who have those mines. There is a level of funding that comes through to support some activities towards council's budget from that side of it. Generally speaking, it's not an ongoing source of funding. We also incur some significant liabilities, particularly in respect of our road network in relation to managing that mining impact. We try to share that impact with the mining industry but, of course, sometimes can only go so far because of the legislative constraints that are there. We find that we have to manage those additional impacts and the effect of that increased activity on our road network by way of our general fund budget.

The Hon. SCOTT FARLOW: Thank you for your attendance today and for your submissions. I'm going to start with Upper Hunter council and some points you made in your submission. Of course, roads are the issue of the day. I don't want to [inaudible] any of my colleague the Hon. Sam Farraway's questions. You've outlined in your submission the importance of that road funding for your community, particularly when it comes to grants. I think you've outlined in terms of the perverse incentive, in a sense, for things to actually be transferred across as regional roads in order to capture some of that funding. I wondered if you could expand on that from your submission.

GREG McDONALD: You're breaking up a little bit, Scott, but I'll try to pick up on what I think you were saying. Was that about the regional road redistribution?

The Hon. SCOTT FARLOW: Yes, that's it. Can you hear me a little bit better now?

GREG McDONALD: That's fine, thank you. As the Committee would be aware, there's a combination of State roads, regional roads and local road networks. There's always this pressure to try to reduce the number of local roads in your network and increase the number of regional roads in order to try to get that additional funding, because the State can take on some of the funding. Having said that, even when a road becomes a regional road, you do not get full funding; you get a contribution towards the funding for that road. It's only the State roads that are fully funded by the State. Council still has a road cost burden. What we've found is that the allocation made to council for the regional roads is never enough to fully maintain the roads and we have to top that up. Mr Phelps might be able to give you some figures around how much we have to top up, but it's certainly not enough from the regional road funding.

One of the benefits that our council does have is we've entered into a single supplier contract, or RMCC contract, with Transport for NSW to do work on the Golden Highway. That allows us to generate some funding from the small margin that we make on that back into our other road networks. The State Government pays us to do work on their road network, and then we can use some of that to put back into our own road network. But we find that the road funding is never enough. To round out, on the regional roads, there is opportunity to bid for capital grants. Once again, it's great and it allows us to upgrade poor sections of road, but one of our biggest problems is we see continued deterioration of our roads, and you don't become eligible for capital grants until the deterioration gets to quite a significant and, in most cases, unsafe condition. At that stage, you may become eligible for capital grants. If we could get longer term operating funding to maintain those roads in a higher condition, we would be much better off.

The last thing I would say on funding of the road network is that when we see these spikes in capital grants given to us by the State Government—and we see the accelerated timber bridges program as an excellent example of this—we see the construction costs go up because the State Government puts an injection of $500 million into the roads economy and says, "We're going to accelerate pothole patching", or, "We're going to accelerate timber bridge repairs." There's only a limited number of contractors in the network. All the councils go out at once and start competing for the same contractor.

We saw 40 per cent increases in bridge costs alone over the last two years when the accelerated programs were given, so that methodology of giving spiky grant funding just doesn't work. Number one, we struggle to plan for it. Number two, we're reliant on contractors and the contractors know that and they take—I wouldn't say they're taking advantage; they're just reacting to the market pressure and they're increasing their prices accordingly. We have to do 10-year long-term financial plans. If we could get greater certainty over that 10 years—what type of grant funding was going to come in—we could plan and progress and we could work in a more systematic process, even with our adjoining councils to get even further cost benefits. Short-term, lumpy capital grants programs don't generally work real well for us.

The Hon. SCOTT FARLOW: Mr McDonald, you outlined in your submission as well some of the concerns that you've had in terms of the flood recovery grants and some of the documentation you've needed.

I think you outlined a situation of photos of two years ago. Can you just walk us through what that process is? Is that with the Reconstruction Authority? Who are you dealing with with some of these challenges?

GREG McDONALD: The floods from late 2021—and, again, there was another flood event in early 2022—we were eligible for flood damage funding. Of course, that comes in a couple of different packages. There's immediate response—that you can go in and just make it safe so that people can get access back to their properties. Then there's a longer term strategy of repairing the works and then there's a final piece called betterment where you can actually upgrade the damage to a higher level. The problem we have is there needs to be a demonstration by the council to the funding body—I think it's being administered through Transport, is it?

WAYNE PHELPS: Yes it's being administered through Transport for NSW and Resilience, I think is the factor.

GREG McDONALD: But one of our biggest problems is you must have pre-existing evidence of your road network before the flood damage. Small councils just don't have the resources to be able to have that photographic evidence of all of our road network in advance so there's quite a lot of bureaucratic backwards and forwards just with the funding provider to say, "Trust us; we're the council. We're not trying to rip you off, we just want to repair this road. You can see the pipe's been blown out of the ground. You can see the bridge's been washed out. The causeway is no longer there." The intent of that is that then they will try to determine how much of the damage was actually caused by the flood as opposed to natural wear and tear. They don't want to replace a causeway that was almost going to be replaced by council and have to fund it through their own means. We can give you very high level and say, "Well, that was at the end of its life and that was at the beginning of its life", but we don't have photographic evidence and it does become quite a bureaucratic process. On that, we have spent a bit over $1 million on flood damage works already and the first payment came through last week, I believe.

WAYNE PHELPS: Yes, correct.

GREG McDONALD: So it's taken us two years to get the first payment of $1 million through—

WAYNE PHELPS: From Resilience NSW, come through Transport, that funding.

The Hon. SCOTT FARLOW: Despite the bureaucratic headaches you've got in that process, the money is starting to flow and you are being able to work through these issues.

GREG McDONALD: It is.

The Hon. SCOTT FARLOW: But that, of course, doesn't sound very ideal at the moment.

GREG McDONALD: No, so the money is flowing through but what I would point out is that the claim that we put in was significantly higher and what has been agreed to is probably close to one-third of the initial claim.

WAYNE PHELPS: Effectively, with a lot of the evidence that had to be given for a lot of that flood damage that came through—initially you used to only have to give two sources of evidence coming through but, unfortunately, the line in the sand changed and you had to give seven pieces of evidence, so it made it extremely difficult for council, especially with the limited resources that we do have, to have that availability of precondition photographs or precondition assessments prior to the flood. Who knows when a flood is going to hit? It makes it extremely difficult from that method. We have had discussions about that evidence and we've more or less just said, "Well, it's something that you will learn from," but we're actually out of pocket. Being a council like we are, as Madam Chair has actually highlighted, we have very limited resources and availability of cash—that we've had to actually put out to make these roads safe for our community. It's a bit of a hard pill to swallow, unfortunately.

The Hon. SCOTT FARLOW: I can understand that, Mr Phelps. Mr Phelps, going through that point you just made in terms of when that evidence was changed from two to seven pieces, when did that occur? What was the instrument that changed it? And, if I can also ask, in terms of how you said at the end effectively it's a learning process, or you've been told it's a learning process, I imagine it's a huge task for the council to go and undertake its road network, do an analysis and perhaps take a photo every six months of the road network in case there's a flood or other natural disaster that impedes the roads. What are you doing now to manage this process and provide this evidence, so to speak, in the future?

WAYNE PHELPS: Effectively, I'm not quite sure when the change in the evidence was required. The engineering staff had let me know that, so that was something that was advised to me. With regards to what we're going to do to try and rectify this, we've put in a number of measures now of a new software program that will be monitoring our road network and our maintenance of our road network, yearly. We used to use a thing called ARRB, which was a five-year program, which was due and was done in the current year we're in now, but it's pretty well outside the flood damage time. We've taken measures of instigating recording of our road network through software. The guys on the ground will drive around and take photos of our maintenance of our program. Going forward, I think we probably will have enough evidence for any events that may occur in the future, but unfortunately we're sort of hamstrung with our cash flow at the moment, based on the fact that we haven't had the cash flowing through in entirety from the initial flood damage.

The Hon. SCOTT FARLOW: One last question from me to Gunnedah. You've outlined in your submission some of the challenges you face in terms of the operations of council and what you have to undertake, whether it might be water management and the like, and the State Government legislation that governs it. I'm just wondering what do you think could be done better there in order for there not to be the one-size-fits-all approach, effectively, and the councils are better able to cater their services to their communities' needs?

KELLY STIDWORTHY: That's a really good question. I probably would say one of the biggest challenges we have in the local government industry at the moment is the cost shifting that we face on a year-on-year basis. There is a constant stream of increased accountabilities and responsibilities flowing down from Federal and State government. One of the things that would be ideal in our world is for that to stop to some degree, or at least be managed in a more consultative way so that when these things are being proposed and changed, local government has the ability to have some input into that.

We also find that at times—not so much recently—we get access to funding for initiatives and things like that. A good example in our council would be we previously had funding to employ a youth officer on an annual basis. That stopped some time ago. The funding is no longer there for that purpose, but there is still quite a huge demand from the community, for example, in that space. With challenges particularly that we have in Gunnedah around youth crime and things like that, that is the kind of investment that would really make a difference in the community. The council with all the issues and responsibilities that we carry, we don't have the ability, or the luxury, I suppose, to say, "We'll just put someone on to fulfil that role."

The other thing that has probably already been touched on, but the availability of funding on an ongoing basis, not just on a once-off basis for these types of important areas, would be very much valued by local government, and the assurance that that money would be there in the longer term so that you can continue on—rather than the temporary injections of funding that really only allow you to do a very small piece in a short period of time, because you can't be guaranteed that the money will be there to pay for that service into the future. Regulation is just increasing all the time across most of the services that we offer so the ongoing challenge is how do we manage that in such a diverse range of industries that we do offer?

To streamline that is a difficult question, I suppose, but, obviously, cutting red tape and potentially not allowing compliance to increase further beyond where it is now, unless it's really a critical issue, would be something that we would definitely encourage. I probably would also just say I know it's very difficult and we've had discussions with government departments previously around this matter, but things that come out from State and Federal are all one size fits all. We are a small regional council; we are not City of Sydney. Yet what tends to be mandated are the benchmarks or the standards that are required from the largest councils who have the largest volume of these types of matters to deal with.

We would definitely appreciate, whilst it would raise some complexity, some flexibility around some of the implementation of the compliance that we face to make it a bit more fit for purpose for the size of the organisation and the size of the community that we are dealing with. How that would be effected, obviously, would require further consideration but, definitely, there is a range of things that have only come through in the last 12 months that—it does not matter what size council you are—you have got to take on. In a large city council, when you are dealing with something like public interest disclosures or those types of matters, for example—has been one of the recent changes. They might have a lot of those things and a regional council might not have as many, but we have still got to do it. We don't have the luxury of putting on someone just to handle that task, so we've just got to try and fit those things in to what we are already doing. Part of the challenge we have is spreading ourselves thinner and thinner.

Dr AMANDA COHN: I only have one question because so much has already been covered in this session. I wanted to ask Upper Hunter, particularly, about the airport, noting that rural airports are so important for emergency services and for aeromedical transport. You have put in your written submission that your airport is currently running at a loss. I am interested in what income streams you do have from that airport. Is there a possibility of passenger transport there and, if not, what support do you need to maintain an airport?

GREG McDONALD: Our airport is relatively small in regional purposes size. It can take aircraft up to about 15 tonne. We could physically run a passenger service, but there is no demand for it. We are too close to Tamworth and Dubbo for a passenger service to be economical or feasible. The operators around our airport consist of flight training schools and chartered aircraft services. We do have a large emergency aircraft service operating out of our airport, which is very critical for our community—it is a large water-bombing fleet of aircraft—and a number of smaller aircraft operators who lease or own land in and around the airport.

The income streams are predominantly from landing fees. Our landing fees were very low when I arrived at the council three years ago. We did a fairly major revamp of landing fees, and this financial year was the first year they applied. Just over 18 months ago we started consulting with the community, and we introduced them at this time last year for this financial year. It effectively put some of the fees up by 50 or 60 per cent, and we have probably one of the highest airport landing fees around. We've had representation from aircraft users saying that we are too expensive.

Having said that, we've found that all the operators continue to operate from our airport. None have packed up and gone home. We know we are higher, and it's not because we want to try and disincentivise people. We need to try and recover some of the operating costs so that the community isn't paying for it. We do recognise it serves a greater community benefit than just the users of the airport, because it allows us to address emergency services, in particular, through firefighting. There is economic activity that happens in and around the airport. We did a calculation about six months ago, and there are about 30 operators or employed people directly employed through the operation of the airport.

Again, if you took the consideration or said, "Let's just close the airport because it's a loss-making activity", we know that there'd be at least 30 families impacted directly through that closure. Some of the things we have been doing—we own land adjacent to the airport, so we have continued to develop land. We did do some development early on; we're doing more development of that land. That will consist of either sales or leases of further land. We continue to have more activities at the airport to try to generate and stimulate activity there. It brings our landing fees up a little bit as well. Some of the biggest users, though, didn't pay. Just recently the Prime Minister landed, but he's exempt from paying fees because he landed in an aircraft that was owned by the Royal Australian Air Force, which has exemptions, so we didn't get our landing fee from him.

One of the difficulties is trying to find a balance between not putting your fees up so high that you just shut down all economic activity, but keeping them high enough that you can recoup some of the cost, because it isn't a cheap thing to operate an airport. We did talk to Minister Aitchison recently. My suggestion to her was that, as transport Minister, she should take an interest in our airport. Her view is that it's outside her current portfolio and airports come under the Federal Government. I guess one of the problems that we would see at a ministerial level is that no-one really wants to take ownership of an airport. It's not considered a transport facility, although we would consider it that. It's probably considered more an economic hub. In our case, it's not generating enough economic return to be viable, but it does generate an economic benefit to the community.

WAYNE PHELPS: I'd like to also make a point, Dr Cohn, that the airport itself, with our industry around there with a lot of the horse studs—also Racing NSW involved with a lot of our racing side of things with our country track there—will generate a lot of tourism into the area, and also people coming in and giving an economic benefit. We are at the moment waiting on funding for another half of our runway. We're trying to upgrade our runway to bring more tourism into the area. The Federal Government's propped up $2½ million; we're still waiting for another $2½ million from the State. But, unfortunately it hasn't been forthcoming at this point in time. Once that runway is sealed with an asphalt cover, we can probably take a higher density of plane onto that runway and also start generating a lot more revenue from the facility. That may lead to a regional passenger transport to come into the area, which would only benefit the community overall.

The CHAIR: Thank you again so much for making time to give evidence at the hearing today. The Committee secretariat will be in touch with the details of any questions taken on notice or any supplementary questions. You will have 21 days to respond. The Committee will now have a short break.

(The witnesses withdrew.)

(Luncheon adjournment)

Mrs NATALIA COWLEY, General Manager, City of Coffs Harbour, before the Committee via videoconference, affirmed and examined

Ms AMY MOTT, Chief Financial Officer, City of Coffs Harbour, before the Committee via videoconference, affirmed and examined

The CHAIR: Welcome to the inquiry hearing. Thank you so much for making time to give evidence today. Would either of you like to start by making an opening statement?

NATALIA COWLEY: Sure, I can. I've had a look at quite a bit of the transcript, and obviously a lot of the submission. Having been in the driving seat of resurfacing three different councils—being Central Coast, Muswellbrook and now City of Coffs Harbour—back into financially balanced books, I guess I have a pretty clear picture of how one can functionally rebalance the councils. Sure, there is a lot of noise. Sure, there are quite a lot of exceptions. But if I'm looking at a broadbrush approach and not really chasing precision—and, in my opinion, that's been tested and proven—I would suggest that there is one single change that can make a significant improvement in the way that financial sustainability happens in councils.

If we look at financial sustainability and the rate peg—and I'm not going to be suggesting changing the way that rate pegs are calculated, whether it should be CPI or whether it should be on valuation. I'm not wanting to change everything and make a holistic change on everything that's happening. What is missing and what is a fundamental impact that happens every year and isn't fixed, and it automatically leads to financial unsustainability for councils, is the fact that once grants are given and they are used to build new assets, automatically the following year the council is behind because the depreciation and the operational costs will have an impact on that. I'm going to put again operational costs of those particular assets as a tangential situation that can be managed, for the most part, operationally. But the depreciation is quite an easy impact and change that can make a significant improvement in one simple calculation coming from the rate peg.

That is provided there is an acceptance that the assets that are built for the community are then being financially supported on an ongoing basis by the community, as opposed to by the Government. If that assumption holds true, then the rate peg—which gives you, essentially, the CPI—now that we've augmented it to better reflect employment award increases, we have that proportion. We then have the growth index, which, for population growth, that is impacted. The one thing that we're missing is, if you say, "You built $60 million of brand new assets last year"—and I'm not talking about the replacement of existing ones but brand new assets. In general terms, what is the depreciation for that? Is it 2 per cent or 3 per cent, depending on whether they're mainly roads or buildings or whatever they are? Then that gives you the growth. If you choose to have the population subsidise that, that would remove a significant burden.

I understand that, generally, from the government perspective, it's not only the depreciation—and also by IPART. From discussions that I've had with them multiple times, depreciation is regarded as the thing that you don't have to pay. Councils don't operate like that. Depreciation is the annual funding that you use to improve and update existing assets. That is physical cash that we spend. That is a significant chunk that is loaded onto the P&L every year that automatically puts us back, that automatically puts every council's general fund in a backwards situation. For those councils that are lucky enough to have water and sewer, they are obviously always profit-making. We don't need to focus on those. But the general fund is where the focus should be. Without looking at anything else, that one single change would make significant improvements.

The Hon. SAM FARRAWAY: Thank you, Ms Mott and Mrs Cowley, for attending. Mrs Cowley, thank you for your comments around depreciation. I think you have covered that off well. We've heard a fair bit of that theme throughout the inquiry. If I could turn to grants, we've heard that there is volatility around local government being able to secure government grants. In your experience at Coffs Harbour, have you seen, over the past 12 months, less grants available for your council to apply for from the State Government? If you have been able to apply for grants, have you been successful with the grants that you were seeking from the State Government?

NATALIA COWLEY: It's probably the same as every council. Have we seen a reduction? No. Are there some that we're unsuccessful with? Yes. Are some of them more important than others, like the jetty? Yes. We've been unsuccessful with that. Is that essentially business as usual when we expect that we would get some and lose some? Yes. It's part of the council's operational environment. From my perspective, I don't think that, as a council, we're getting any less than what we would like to. I'm always a bit cautious because it's great to have grants, but you still have to be able to operationalise the assets that come out of those grants. Having more grants is not necessarily a feature of success for me.

The Hon. SAM FARRAWAY: If you had an opportunity to get a State Government grant to put towards new infrastructure, but it didn't suit you to be able to manage the maintenance, you wouldn't take that grant.

NATALIA COWLEY: There would be a consideration of that and I would be prepared to push back on some grants at least. We have—

The Hon. SAM FARRAWAY: Has Coffs Harbour City Council, in your time, ever had to not take grants or give back any State or Federal grants?

NATALIA COWLEY: Yes, absolutely. When I first started we absolutely returned grants, and made the news about doing so. It was an intentional management of our finances.

The Hon. SAM FARRAWAY: From memory—because I remember seeing this in the media—they were for swimming pools, weren't they? Swimming pools are very expensive to maintain so what would be the reasoning to not take any assistance for community core infrastructure like a swimming pool?

NATALIA COWLEY: Timing of procurement. So the time that the grants were being made was—they were based on business cases that occurred at the time of COVID. COVID happened. The procurement drama occurred Australia-wide. That really pushed the prices significantly and suddenly the cost that we had in the business case before the restriction in overseas shipment of goods and services as part of COVID—it had a direct impact on what we had been quoted to build a pool of such a size versus what had occurred two years later where the price had doubled. Suddenly we had received grant funding for a couple of pools, which ended up covering only half the price of the cost of both of those pools, and in those instances it would not be financially sustainable or a financially logical outcome to take the grants and have to suddenly figure out how to source $30 million ourselves for the rest of it—or something to that quantification.

The Hon. SAM FARRAWAY: So essentially it was cheaper to give back the grant rather than negotiate a position to try and find a way through with the State and/or Federal governments?

NATALIA COWLEY: Sure, in that particular case it was the outcome because there were quite a lot of grants. We had a bloated set of capital works that was going to push this community into an unsustainable outcome of having to seek a special rate variation to be able to operationally maintain all the assets that we were intending to load up on the books. I'm not suggesting that that will always be the case in every forward situation but it certainly was the case in this particular scenario.

The Hon. SAM FARRAWAY: So with regards to the special rate variations, is Coffs Harbour City Council looking for a special rate variation? Or do you feel there is a need for a special rate variation in Coffs Harbour?

NATALIA COWLEY: Not at this point in time.

The Hon. SAM FARRAWAY: Have you ruled that out entirely for Coffs Harbour? Or it's something that you possibly need to look at? Obviously you've raised the issue around the infrastructure with the pools. From memory, it's Woolgoolga and Sawtell I think.

NATALIA COWLEY: Yes, that's right.

The Hon. SAM FARRAWAY: At some stage, if we're looking at how councils fund key infrastructure like pools—they're expensive. If the cost has blown out that much—and this is a really good example to look at—and even with a grant you couldn't afford do it, how will you replace those pools into the future?

NATALIA COWLEY: It's a business case. It will have to go through a business case. Obviously, time changes decisions, and so if we are having a situation where suddenly the cost to build and rebuild a full facility is twice as much as what it used to be a few years ago, then you have to really consider the utilisation of how many customers would go into satellite pools like Woolgoolga and Sawtell and determine whether the amount of capital investment from that customer base really justifies the benefits that will be derived in an equitable community where it's not just for some people.

The Hon. SAM FARRAWAY: Natalia, I suppose if that's the case, obviously I know you've put a very businesslike lens on that, but these are not customers. Essentially, they're members of the community. They're ratepayers, they're kids, they're families. Are you putting a business case lens on every single investment decision for the community?

NATALIA COWLEY: Is this an interrogation with a different lens, or is it about financial sustainability?

The Hon. SAM FARRAWAY: No, I'm genuinely—

NATALIA COWLEY: I am almost hearing a member of Parliament being in your ear. Okay. Let me answer that question. First and foremost, I operate a business that I need to make sure remains sustainable and delivers the services over the community, and in an equitable approach where the community needs to not be prioritised in one section of the LGA versus another section. The logic will always have to prevail. Whether you wish to call that a business sense versus a heart sense. I don't operate from an emotional standpoint. I operate from a logical standpoint, and I make sure that we give the community an equitable service for the rates that they pay.

The Hon. SAM FARRAWAY: And, Mrs Cowley, all I did was google "Coffs Harbour council infrastructure" and there's plenty of fodder there; there's plenty on the public record. But, to move on, these are good examples for this Committee to be able to look at how councils make the decision about their sustainability to fund infrastructure, where grants come into in their funding streams. I think they're all very worthwhile questions. A question I'd like to pose to you—because Coffs Harbour is another good example of looking at infrastructure councils build. Coffs Harbour recently built new council chambers, or approved to build new council chambers, didn't they?

NATALIA COWLEY: Yes, that's correct.

The Hon. SAM FARRAWAY: What is the cost of building those new chambers in Coffs Harbour?

NATALIA COWLEY: It's $82 million, as you would be able to find in the media.

The Hon. SAM FARRAWAY: Right. I suppose the Coffs Harbour council is financially sustainable to be able to build such a piece of infrastructure that really services the entire community.

NATALIA COWLEY: That's exactly correct. Not only have we built this significant original asset that is going to be of a generational benefit on budget and that is after or during the COVID period and after the blowout in procurement costs, we have been able to successfully deliver this asset. This asset has really, I guess, immensely shifted the cultural paradigm of Coffs Harbour where now we have got 55 per cent of our population that have become library members. For a regional community to be able to have such an incredible building that actually leads to generational progression and to grow the library base in eight months—what other regional cities deliver in 10 years—is a testament to the boldness of the council before us to make this building a reality.

The Hon. SAM FARRAWAY: Obviously, council chambers beat the pools. Nevertheless, that's a decision that obviously council and you have made. But, in terms of a business case for a local government entity like Coffs Harbour, what return on investment, in pure dollars and cents, will that $82 million investment make for your council?

NATALIA COWLEY: Is that relevant to your rate peg cap conversation?

The Hon. SAM FARRAWAY: The inquiry is into the ability of local government to fund infrastructure and services. Your council chambers, I suspect, is infrastructure owned by the ratepayer. Obviously, we want to be able to delve into how councils can be more sustainable to fund infrastructure and the communities of councils. I think Coffs Harbour is a great example where you're spending $82 million to build new council chambers, but you've admitted today in evidence that you've had to give back millions of dollars worth of grants because you haven't had the money to upgrade local infrastructure.

NATALIA COWLEY: No, let's not confuse things. This isn't the council chamber by itself; it is, quite clearly, three storeys of a library gallery and museum and, innovatively, having a civic office next to it. So $82 million goes towards the cultural renaissance of city of Coffs Harbour. I've just explained that the return on investment in eight months of having of having our state-of-the-art library, which has been commended by the library council as probably one of the best in New South Wales, has led to an increase of our cultural awareness of our population, where 55 per cent of our entire population have become library members and we have schools bringing in their kids here on a monthly basis. We have got a whole bunch of high school students who come here after school is closed to do their HSC. This is absolutely return on investment that you cannot only quantify in numbers but also in growth.

The Hon. SAM FARRAWAY: Mrs Cowley, my question was, working into that answer you gave us about the Sawtell and Woolgoolga swimming pools earlier, about obviously a BCR, in terms of dollars—and you referred to customers at that stage—what sort of dollar investment has that $82 million investment given the ratepayers of Coffs Harbour and is it a model that perhaps the Committee should be looking at?

NATALIA COWLEY:

NATALIA COWLEY: The 55 per cent of library members and 256,000 visitors. That's the return on investment.

The Hon. SAM FARRAWAY: A percentage as in a return on investment from the $82 million.

No, that's where perhaps you're misleading the conversation. This building is not providing a financial return on investment like a bank to its residents. This is providing growth and cultural awareness. Fifty-five per cent of the population of this LGA are members of the library that is housed in this $82 million facility, and we've had 256,000 visitors over eight months. That's the return on investment when you consider services.

The Hon. SAM FARRAWAY: Thank you for answering that. With regard to funding infrastructure in the Coffs Harbour local government area, do you apply the same BCR or the same criteria to the swimming pools or the toilet blocks, for instance, versus a cultural centre? Do you apply the same metric in terms of return, or do you look at a different metric depending on the type of infrastructure?

NATALIA COWLEY: It's not done on a return on investment. They're all done based on business cases and assets and based on what the community is requiring. We have got an elected body that determines what might be a priority based on the lobbying from community members. We don't build assets based on return on investment. The specific example I gave about returning the grant funding for the pools was based on the fact that the grant funding was not going to deliver the assets that we have requested to be built because the world's financials have changed in the construction of those assets. But that is not a return-on-investment calculation on which we determine whether to build an asset or not.

Dr AMANDA COHN: I had one last question for Mrs Cowley, then you can have a rest, and I've got a question for Bellingen council. I was also interested in the media reporting of job losses and cancellation of community events in Coffs Harbour, including Refugee Week, Harmony Day and Seniors Week, that resulted in a fair bit of community backlash. We've heard through this inquiry about changing community expectations of local government in recent decades, and that local governments across the State are starting to fill a greater role in a whole variety of areas, and the ways that councils are challenged to fund that. That's why we're doing this whole inquiry. I'm interested in your perspective of the community expectation or the community demand for those services and what support is needed for the community in Coffs Harbour to have those events put on.

NATALIA COWLEY: Council operates a process of community-led events that we facilitate. In terms of Refugee Week or Harmony Day, the Harmony Day and All One Under the Sun events indeed occur. What council believes is that we're not experts in every area. As a refugee resettlement zone, there are better providers that are more in touch with the elements of the community that particular events are involved in. And so, the council plays a facilitator role, not a lead role. We are there to support some of those events financially or facilitate involvement between community groups. But, really, the holders of the most expert information are community members, who are best placed to run those events.

Dr AMANDA COHN: To follow up, do you perceive that there is some difference between Coffs Harbour and other communities in New South Wales where communities have an expectation that local government is providing those sorts of events and community engagement?

NATALIA COWLEY: I haven't been analysing other local government areas and what they do and how they operate their particular local government area. All I can comment on is the fact that we lead pilot events and we support events and we operate under the proviso that there are experts in the community that can do a better job than we can. Whether we have one person, two people or three people, we will never all be experts in the areas that the events are led. And so we believe in the concept of collaboration and facilitation through financial mechanisms for some of those events. We're not suggesting those events don't occur. We're just saying that, in some of those events, we don't take a lead because we're not experts.

Dr AMANDA COHN: For those particular events that I mentioned that I'd read about in the media reporting, does that mean those events will be on in future?

NATALIA COWLEY: We have provided financial support for the refugee event and the All One Under the Sun event. So, absolutely, they will be proceeding to go ahead, as long as the community organisations are happy to lead and drive those.

NATALIA COWLEY:

Dr AMANDA COHN: My apologies. I thought that we had a representative of Bellingen Shire Council on the Webex as well, but I've just been informed that's not correct, so I don't have a question for Bellingen in their absence.

The CHAIR: We made an error with the initial draft hearing schedule. We thought Bellingen was online today, but unfortunately they aren't. A lot of my questions have been answered already, but I noted in the start, Mrs Cowley, that you were talking about depreciation and some possible changes to that. That's something that we've heard from a number of councils about, and their frustrations with the way depreciation currently impacts them. I invite you to explain a bit further about what it is that you're proposing and how that would work in reality.

My proposal is that a fairly simple calculation is added to the rate-peg calculation, provided that IPART is supportive of that, where there is a third element that is added to the rate-peg component on an annual basis. The first element being, obviously, the rate peg; the second being the population growth that they provide; and the third is simply a financial request from each council to identify the total amount of new assets that have been built for the previous period and provide the average depreciation rate for the bulk of capital assets. That would provide the annual average depreciation impact that should need to be included in the calculation of the rate peg and spread across the ratepayers.

The CHAIR: Some of the other witnesses that we've heard from in this inquiry have talked about the problems with there being no uniformity in the way the depreciation is applied. Some people depreciate assets over 300 years versus others with perhaps a more realistic 50 years. The other issue that we have heard raised is about these non-realisable assets such as roads, drains and other things that councils can't exactly pick up and sell. What would you say to that and how would that be included, if at all?

NATALIA COWLEY: My personal opinion is that the discrepancy in the depreciation rate might be a bit more of a noise. All councils are being audited by the Audit Office or via contractors to the Audit Office. That often would ensure that, when financial statements are being audited, review of depreciation is part of the audit process. That ensures consistency between councils. If some councils choose to say that this particular asset should stay there only for 20 years because they are closer to the ocean and, therefore, they depreciate faster than some that might be inland Australia, then that's fine. That would enter into the conversation of the calculation by having the average depreciation rate which would come out of the council themselves. They would be able to say that the assets that they've built that are brand new—it might be an $82 million building, or it might be a pool or whatever it is—and then they might provide their average rate based on that particular body of capital works. I think the inconsistency is not something that will really play a part when you're leading with the council providing that information.

The CHAIR: Are there any final remarks that you wish to make or anything else that you would like to have included for today?

NATALIA COWLEY: No.

The CHAIR: Thank you once again for taking the time to give evidence to the inquiry. The committee secretariat will be in touch with you if there are any questions on notice or supplementary questions, and you will have 21 days to respond to those. That concludes our hearing for today.

(The witnesses withdrew.) The

Committee adjourned at 14:20.