REPORT ON PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

CORRECTED

At Robert Brown Room, Albury City Council Administration Building, Albury on Monday 15 July 2024

The Committee met at 9:00 am

PRESENT

The Hon. Emily Suvaal (Chair)

Dr Amanda Cohn
The Hon. Scott Farlow
The Hon. Sam Farraway (Deputy Chair)

PRESENT VIA VIDEOCONFERENCE

The Hon. Stephen Lawrence
The Hon. Peter Primrose

* 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: Welcome to the eighth hearing of the State Development Committee's inquiry into the ability of local governments to fund infrastructure and services. I acknowledge the Wiradjuri people of the Wiradjuri 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 respect to any Aboriginal and Torres Strait Islander people joining us today. My name is Emily Suvaal and I'm the Chair of the Committee.

I ask everyone in the room to 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 therefore 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.

Mrs JULIE BRIGGS, Chief Executive Officer, Riverina Eastern Regional Organisation of Councils, sworn and examined

Mr PETER VENERIS, Member, Riverina Eastern Regional Organisation of Councils Executive, and General Manager, Lockhart Shire Council, sworn and examined

The CHAIR: I welcome our first witnesses. Thank you so much for making time to be here and giving evidence to this inquiry today. Would either of you like to start by making a short opening statement?

PETER VENERIS: Yes, thank you. I'll do that if that's okay, Madam Chair. I should take the opportunity first, if I may, to convey an apology on behalf of the REROC chair, Councillor Rick Firman. He would have preferred to be here. I'm sure in his absence he probably would have preferred another mayor or elected member to be here to support Julie as the CEO but we weren't able to arrange that in the short time. Thank you for the opportunity to appear before the Committee. REROC represents eight member councils, namely Bland, Coolamon, Cootamundra-Gundagai, Greater Hume, Junee, my own council Lockhart, Temora and Goldenfields Water. It's now in its thirtieth year of operation and collaborative effort.

REROC has welcomed the revised rate peg methodology following a review by IPART, which now adopts a more customised approach, factors in population growth for those councils that are experiencing it and relies on more relevant data. I'm proud to say that REROC has played a very active role in participating in that review by IPART. However, the point still needs to be made, we believe, that the rate peg is supposed to be set at a level that allows councils to undertake a business as usual approach, meaning that it should cover the increases in day-to-day costs of operations, and we believe that has not been the case. The additional revenue generated by the rate peg is usually more often than not offset by award wage increases negotiated at an industry level, increases in fees and charges, and other levies imposed by public sector agencies, such as the RFS, Auditor-General and the NSW Electoral Commission, before CPI and increases in materials, fuel and other necessities are taken into account.

As it is supposed to allow for that business as usual approach, the rate peg makes no provision for delivering other specific projects or community priorities even though they may be contained in a community strategic plan, which is developed in consultation with the community. If a council wants to increase its rate income by more than the rate peg, it is required to make an application to IPART and undertake a comprehensive community consultation process. This appears to be a duplication of effort as a council is required to consult for the purposes of developing a community strategic plan and then consult again to increase its income above the rate peg so it can actually deliver on that plan. We believe the interplay between the development of the community strategic plan and the process for applying for a special rate variation needs to be reviewed and streamlined for that reason.

The rate peg also has wider implications beyond impacting on a council's ability to fund services and infrastructure and deliver on its community strategic plan. It also has implications for councils, particularly in rural and regional areas, in attracting and retaining staff, as we're often required to convey an offer that's above market rate to attract staff and keep them in our areas. The rate peg doesn't factor in the ability to respond to natural disasters; it doesn't factor in providing services to dispersed populations, as is often the case in rural shires; and it doesn't factor in councils often being required to respond to market failure. My own council, Lockhart, is an approved childcare provider and is currently liaising with Lockhart Central School to extend a before and after school care service to a long day care service because the local operator closed down with about three weeks notice. Another member council, Bland, has held a Medicare provider number. Junee, Coolamon and Temora shire councils have built medical centres. These are the sorts of roles rural shires are now expected to perform.

Whilst to some degree some may argue that the Financial Assistance Grants from the Commonwealth are designed to address these kinds of issues, what we have found is that FAGs, whilst providing a base level of funding for councils for now over 50 years, have decreased from 1 per cent of Commonwealth taxation revenue in 1996 to just over 0.5 per cent today according to the Australian Local Government Association. To make the point, whilst FAGs have been declining as a percentage of Commonwealth revenue, the role of local government during that same time has been expanding. On that point, I think I will leave it at that, Madam Chair, and thank the Committee again for the opportunity to be here.

The CHAIR: Did you also wish to make an opening statement, Mrs Briggs?

JULIE BRIGGS: No.

The Hon. SCOTT FARLOW: You tell, and your submission explains as well, quite the tale in terms of the difference between regional and rural councils and what you see in metropolitan areas. You've outlined some of those roles where council steps in as the provider of last resort. How would you like to see a demarcation between the role that rural and regional councils play when it comes to the rate peg compared to metropolitan councils that don't have that burden that you do in rural and regional communities?

JULIE BRIGGS: One of the things that we've argued, and we've seen in the new methodology that IPART has put forward for the rate peg, is a more customised approach to the peg that recognises differences. I think we'd like to see that extended more to recognise the differences between what rural and regional councils are expected to do. There's just no getting away from the fact that it's a thin market. I think in the REROC region there's something like 2.9 people per square kilometre, and they're spread over small urban centres. There is no public transport between those small urban centres so you can't consolidate anything. It's not just, as Peter was saying, the childcare things; it's almost everything where you end up with this sort of duplication of services, so multiple outlets for administration, multiple pools. Greater Hume Shire, I think, has five pools. Nobody builds a pool to make money. It's just, how much money are you prepared to lose on the pool? Multiple library outlets, multiple landfills—it just goes on and on.

One of the things that REROC has argued for for some considerable time is perhaps a finer grading around rural and regional councils that is reflected in the service provision that they have to make in what are thin markets and a recognition that there is limited opportunity to consolidate service provision because if you want access and equity and there is no public transport, there's not an opportunity to provide one point of contact, one public facility—those kinds of things. The steps that IPART have taken in granulating the rate peg more, we really strongly support that. It's a great step in the right direction. We would argue more granulation is required to get a more effective result. We're highly supportive of the new methodology that they've put into place. It's certainly something that REROC's argued about—for this granulation—with IPART for years, so we're very pleased to see it.

The Hon. SCOTT FARLOW: So a step in the right direction.

JULIE BRIGGS: Absolutely—no question about it.

The Hon. SCOTT FARLOW: With respect to your submission, you outline the situation where—I think it's about $250,000 all up, in terms of all of your councils, left over after you take out the ESL increases and the local government election expenses, when it comes to the rate peg. What would you like to see with both of those line items to make sure that something that the State government is, effectively, in many cases mandating, in terms of increases of costs, is potentially taken out of that rate peg formula?

JULIE BRIGGS: What used to happen was that they would take the emergency services levy and they'd spread it across all councils, so it sort of evened everything out. But the problem was it was only the rural councils, essentially, that paid the Rural Fire Service levy. Some years, the Rural Fire Service has an income of $700 million, and 11.7 per cent of that is paid by local government. That 11.7 per cent is met, primarily, by rural councils, but that 11.7 per cent was spread across every council in the State. That left us way behind.

The new methodology has proposed that they will work out what contribution the council has to make towards the Rural Fire Service, and they will pop that on the top. If that actually happens—we talk in here about the need to ground truth. Once this new methodology rate peg goes through for this next financial year, what REROC will be doing is to ground truth to see whether or not that's worked out. If that happens, then it will stop impacting on the business as usual methodology that rate peg use—rate peg is supposed to allow you to keep doing whatever you were doing before, but every time the ESL goes up, it makes you less able to do what you were doing before. If the new methodology works the way it's supposed to, then the ESL shouldn't impact as significantly as it has in the past.

Having said that, REROC has argued for some considerable time that, in relation particularly to the RFS and its growing budget—and it's grown in the last 10 or 15 years from something like $100 million a year to, one year, $900 million—there should be some oversight in relation to the RFS budget so that we know that we're getting value for money. One of the things that IPART said in its recommendation for the new methodology was, by providing councils with a separate amount that covered the contribution to the RFS, it would make the RFS more accountable because people could more clearly see how much money was going towards the service being operated.

PETER VENERIS: If I can take the opportunity to respond to those questions and add to what Julie has said—in relation to the first part of your question, to me it's not just a matter of separating rural and regional city councils in a geographic sense. To me, I think we need to find a way that the rate peg acknowledges the differences in population density more specifically because, to me, it's population density where you can find economies of scale or economies of population concentration. I need to be careful here because I'm probably delving into some of the things we've said in our own submission as Lockhart.

Often, the go-to solution for trying to make councils more efficient has been about larger geographic units, but really the savings are in population density. I think that's what a rate peg needs to acknowledge in terms of making a differentiation between different types of councils. In relation to the rate peg, I think the irony for me is that, where it should be business as usual and allow a council to hold the line, if you like, from one year to the next, often the additional revenue that's generated is swallowed up by things that we can't market test or are simply imposed on us.

The Hon. SCOTT FARLOW: I think you give the example as well of the Auditor-General's fees and the like.

PETER VENERIS: Correct. Auditor-General, RFS, Electoral Commission—a lot of these things are mandated and, if I can say respectfully, the irony is they're often from agencies that are at the same level of government that's capping our income.

The Hon. SCOTT FARLOW: Two last questions from me. One is—and I'll play devil's advocate here a little bit—you've advocated for the 2 per cent increase on top of the rate cap without a special rate variation. If that were to be in place, wouldn't councils just take the 2 per cent, typically, on top? Wouldn't it just be 2 per cent on top of the rate cap? What do you see as a way to control that or to justify that 2 per cent increase, so to speak?

JULIE BRIGGS: We are advocating for that because, as you would know, councils are committed to doing the community strategic planning process as part of the IP&R, so the rate peg is all about business as usual. Business as usual started with the rate peg and IPART in 2010 so, in effect, councils are stuck with delivering whatever level of service they had to provide in 2010. On the flip side, councils are required to do community strategic plans and then to deliver on those community strategic plans, and they're judged on those. If the rate peg only gives you business as usual as per 2010 and your community wants existing services enhanced or more services, or you have to, as Peter said, jump in when the market's thin and it has failed, where do you fund that from?

What we're suggesting is that, if you want to be able to deliver your community strategic plan and your community has asked you for enhanced and increased services, then the community should be willing to pay an extra 2 per cent. If we go to a special rate variation to try to fund the community strategic plan, then we have to go back and do all of those community consultations all over again, which just duplicates effort. So we're suggesting 2 per cent. Councils are held to account. They're held to account every time the voters come and hold them to account. They're held to account in the supermarket in small communities. They're held to account in the streets. I can tell you, nobody is afraid to come up to you in the pub and complain about what you're doing. Most councils have nine councillors, and they're all over the place. I think they're constantly held to account.

I think, because the operation is so grassroots, councils, in my experience, don't jump to increase the rates. Sometimes you have to encourage them to increase the rates because they're torn between knowing that the community's suffering—from, this time around, cost of living—against what's good for council as a whole as a business. We just think there should be that discretion and that discretion would be a more efficient way of allowing councils to deliver on their community strategic plan.

The Hon. SCOTT FARLOW: Do you think, if your recommendation was to be taken up, that should be up-front in a community strategic plan—that X council will be applying the rate peg plus 2 per cent in order to fund the community strategic plan obligations?

JULIE BRIGGS: Yes, I don't see that as a problem. It's not quite the same, but I can tell you that, quite a few years ago, Coolamon Shire Council wanted to introduce a FOGO waste collection. It was going to incur additional costs to the council. They ran a pilot which was super successful. Then they went to the community and said, "You all seem to want this FOGO collection"—that's food organics and garden organics collection, so a whole extra bin and everything. They went to the community and they said, "This is what it's going to cost you extra in your rates for us to do that", and everybody said, "Yes, we'll pay extra to get the extra service."

So I don't think it's out of the ballpark that residents say, "Yes, I want an extra service, and I'm prepared to pay for it." I see Peter nodding, but, yes, I think you go out to do the CSP and you say to the people, "We've got 2 per cent here that we can spend. This is what 2 per cent increase represents," because sometimes that's not a bad thing for a council to say—2 per cent is not a lot of money for most of our councils—"We've got a spare $250,000 if we do this. So this is what we can do for you."

PETER VENERIS: I think I understand the question, and it would be very easy for a council to simply take up that additional 2 per cent. For me, the justification is if it's in your community strategic plan and the consultation in preparing that was genuine and the community was fully informed, I think that's the justification. At the end of the day, councils and councillors, in particular, do live in that political reality.

Dr AMANDA COHN: Thanks so much for coming down to Albury today. My first question is about the role of regional organisation of councils, like yours, and other joint organisations. I was hoping you could speak to some of the work you might already be doing or could be doing to assist your member councils with financial issues. For example, earlier in the inquiry we heard that some regional organisation of councils were doing things like linking member councils with shared resources, like particularly skilled staff members that might be in short supply and other things like that.

JULIE BRIGGS: REROC has been around for 30 years. Looking back, there has been a lot of resource sharing activities we've done. I was saying to Peter earlier this morning that the first thing we ever did was a retail energy contract way back when the market first freed up, and we saved almost $1 million for our councils doing that. Over the years, we've done lots of shared staffing. We've got at the moment—we're running projects with DCCEEW in net zero and energy efficiency, and we've got a regional project officer for that. We've got a regional project officer working on circular economy and waste—we've got two working in circular economy at the moment. We've had road safety officers; we've had stormwater people; we've had biodiversity people; contaminated land—so lots of shared resources. So we've done a lot of those kinds of things.

We've done a lot of what's called aggregated procurement. So we purchase bitumen emulsion, liquid alum, scrap metal collection, green waste processing, guideposts—lots of different things, wherever it makes. We have procured training for councils, or we run training. We develop resource materials for councils where they have to—so we will develop policy documents that they can customise for themselves. We usually do that as a professional development exercise with all of the council staff that are involved in it. In doing that, we've written the Regional Freight Transport Plan with all of our engineers. We've written a regional housing strategy, again, with all of our councils. We've prepared on-site sewage management materials that are customised for our councils, which we actually sold to other councils. We've prepared councillor induction training, which we've shared with other ROCs and joint organisations.

Anything where it makes more sense for us to work together than apart, then that's where you'll find us. We do a lot of stuff in career development, trying to address the skill shortage in councils. We run a program called "Build a Bridge…and get over it!", which is designed to encourage young people to pick up a career in engineering. We've been running that for—this is our sixteenth, this year. We think about 35 per cent of those kids have gone into civil engineering—and some of them into our councils, but some of them into Transport for NSW. We run conferences as professional development activities. We run a conference in energy and innovation, one in waste management and one in spatial data, as well as workshops. We did one in May on remote sensing technologies. So anything where there's a common interest along our councils, and we'll often join with other joint organisations or ROCs to deliver what we're doing as well if they've got an interest.

Dr AMANDA COHN: That was very comprehensive. It was an excellent list of examples. My follow-up question, which I appreciate you might need to take on notice, is has there been any work done to quantify that benefit to your member councils compared to if they tried to do all of those activities separately?

JULIE BRIGGS: The last time we did that was maybe—we used to do it a lot. When we first started out, when we were trying to justify why bother with a ROC, we used to justify everything. It was $1 million in electricity, $200,000 on bitumen emulsion—those kinds of things we used to do. But, of course, the more you do, say, in aggregate procurement, the less return there is because the first return is the best return. I can remember the first time we sold scrap metal into the market. Councils used to pay for someone to come and collect it, and then we tendered it out. I think we got $45 a tonne for it, and, my goodness, the councils thought it was the best thing since sliced bread because not only were they not paying, they were getting paid for it.

Now we put it out, and it makes a lot more money than that. We don't quantify it like we used to, but we do have one—the last time we really did a comprehensive look at that was in 2014, and that document is on our REROC website; it's called "Capacity building through collaboration". We did some work with UNE back in 2007, with Brian Dollery. They did a study—I think they worked out it was something like a 300 per cent return on the membership fee. I can provide with you both of those.

Dr AMANDA COHN: Please. Thank you. That would be great.

PETER VENERIS: If I can just add to what Julie has said, speaking on behalf of one of the smaller member councils and probably one of the smaller councils in the State, we've not only been able to get the advantage of the bulk procurement sort of savings but we've got resources now that there's no way we would have had, left to our own devices. We've got a net zero plan for the shire. We've got a contaminated land management policy. We've got resources that we can take to our local schools when trying to grow our own. These are things that we wouldn't on our own have the resources to do.

Dr AMANDA COHN: I also wanted to pick up on the earlier line of questioning by my colleague about rural councils particularly becoming the provider of last resort for things you wouldn't typically councils to do. In your written submission, you specifically mentioned early childhood education, aged care and medical services, which of course are things that in metropolitan areas councils are never expected to provide. Have you got some examples in REROC councils of those activities in particular that you can share with us?

JULIE BRIGGS: Peter will talk to his own proper example in Lockhart, but maybe two or two and a half years ago Coolamon Shire Council in Coolamon shire, the child care closed and there was no child care. Council ended up stepping in and taking over the childcare centre because—and Peter will talk to this—the domino effect from an economic perspective when the child care closes in a small community is significant. Coolamon stepped in and picked up the pieces for that one. It also runs an aged-care facility—a very good, strong aged-care facility—but you find those in lots of places. As Peter said earlier on, building medical centres—quite often they're building housing for doctors. Coolamon has recently built housing for aged-care workers that they've had to bring in from overseas and then they've had to house them, so they've had to build housing for those workers as well so that they can keep their aged-care facility going. They're thin markets. I think Greater Hume has a child care in Jindera.

PETER VENERIS: Yes, and family day care.

JULIE BRIGGS: And family day care. So the problem is the thin markets. In small communities, when you're running a small child care—and I think this is what impacted a lot in Lockhart—there is a lot of paperwork now. If you are running a really small operation, sometimes the paperwork becomes overwhelming for a person who just wanted to look after kids. We are finding that the paperwork for the size of the operation becomes so overwhelming that the operator goes, "Look, this is all too hard. I don't want to do it anymore", and they step away. To a degree, councils are very used to paperwork and it's not as daunting for them, maybe. I'm not quite sure. But it makes it less attractive. Again, you haven't got a lot of kids and then you have got a lot of compliance and so it's easier sometimes just a step away.

Dr AMANDA COHN: Earlier in the inquiry we heard from IPART and they were talking about the new rate peg methodology that has three categories—rural, regional and metropolitan. Do you think that categories that are as broad as that take into account these particular councils where they are stepping into huge leadership roles within the community? The costs must surely be very different to what business as usual looks like even in other rural councils.

JULIE BRIGGS: It's like we said before; it's a step in the right direction. In our submissions to IPART we actually argued for something more akin to the disability factors that you find in the FAGs grant, where councils then get an uplift for having a certain disability in their community. That was obviously a bridge too far. It was great to get the delineation that we got, but I think if we were to argue for anything we would be arguing for, like I said, further granulation. In our submission to IPART on the rate peg, we asked for factoring in disabilities. They are called disability factors in the FAGs but, in actual fact, they are additional responsibilities and not disabilities. I think that makes it negative. I think it's wonderful that a council is prepared to step in and provide child care, but that comes at a price.

Peter was only saying to me earlier this morning that to fix the problem that they've got—and he will talk about it more, I'm sure, in his Lockhart submission—council has to find $50,000 to help fix this problem in Lockhart. That's not business as usual. It's not covered by the rate peg. What gives in a council like Lockhart for it to be able to fix this problem for its community? The first place the community came when this happened was to the council—"What are you going to do to fix it?" I think that's the biggest challenge for most councils. When the market fails in any small community, the first place they go is to the council. When there is any kind of disaster, the first place they go to say, "How are you going to fix it?" is the council. It's the first port of call, whether or not it's the primary agency. It put councils in a very invidious position, when they are running such tight budgets.

PETER VENERIS: There are very specific examples that I can talk about at Lockhart. There are probably two that are very current for us. One is the childcare one. In the town of Lockhart we operate a before- and after-school care service at the Rock, which is government funded. At Lockhart, however, very recently the only long day care centre in the town, privately operated, closed with about three weeks notice. Working parents were left at very short notice without child care. We are only a small town but the businesses in town were also then expressing concern to us about their ability to keep their staff. If they didn't have child care, they couldn't turn up to work. The flow-on effects, from an economic development point of view, for the whole town, were significant, which is why they all turned to the council and council found it very difficult not to be part of the solution.

What we are doing at the moment—and it's only focusing on an interim solution to buy us time to then look for the more permanent outcome—is liaising with the Lockhart Central School, which is the public school in town. To their credit, they reached out to us, indicating that they wanted to be part of the solution as well, not only for their community but because it was impacting on them directly: Their teachers needed child care. What they are doing is making their library available temporarily—"temporarily" meaning probably for the next 18 months to two years whilst we find a more permanent solution—for an interim childcare centre.

What they can't do is fund the improvements to the premises in order to make them compliant with all the regulations, which is where we are stepping in. It's going through a formal tender process at the moment, but we expect the cost to be somewhere around $40,000 to $50,000. Council has committed to funding that. Hopefully, along with all the other regulatory compliance things we have to do, we will have an interim solution in a matter of months and then we will turn our focus to what we do for a more permanent solution. Whether it's finding existing premises to convert or a greenfield site, that longer term solution hasn't emerged yet. But that's an example of what we have had to do to respond in a very quick turnaround time to address a real need in the town.

The other example that comes to mind is around housing. Traditionally, any property development that has happened in Lockhart has been by the council because there simply hasn't been any private investment. Generally, we have developed land that we've held in our ownership for some time. Obviously, as a local council, we are not motivated by profit; we are just looking to make land available so the town can grow, and we have been doing that. With our latest developments—and we've got a couple on the go at the moment—the council has resolved to, unlike the past where it would simply offer all the blocks on the market as soon as they were available, look at holding some back in our ownership and building rental accommodation because there is a lack of rental accommodation in the town. We hear stories about essential workers like ambulance drivers being relocated to the town and then having to live in the caravan park or things like that. Now we are looking at holding back some of the blocks we are developing simply for essential workers.

The CHAIR: I will continue somewhat with this line of questioning. You mentioned, Mrs Briggs, a more granular approach and perhaps a more individualised process when looking at the rate peg methodology and allowing for not just business as usual. How can we assist councils to better prepare for a more planned and strategic approach to spending as opposed to having to react to the market, as in the example that you have given, Mr Veneris, where you are then scrambling and looking to find an additional $40,000 or $50,000 somewhere in council's budget? What can we do to protect the community? We have heard about the challenges that councils are facing, but the solution is not always going to be to be able to have flexibility to increase rates more. What is it that we can do in that regard to assist with that more granular process?

JULIE BRIGGS: Councils do long-term financial planning.

The CHAIR: You talk about the community strategic plan in your submission.

JULIE BRIGGS: Yes, through the community strategic plan they are required to do it as part of the IP&R. Councils are doing long-term strategic planning. I have heard anecdotally of one council who went for a special rate variation and was told by IPART, "You can't have it because you've got too much money in reserves." If you run down reserves, then how do you respond when something like what has happened to Peter happens or there is a flooding disaster and you need to fix roads quickly or you need to get staff out on over time? There is only so much long-term planning you can do and then there is what you do when there is an unexpected disaster.

Most of us would deal with an unexpected disaster with planned savings, but councils aren't encouraged, in some ways, to have planned savings simply because, if they want a special rate variation not to do business as usual, IPART comes back and says, "You've got all of this money. Why aren't you spending that? Why are you asking for a special rate variation?" The council says, "That's our fund in case there is an emergency." We know that there have been multiple emergency-type situations over the last five years, most of them to do with climate activity. And then you add to that the long lead-in time for councils to get paid for road repairs through the—what is it? The disaster road funding—

The Hon. SCOTT FARLOW: The DRFA.

JULIE BRIGGS: Yes, thanks. So there's an enormous lead time. I've got councils fighting with Transport for NSW over things like should it be eight millimetres of gravel or should it be 15 millimetres of gravel, and things not getting repaired as a consequence. I think councils have long-term financial planning well placed. I think the problem is that the rates peg is business as usual, so there's no expansion or enhancement of service. So it's specifically designed for no growth, as it stands at the moment. In a no-growth scenario for your income, what do you do if you want to grow? You'd have to pare something back. And there is no allowance at all for some emergency, whether it be something like the childcare centre closing down or an unexpected rainfall event that means all of your staff are out on overtime for days on end, closing roads and keeping people safe, and then there are emergency repairs. It would be great to have some kind of funding available. I'm not quite sure how that works, and Peter might have a better idea.

PETER VENERIS: The only thing I can add—Julie makes the point about it is a statutory requirement, the integrated planning and reporting process. We do have to have a community strategic plan. I just make the point, from my understanding, that is the community's plan, not the council's. We're just the facilitator and the custodian. Of course, part of that IP&R framework is also a long-term financial plan. I think we approach those things separate to the rate peg.

We wait for the rate peg to be announced each year and then we work out the next 12 month budget around that. Somehow—I'm not sure how—that rate peg and the IPART process and the council's IP&R process need to talk to each other better, because there is a process there for a community strategic plan, for the community to tell us what its priorities are. There is a process there to have a 10-year, long-term financial plan, but I'm not sure it talks to the IPART and rate pegging process very well. So that's the point I think I'd make.

The only other point I'd make is, again, I'm not sure what the answer is, but I think, in terms of local government's ability to fund infrastructure and services, the answer lies more in that financial relationship between all three levels of government. I know as councils, we're just an arm of the State Government. We only exist by virtue of an Act of State Parliament. But I think the financial relationship between all three levels of government is where the answer lies about ongoing local government sustainability.

The CHAIR: With the example that you gave—you talk about the community strategic planning in your submission as something that is already in place and is really good. With things like the childcare centre, would that have been part of that community strategic plan or is that an additional thing? If we're going to use that as the basis by which to fund councils, how do we protect and prepare for the unexpected shocks?

PETER VENERIS: I can only speak for Lockhart's case situation of course, not for the other REROC member councils. In our case the community strategic plan did acknowledge our existing involvement in childcare services, particularly the OOSH at The Rock, our other township. It did indicate that the community wanted us to look at a similar service at Lockhart, our other township, which we did. We established an OOSH on a trial basis. The long day care centre, though, that was never anticipated. It's not something that came out of the CSP process, probably because the existing private operator had been there for years and no-one was really anticipating what was about to happen to happen. So the CSP did cover off on some aspects of our involvement in children services but not the specific dilemma we ended up facing.

The CHAIR: That is unfortunately all we've got time for this morning. I thank you both for making time to give evidence in this inquiry. Our Committee secretariat will be in touch with you if there are any questions on notice.

(The witnesses withdrew.)

Mr PETER THOMPSON, General Manager, Wagga Wagga City Council, sworn and examined

Councillor DALLAS TOUT, Mayor, Wagga Wagga City Council, sworn and examined

Ms CAROLYN RODNEY, Chief Financial Officer, Wagga Wagga City Council, sworn and examined

Councillor DOUG CURRAN, Mayor, Griffith City Council, before the Committee via videoconference, sworn and examined

Mr BRETT STONESTREET, General Manager, Griffith City Council, before the Committee via videoconference, sworn and examined

The CHAIR: Welcome to our next inquiry participants. Would either of you like to start by making a short opening statement? We might start with Wagga in the room.

DALLAS TOUT: I'll make a short one. It's on the fly, so watch out. Just to let you know that the Wagga City Council submission forms part of the—or we had input into the Canberra Region JO, because we're an affiliate member with them, so our input is in that report. There are probably four things—I won't take too long, because I know you'll have a lot of questions—that lead to this inquiry. It's fantastic that we're having this inquiry, and we're able to come and visit and talk in person. The age-old issue of rate pegging but also the rate peg increases hamper the ability of councils to raise rates when they need to. It's a good control to have so that councils don't go over the top with that, but the process is really quite onerous. One thing that happened the year before, I think, was the issue about the rate peg increase each year and the legendary 0.7 per cent increase that came down from IPART—so those sorts of things. Seeing those changes happening and having the increases having some link to reality is fantastic.

The second issue that leads us into the ability to fund infrastructure and services is the age-old issue of cost-shifting from different levels of government or different organisations; and reliance on grants, which does also come with some of that cost-shifting. A lot of councils, smaller and medium councils in particular—we're okay at the moment with our percentage of own-source revenue, but small- and medium-sized councils have an issue with the amount of grants that they're reliant on, and if they don't get grants then financially they are in big trouble. The other thing with reliance on grants is that generally the grants are fantastic, well and truly welcomed to build up our infrastructure or increase our services, but with that never comes on-costs, so whole-of-life costs, from the projects that you're building using those grants, because then you have to find those extra increases out of your ongoing budgets from year to year.

The last point I'll make—everyone will make it when they come here—is the decreasing contribution from the FAGs grants. I think it's down to 0.46 or 0.47, depending on who you're talking to at the moment, and that's a major impost on local government across the whole country. Just recently at the ALGA conference it has come up again and again and again, and you'll get it again and again and again. They're my four or five hit points that I wanted to just get the message to you before you open up the questions. Thank you for the opportunity.

The CHAIR: We'll now move to Griffith online. Do either of you have a short opening statement?

DOUG CURRAN: Good morning and thank you for the opportunity to attend the Standing Committee today and provide input to the inquiry. Like so many other councils in New South Wales, financial sustainability is the primary challenge for us. Griffith City Council has been very proactive during the last decade in containing costs and identifying alternative revenue streams to supplement rate income. Despite these measures, the final straw for our council to apply for a special rate variation effective 2024-25 came as the nation emerged from the COVID pandemic. A combination of high inflation, rate pegging levels consistently lower than the actual cost of doing business, cost-shifting onto local government from the State Government and the erosion of the value of the annual untied FAG grants all made the financial future of our council unsustainable, like so many around us. Even then, council's application for a three-year stepped increase was only partly approved. This point can be further explained if required.

What is required to fundamentally change the current dilemma is for the New South Wales Government to start trusting local decision-making. Rate pegging is a popular policy but is unsustainable. Cost-shifting by the State government onto local government in New South Wales is well documented and currently adds on average approximately $460 per annum to each ratepayer's annual rate notice. Griffith City Council is trustee of several Crown reserves on behalf of the New South Wales Government. As part of council's cost containment strategy, we have investigated the option to relinquish the trusteeship of reserves back to the New South Wales Government. Council has been advised that the Minister is unlikely to approve any application by council to relinquish this trusteeship. This is another example of cost-shifting and should cease.

During the last decade New South Wales has invested strongly in new infrastructure in the Griffith LGA, which is very much appreciated. The ongoing depreciation of these assets, however, must be funded from council's annual budget, which is placing further strain on financial viability. Like many other growing regional areas, Griffith is in the midst of a housing crisis. Our council has been proactive in forming partnerships with other stakeholders to take affirmative action on this front.

Our Griffin Green Affordable Housing Project in partnership with Argyle Housing has just completed 20 affordable townhouses. Sixty per cent of the new tenants were previously homeless. The project also includes an additional 42 fully serviced lots ready for construction of more affordable homes by our project partner. We have more projects like this ready to activate through the use of vacant Crown land within the city precinct. These projects, however, have stalled due to NSW Treasury direction 92.2, which requires market return for the transfer of land from the public estate. This directive should be relaxed where land is vested to a council for affordable housing.

Finally, still on the housing front, Griffith City Council is very keen to play its part in constructing enabling infrastructure to accelerate the supply of key worker housing. Despite Griffith's strong growth, the New South Wales Government is focusing investment on major housing projects that have a minimum lot yield. This policy essentially blocks most regional city councils out of these programs.

The Hon. SAM FARRAWAY: Welcome. It's good to see everyone here again. I'd like to ask both Wagga council and Griffith council the same question. We'll start with roads, part of the three Rs of local government, as they say. How do you think road funding should be distributed? Roads are a key piece of infrastructure for community. What is the best way to distribute funding to support councils for road funding to repair roads on your network?

PETER THOMPSON: I'll field that first. My mayor may want to follow it up. Road funding at the moment in the regions is dramatically under what it should be to maintain the quality of that asset. That's just a statement of fact. In terms of this inquiry, there should at the very least be an acknowledgement that the funding that goes to regional roads is not quite maintaining the current rate of deterioration, so we're not maintaining the roads. We're not even just quite maintaining the current—

The Hon. SAM FARRAWAY: Is that excluding natural disaster events? You're talking about BAU, yes?

PETER THOMPSON: That's just normal: what we should be doing to maintain roads at a standard that doesn't represent a day of reckoning coming. We've just recently had a few years of days of reckoning where following a period of dry, which hides a lot of sins, we had a period of wet and the lack of funding on roads becomes immediately apparent, and the people and businesses and communities that use those roads are outraged at the quality of roads that they're forced to deal with, which is simply a result of the lack of spending.

My answer to your question would be, as a minimum, the State Government in terms of allocating funding sources should look at the length of roads that councils are asked to maintain because they're different depending on which council you look at. It should set a threshold for what the standard should be to maintain those roads because, again—it's not a secret—every council would be well aware of the gap between what they spend on their roads and what they should be spending on their roads, and then that should be addressed in terms of a funding source. I'd suggest that there's a very great difference between the expenditure of metro councils on roads and gaps and the expenditure of regional councils on roads and gaps.

The Hon. SAM FARRAWAY: When you say a difference, do you mean in terms of the funding that metro councils receive proportionate to the size of their road network? So they get more?

PETER THOMPSON: Firstly, metro councils won't be maintaining the same road length as regionals and, secondly, metro councils, if you compare the income streams to metros from rates alone, receive dramatically more rates than regional councils and yet regional councils are maintaining, in our case, more than 3,000 kilometres of road.

The Hon. SAM FARRAWAY: To follow up, if that's the case, you would support what the former Coalition Government introduced around funding based on size of road network for each LGA. You say that Wagga regional council has 3,000 kilometres worth of road network. That must be sealed and unsealed. Would that be correct?

PETER THOMPSON: Yes.

The Hon. SAM FARRAWAY: So obviously if there is a funding pool, which we've had a little bit to do with, the former Coalition Government, to distribute that funding—the new New South Wales Government did initially keep that model—do you think that model is a far more equitable model to support any council across regional New South Wales with their road network?

PETER THOMPSON: We would support any funding initiative of government which recognised the task that regional councils are faced with maintaining roads.

The Hon. SAM FARRAWAY: But, Mr Thompson, if we are to have more than a talkfest here today, we need recommendations. That's why I'm asking. It's about equity in the funding models because if you've got one pot of money, how do we make it equitable for councils, whether it is Griffith, Wagga, Warrumbungle shire or any council? Do you think that the only way forward should be maybe to look at road block grants to be reviewed, and if there are funding streams coming from State government, that it should be purely based on the size of road network to return equity to those councils?

PETER THOMPSON: I would agree that it should be based on length of roads to be maintained and their current state.

The Hon. SAM FARRAWAY: Has it gotten worse in the last 12 months in terms of funding for BAU activities, not disaster-related activities but road funding projects that enhance the road network as a BAU activity?

PETER THOMPSON: I couldn't really answer that as BAU because we have had to spend a lot more money on roads because of the wet weather, be it disaster related or otherwise. So for the first time in a very, very long time, we have spent a lot of money on roads, but that just bandaids the underlying situation, which is the reason we've had to do that spend is because the roads didn't have the money spent on them previously which, unless that funding is going to be ongoing or recurrent—which, clearly, it's not—then future governments will face exactly the same issue if those weather events happen again

The Hon. SAM FARRAWAY: Do you think councils should have to justify a BCR to fix their local roads, and should it be a beauty contest as to which road project gets funded over another?

PETER THOMPSON: No. I think the government, whichever government is in power, should accept that the community needs to travel on roads of a particular standard and that's what should be funded, not a business-cost ratio that different councils have differing abilities to put together.

The Hon. SAM FARRAWAY: Over to Brett and Doug from Griffith—the same question around equity. One, do you support a road funding model that continues disbursing funds from State government programs based on size of road network? Two, do you think that is the most equitable way to disburse road funding? Three, do you think that a BCR should be applied to councils to repair and upkeep the regional and local road network?

BRETT STONESTREET: A couple of issues—I might just draw, as an evidence-base, from the recent publication a few months ago from the Grattan Institute, "Potholes and Pitfalls". Basically, that document spoke about what's happened to the road network across State and federally across—probably over a decade or a couple of decades. What councils and, in fact, regional councils have basically done over the last couple of decades as a consequence of restriction on revenue streams due to rate pegging and cost-shifting and the like, and the FAG grant reduction, it's really been the road network that's suffered and it's been balancing item in council's operating statements. It has to do this, one way or the other, otherwise insolvency looks down a barrel.

There's certainly been a deterioration, not just in the last year or two or three or even five—it's been a long-term deterioration in the road network because of that—the FAG grant I appreciate is a Federal question, but I will touch on it. The FAG grant formula provides a minimum payment of 30 per cent of the formula to councils regardless of their need for funds, and that's where metropolitan councils pull a premium out of the total bucket of 30 per cent. There's approximately sixteen councils in New South Wales that take $100 million out of the bucket due to the formula regardless of their need and their road network.

So, for our council, yes, there does need to be a focus on the length of that road network and condition of that network, in terms of the amount of funding that goes to local government. But, in terms of the BCR, BCRs work better when you've got economies of scale and you've got your large populations—the net travel times and the like, and freight and persons. When you've got a large population, those numbers add up very quickly. In Australia we need a cost subsidisation in order for the country to continue. And so, for our council, BCR, no, it's not the answer to this. It's to look at the long-term future of the country, and return some funding to those long and deteriorating road networks in the regions.

DOUG CURRAN: I think that covers most of it. I think the other part to be considered as well is the economic drivers in different areas. We can certainly look at [inaudible] kilometres of road network of which we are managers. We need to look at how much the prosperity of our area and also of the New South Wales State is out of the area. I think that needs to be recognised as well. Certainly, I don't support the proposed BCR model.

I don't think that is suitable. I do think that we should be looking at a 200 kilometre range. It would be [inaudible] to be sure [audio malfunction].

The Hon. SAM FARRAWAY: I'll move on to another topic. We've heard throughout the inquiry across the State about the volatility in grants—and, the mayor of Wagga, you raised that in your opening remarks as well today—in particular around small to medium-sized councils that may not have the rate base to support their overall budget. Have you seen a reduction in available grants or secured grants in the past 12 months from State government?

PETER THOMPSON: I'm going to answer that for Wagga and say we haven't. We've been fortunate to have been the recipient of quite good grants in the last 12 months. A lot of those were related to the housing crisis that we're currently facing, but they're gratefully received. The other comment that must be on the back of that, though, is how much our co-contribution is. Often a grant can be a rod rather than a saviour. We're fortunate that we are a larger regional council. The mayor's comments and your comments chime in at that point in relation to, if you're a smaller council, often you can't make that co-contribution. So the quantum of grants you're receiving, on its own, shouldn't be looked at in isolation from the context in which that grant is given.

The Hon. SAM FARRAWAY: Excluding grants relating to housing, have you seen a reduction or increase in grants for basic community infrastructure—for projects like toilet blocks, skate parks, things that have been funded for years to support councils—but also community infrastructure that may not have required a BCR? Other than housing, have you seen a movement in the available grants and secured grants for the smaller type of community infrastructure in the last 12 months?

PETER THOMPSON: In Wagga's case, I don't believe so. My chief financial officer may wish to comment but, again, we've received community grants in recent years and I don't believe that comment bears out that we've received any less.

CAROLYN RODNEY: I think it's just a more competitive process. Wagga Wagga City Council has always been quite successful in obtaining grants over the past 10 to 15 years. Other councils have had to, obviously, get on board and submit applications as well so it's a more competitive process.

The Hon. SAM FARRAWAY: Do you have a dedicated grants officer in Wagga?

CAROLYN RODNEY: We have, in the past financial year, put on a dedicated grants officer because we felt that it was such an important role. We were obviously undertaking that process ad hoc across the organisation and so in the past financial year we've put on a dedicated grants officer in order to smooth the process and to ensure that we are in the best position to receive grants.

The Hon. SAM FARRAWAY: When you say it's been more competitive, is that because—it's fair to say that every grant that has been available for councils to apply for has had a BCR attached to it?

CAROLYN RODNEY: When I say more competitive, more councils are putting in for them, so we're in a pool of applicants and we need to obviously ensure that we meet the eligibility criteria and there's obviously only so much money to go around.

The Hon. SAM FARRAWAY: A question for Brett or Doug from Griffith: In terms of that community infrastructure, we've heard from Wagga that obviously they've been successful in grants, in particular with housing. Has Griffith been successful with grants other than housing grants? I'm specifically wanting to know about community infrastructure. I would also draw upon funding programs that were put in place, like Stronger Country Communities funding, where it was disbursed based on LGA—every LGA got the same amount of funding. In Griffith's case, have you been successful in securing grants? Have there been grants to apply for and have you found it more competitive because of the number of applications or BCRs applied to these grants?

DOUG CURRAN: We definitely saw a downturn in available grants over six to 12 months. We've been working [audio malfunction]—

The CHAIR: Sorry to interrupt you, Councillor Curran. We're having a bit of trouble hearing you in particular when you're speaking. Is it possible to move the microphone closer to you or speak more directly into it?

DOUG CURRAN: Is that any better?

The CHAIR: Much better, thank you.

DOUG CURRAN: Yes, in the last 12 months, we have definitely seen a downturn. As I was saying, we were quite lucky prior to that. Two things: The problem with grant funding, depending on what it is, is the ongoing depreciation cost afterwards. The grant's great to get; no council's going to say no to a grant, but we've got to be able to fund that moving forward and that obviously has to come out of our annual operating budget. As I say, the downturn in the last 12 months, we appreciate everybody—State, Federal and local government—is doing it a lot tougher now. But certainly it has become more competitive and there seem to be less grants to apply for. I will hand over to Brett, but certainly we are seeing a very different dynamic over the last 12 months. And probably looking forward to the next 12 months, we don't see a great deal of change in that, from what I can see.

BRETT STONESTREET: Thank you, Mr Mayor. Can I supplement that just by saying—going back to the mayor's comments of introduction about providing flexibility at the local level to make decisions around allocation of resources. I will mention specifically about the housing task, which is obviously a major issue for the entire nation. Our council has been quite innovative, and the mayor touched on it earlier in terms of the housing issue or question. We have been innovative. We are agile and able to work with partners to get results on the ground.

But where things come unstuck for us as a medium-sized regional council is we don't meet the scale criteria for housing and matching funds. Treasury has clearly been involved here, significantly, in terms of requiring a number-of-homes yield in order to qualify to get the maximum outcome for the State. Our council is, again, growing like many councils in New South Wales at the regional level, but we don't qualify for that minimum yield, so we're cut out of that grant scenario completely. We would like to see—it's basically a return on dollar rather than an absolute return on the number of homes to get some agility back into the local government sector in the regions.

The Hon. SCOTT FARLOW: Can I ask a follow-up question on that? Which grant program is that where you're applying but not reaching the minimum threshold?

BRETT STONESTREET: There was a fifty-fifty round of grant funding allocated only in the last—the name escapes me, I'm sorry. Peter Thompson might have it.

The Hon. SCOTT FARLOW: If you could take that on notice, that would be great.

BRETT STONESTREET: Yes, I can take that on notice.

The CHAIR: I might start with a couple of questions now. Again, we will proceed with Wagga first and then Griffith afterwards. We talked about providing flexibility for councils to make these sorts of decisions on behalf of communities. Do councils—and I'm talking about the elected councillors as well as council staff—have the skills and knowledge required to make decisions like that on behalf of the community, in terms of when we look at risks or being a responsible form of government? I invite you to make comments on that.

DALLAS TOUT: Are you talking overall in general and community needs and wants?

The CHAIR: Yes.

DALLAS TOUT: It's skills and abilities, but I think the other word that needs to be added is "information". I won't speak for every council, but every council does community consultation. We are in the middle of our CSP consultation now. I think it's going to be going for 18 months or more by the time we've finished it. We are present at every event there is, formal or informal—events everywhere. I've been on Wagga now for—this would be the end of my twelfth year. I am really comfortable that the consultation that has been undertaken over the last several years is comprehensive. The information part, I feel, is completely covered. When we get to the council meeting room and are making decisions on whatever we are making decisions on, we are completely comfortable that we've got the information from our community and we have a feel for what our community wants and where they want us to head. That then factors into the skills and abilities. It gives you the ability to have the confidence that you're deciding what your community wants.

As far as skills and abilities—there's an ex-councillor around the table here—when you're a new councillor, there is a learning process. But the staff—and I can only speak for the staff at Wagga—whether it's in finance or any other area, if you need work on that, they will work on that to put every councillor in a position that they have the needed skills and abilities in order to make a decision when the information is presented and outline the risks: What's the benefit? What's the downside if we don't do this? What are the risks? I'm quite comfortable in stating that I have no issue around the table at Wagga that that happens: information, skill and abilities to make the right decisions.

The CHAIR: In terms of how that aligns with the ongoing financial sustainability of councils, do you think the two align or is there a discrepancy there, if you like?

DALLAS TOUT: It aligns 120 per cent of the time. We can't make a decision in our council unless there is a funding source. If there is no funding source, it doesn't come up. There is no recommendation; there is no resolution. We spend a lot of our time—we don't just talk about the budget at budget time; we talk about the budget all the time. Financial considerations and that responsibility come hand in hand with everything else. That's always at the top of everyone's mind, whether it's staff or councillors.

The CHAIR: Thank you. Griffith?

DOUG CURRAN: I just want to echo Dallas's points. We employ very skilful employees at all of our councils. It's very difficult to get anything past them, not that we try too often. Anytime there's any discussion about what we want to do moving forward, similar to Wagga, we have to be able to validate that. I think we talk about the skills—I think there's another word missing now. I think there needs to be trust. Dallas very rightly said we probably over-consult. In terms of levels of government that talk to our communities, there isn't one out of the three that does it better than local government. I think that, whether you're a popularly elected mayor, whether you're an elected official, you've got to be able to do that groundwork. You've got to be able to prove that you have some skill, some understanding.

Again, as Dallas rightly pointed out, there is a lot of training. A lot of staff take a lot time to make sure that we're on the right path. Most times, when we go for grant funding, we also then have to prove that further up the chain. It's not something that we can wing it. It is really something that we have to have a good foundation and good proof behind every decision that we make. We don't always get it right, but I think a lot of times we are, as a local government entity, tarred with the brush of some of our counterparts that may not do it well, as opposed to the councils that do it very well and prove that we are able to move forward. If the test is whether we need to apply for an SRV or not, I think that that's probably a little bit unfair as a whole-of-government approach because there are a lot of factors outside of the decisions that we make in terms of financial sustainability that are leading to this. We know that over 90 per cent of councils in the last 10 years have had to apply for SRVs. Brett?

BRETT STONESTREET: Thank you, Mr Mayor. What I would just add is I'll make reference to our special rate variation application. We've been through that process and the first tranche of that is starting this financial year. With the final report that IPART put out, they did compliment Griffith City Council on its community consultation: the extent of that consultation and, essentially, the depth of information that was provided to the community leading into their final decision. I will say that the council was not criticised. Certainly, we were under a lot of scrutiny, but I didn't hear much criticism, if any, about council wasting funds.

There was certainly a lot of comment from the community about not wanting to pay more rates and the cost of living et cetera. Absolutely those issues were brought forward, but not waste of funds. Further to what the mayor mentioned about the length of time it has taken for us to reach this decision to apply for a special rate variation, the councillors watch very, very closely. Any proposal that comes through across their table, they need to see where the end result, financially, is for that and how it would impact us in the long term, and also whether it's the right choice of allocation of funds or whether it should be something else.

The CHAIR: I might now ask a question about depreciation. We've heard a bit about this through the course of the inquiry and some of the impacts this has on local councils. Does Wagga or Griffith, indeed, have a view around the depreciation guidelines as they currently stand and whether or not there should be opportunity for councils to value assets differently, whether it's less frequently or otherwise?

PETER THOMPSON: I'll speak briefly, and then I will flick to my mayor. We would definitely like the Government to relook at how depreciation is done at a local government level. A proportion of the depreciation which we include in our books is really just an entry on a page and is completely meaningless. It's depreciating assets that we will never replace as a council or, if we do replace it, it's wholly reliant on grant funding replacing it and not own-source revenue. So the depreciation number is really not informing you on anything about your financial capacity or your financial vitality.

It also ends up being quite silly for some assets. Our airport is a classic example of that. We don't own the airport; we lease the airport from the Federal Government. Because that lease is ending in—it was one year but it's two years now. If we do major capital expenditure, we need to depreciate the whole of that capital expenditure across the remaining portion of the lease. Our example is a $5 million taxiway extension. That $5 million, most of which was funded by State government, is depreciated across approximately four years. We have no security that we will even be the next tenant of that airport. In terms of what that number is telling you in relation to Wagga's financial position, it's completely a misleading statement because it doesn't relate to the actual situation on the ground at all in any way, just to the way the depreciation is calculated. Mr Mayor?

DALLAS TOUT: I was going to comment, but Peter has covered what I wanted to. I know the CFO is itching to say something.

CAROLYN RODNEY: You mentioned briefly about the revaluation cycle. Five years is too low, in my opinion. The council should have the choice. That might be a guide, but five years for a revaluation of the whole category—council should have the choice, and there should be a minimum and maximum, I think. The amount of work and effort that it creates, not only for local government employees but also for the audit office in order to audit that work, is then a cost on council because we have to pay for that audit work.

The CHAIR: Thank you. That's very useful.

The Hon. SCOTT FARLOW: For that minimum and maximum, what do you think it should be?

CAROLYN RODNEY: Maybe seven to 10 years, but it should be up to the council. If they feel that a different treatment method—if their assets are not valued in accordance with how they think the asset is behaving, then I think it should be an opt in. But I think five years—you finish one year and you are onto the next. It's just an ongoing cycle and I see very little benefit in what the information is presenting.

The CHAIR: Griffith, I invite you to make a comment.

BRETT STONESTREET: I think, in terms of depreciation of assets, there is far too much debate and procrastination that has occurred over many years about the details of this. At the end of the day, the depreciation is there to consciously force the council into recognising that, at various points in the future, in terms of its capital expenditure plan, those assets will need to be replaced. It might be considered by some as a book entry, and it is a book entry on the day each year, but those actual costs do come back to bear. Depreciation is fundamentally required to be allocated each year. Whether it's every five years, six years or seven years in terms of valuations, yes, we would agree with Wagga that we need to ensure that we don't create arduous amounts of work at the council level in order to justify an audit review. Fundamentally, it's about getting cash into the bank account into reserve in order to replace assets down the track. Standardising depreciation rates and standardising the number of years upon which value classes will be reviewed, to me, is important.

The CHAIR: It's the case, though—and we have heard the example of the taxi rank modifications—that some councils would never be in a position to or would not choose to replace an asset, so why have it sit on their books, to use that example? Is it the case, Griffith, that we should be treating some assets differently or is it that we have everything on the books? I'm thinking in terms of your council's ability to fund projects moving forward. There are some projects which you are going to be reliant on another level of government to fund, surely.

BRETT STONESTREET: Madam Chair, I might make a comment on that front. For me, it's a matter for the elected councils and their community to make decisions in that regard in terms of what infrastructure they do replace in the long term. The fact that the councils might not be able to afford, or see it as a priority or not, to replace certain infrastructure shouldn't be grounds by which those assets are not actually on the books. I think the full story should be put there—long-term capital expenditure replacement plans. If the councils decide that they can't afford replacements and drop off certain assets that are essentially going to wear out and be retired, that's a local decision that should be made.

The CHAIR: My next question may, again, be a question for your CFO, but please feel free to answer as you see fit. Should councils move to cost-based accounting versus fair value accounting? Feel free to take it on notice, if you want more time to consider the answer.

CAROLYN RODNEY: Yes, I'll probably take that on notice. It's probably a big question that I wouldn't be able to answer on the spot.

The CHAIR: Griffith, did you have any views?

BRETT STONESTREET: We would like to take that on notice as well, Madam Chair.

Dr AMANDA COHN: Thank you for coming down to Albury today and thank you to Griffith online. Mayor Tout, you have obviously got a deficit budget for the next couple of years at Wagga. This Committee is looking at a really broad range of ways that we can support councils to increase their revenue. My question is if we can't do that, what would it mean for your community and the people that you are representing moving forward, noting that you are already in a deficit?

DALLAS TOUT: You've set me up on a pincer movement here. It's a balance budget for the one we've just adopted for 2024-25. The years after that are deficit but not the upcoming year, just to clarify that it wasn't two years. It's becoming more and more difficult each year to make that balance budget. As the general manager has already said, Wagga has reached that scale where we have the ability to pull—we have grant writers and we are able to pull grants in and we have that scale to roll forward. Even with us, it is difficult. We are having to start to seriously look at cutting services et cetera now.

To answer your question about what will happen if we can't get more revenue into councils, that's what will start happening. It's already started happening in other smaller and medium-sized councils. It will hit Wagga at some point. I don't want to try and predict it, but at some point in the next term of council, if I am mayor, a few of us round the table will be looking at those sorts of things. If things don't change in the mix in local government the way it is, then, as Doug said earlier, everyone will be looking for some form of special rate variation. We've had one in the term that I've been there but it was a special one for the levy upgrade. It was put in place for the five years and then we made a conscious decision to pull it back out again. Once we'd used it, we went back to our normal rates.

I imagine Snowy—Snowy Valleys talk in an article that went up on the weekend. They were successful in getting State funding several years ago of $1 million to upgrade the community and library centre in Batlow, which is fantastic. We talk about ongoing and recurrent costs not being covered. Now there's a report that's gone out to the community and the council are meeting, I think, next week or the week after and they are probably cutting it from five days a week to two days a week. That's the only community place that community has.

In answer to your question, whether it's a Wagga, a Griffith, a Snowy Valleys or a Batlow, if we can't fix the financial model of local government, whether it's State or Federal funding, that's where everyone is going to end up. There will be less and less services because that's the only place we can cut because we are the only level of government that can't set our own income or increase revenue easily. It's either through special rate variations or having other businesses that produce surpluses in order to feed to the council. At Wagga we have our livestock marketing centre which does that, but we've made a conscious decision to isolate the funding there because we do capital improvements there out of our own cash from the operation.

If councils are able to have those sorts of business centres, that's okay. But the structural issue with the funding from State, Federal and local government and rate pegs all needs to be—I'm hoping that's what's going to come out in your recommendations from this inquiry. A long way around but that's the end of it. At the end of the day, it'll be reduction in services and detriment for the communities that we're there for.

Dr AMANDA COHN: I have a specific follow up for Wagga but I'll just see if Griffith wanted to add to that.

DOUG CURRAN: Thank you, Ms Cohn. That's a great question. In our budget that we've adopted in the forthcoming year is a deficit in a consolidated term. Moving forward, we do move into surpluses. However, only in terms of consolidated. So our sewer and water fund is propping up our general fund. Our general fund is in deficit for the forward 10-year projection. I could not agree more—and that's with two years of a special rate variation. We applied for three and didn't get the third year. I can absolutely see in the next term, without some major structural change to the way that local government is treated and funded, that we will be going back to our community seeking some alternatives, whether it be service cuts or increased revenue. There's no way known that we can continue with a $3 million or $4 million deficit in our general fund every year.

Acknowledging that the majority of that is depreciation—I think that's really important. I know we're not talking Financial Assistance Grants here, but that deterioration is costing council somewhere in the vicinity of $7 million a year. That $7 million a year would make our communities—and every community within Australia that relies on the Federal Assistance Grant—much more viable; an ability for us to grow. That growth then goes back into both State and Federal coffers with communities that are able to put more back in. Brett, do you have anything?

BRETT STONESTREET: I think you've covered it, Mr Mayor.

Dr AMANDA COHN: I've got one more question for Wagga Wagga. I was really interested to see that you've got a new program looking into processing development applications using artificial intelligence. Could someone speak to that project and how that works?

PETER THOMPSON: I can definitely speak to that. That's actually a program that the State Government have sponsored. There was a grant process to support that. The department of planning prequalified—I think there were three—different companies who could all provide the AI software which was job-ready, if you like, for local government to use within its planning processes, then they invited councils to participate in that grant application process to take one of those companies on and implement that software. We have embraced it because development applications are one thing that everyone's sensitive about in relation to councils.

If you put the application in, in an ideal world, the person who receives your application at the counter would approve it and stamp it and you'd walk out of the building with an approval. The reality is you can't do that at councils anymore. It goes through a portal. It drops to us once it's through the State Government portal. The AI software that the Government has prequalified is aimed at trying to make sure those applications are able to be processed as quickly as they possibly can once they drop out of the portal. It's not AI making the decision; it's AI making sure the applications are appropriate.

Can I just go back to the last question? Indulge me, because I didn't get a chance to speak. It's an undercurrent for this inquiry, at least the questions we are getting. Our long-term financial plan predicts, where appropriate, deficit budgets. That's, I think, where your question came from. The reality is, at least in the many years that have passed recently, our council doesn't ever adopt a deficit budget. What happens at budget time is that the staff and the councillors get together and determine what are the priorities and which things can fall to the floor this year so that there's a balanced budget that's achieved. Hence the reason why the mayor answered the question to say, "This year it was a balanced budget." There's no magic to that. We sit down every year and we haven't yet had the appetite to enter into a deficit budget.

If I can tie it back to an earlier question, which was: Do councillors have the skills to actually manage the financial aspects of a council? That example, or that narration, probably emphasises where the councillors' skills come into play for their community. As bureaucrats, we are paid professional salaries to make sure that councillors are equipped with the right information about the financial position or financial implication of every decision. The councillors are equipped with that community representation to actually make the decision on what are the priorities and what are the second priorities which drop to the floor based on the financial implications of each of those decisions.

The Hon. SCOTT FARLOW: I'll just pick up in terms of the AI planning components. In terms of your trial to date, how have you found it? What sort of impact has it made?

PETER THOMPSON: It's literally only just started.

The Hon. SCOTT FARLOW: Like today or in the last couple of weeks?

PETER THOMPSON: No, a couple of weeks ago. I haven't seen—I know that we're about to engage a consultant. I can't even tell you that we've actually picked the one that we're going with. I would say we won't know a result from that, in terms of whether it has saved meaningful time or whether it's just another level of frustration for users of our service, for probably six months. But I will say that one of our councillors was encouraging us to look at AI as a way of trying to speed up our planning processes, and it's definitely something that we would embrace if it saves time and it's cheaper than employing a living, breathing soul to sit there and actually correct things in a planning application.

The Hon. SCOTT FARLOW: As you were outlining, it seems to be that it's not the assessment, so to speak, that is being done by AI but it's largely checking that all the documentation is there to proceed to the next stage. Is that a fair assessment?

PETER THOMPSON: That's 100 per cent correct. The AI system—and to the extent you're getting the impression I am a whiz at AI, that would be wrong; I am not.

The Hon. SCOTT FARLOW: We're all finding our way.

PETER THOMPSON: I understand that the system is 100 per cent reliant on us setting black and white standards—so is it within three metres; is it not within three metres—as opposed to a merit-based assessment. If you're going through a development application process rather than a complying development process, that is based on a merit-based assessment. At some point there needs to be an individual that sits down and looks at the merit of that application and makes a very human-based decision rather than an AI decision.

The Hon. SCOTT FARLOW: Will AI be making any determinant in terms of priority? You were talking about when it drops out of the system. Will it be making a value judgement as to what should be on the top of the pile, so to speak?

PETER THOMPSON: Not to my knowledge, and I'm just going to say no to that. It drops out of the system in terms of the portal when all the boxes are ticked for the portal. It's basically trying to let a user of the service, being development processes in New South Wales, get a clear understanding of whether they're compliant at the time they lodge and, if they're not compliant, actually give them some direction on how they bring that into compliance so that when they lodge, it actually has a smoother passage rather than finding out that something's missing after it's lodged.

The CHAIR: I might just finish with a question about procurement and infrastructure costs. We've heard throughout the inquiry about the significant escalation in costs for delivering projects. In terms of the procurement that your councils do, how is that going? I invite you to comment on that. Are there things we could do to improve that, to reduce cost or try to ameliorate some of these shocks that we've seen?

DALLAS TOUT: I'll do a quick political one and I'll leave it to the other two. As a councillor I've seen in the 12 years I've been at Wagga that in the last two to three years, with the increases in costs in projects, more often than not now we have to reject all tenderers and go out for renegotiations and, even then, it's a battle. Then after that, in the period of time from when we do that to when the project's being built, we would then have to come back and find some more top-up costs from within the budget because of further increases in costs.

I know this is going in *Hansard*, so I don't want to make a definitive statement. Whether some projects have been held up because of those increases in costs and we just haven't proceeded, I'll let Peter or Carolyn answer those. But those increases in costs are really detrimental to local government at the moment as far as getting the tenders in, seeing the values that are on them, as opposed to what the budget was. Don't think that councils aren't reviewing their budgets on the capital projects every year. We go through them all the time. We're not sitting there with a budget item for a capital project that was five-years old and unrealistic. We're continually updating those. That's my quick answer. Peter or Carolyn?

PETER THOMPSON: That's actually a really complex question, Chair. Everyone in the State, including the State Government no doubt, is being impacted by the increases in civil construction costs, just to pick one item. That's not really a result of the procurement process per se. It's a result of the number of civil contractors that are available to do the work; their costs of doing the work because risk management across all levels of a civil construction business is much greater than it has been previously and that comes at a cost; and because there has been quite a lot of grant funding flowing it seems since COVID as a stimulus, but it may have even been before that. There is a lot of work around so contractors are pricing it based on their appetite to meet that work. If there's another job that they've already won, then their price is higher, and we're certainly seeing that as well.

In terms of finding a solution for you, and I know that's where your question was coming from, I think the solution is probably longer term than simply a fiddle with the procurement process, and it is solely based on training more Australians to deliver civil infrastructure projects and maybe managing their risk profile when they take on a project in a way that might be slightly different to the way it is now. At some point we need to get back to the actual costs of the job rather than the job that is being tendered.

The CHAIR: Griffith, do you have any comments to make?

DOUG CURRAN: I'll follow Dallas's lead and make an elected official comment before I pass on to my general manager. I think we go back to the previous discussion around flexibility and trust. In local government we need to advertise a budget that shows what we're going to build and where we're going to build it and then, funnily enough, when it comes time for letting that contract out or the procurement part, the float comes in remarkably close to that budgeted figure. I think that we need to be treated like businesses where we're able to go and have those discussions and negotiations in a trusted manner without the need to advertise it because I think that we're paying well over. We continue to get comments from our community like, "We could have done that so much easier, so much cheaper" and "Why have you paid so much?"

We're only able to let the contracts and those works out following a due process, which is fine but the due process is costing councils and in a lot of cases the State Government through the grants process well over what it should be costing because of that advertisement need. I think that we need to be much closer to the businesses providing it and having those discussions, rather than saying, "We've got a million dollars to build this," and $998,000 is the quote that comes in. It's remarkable how many times that happens. Mayor Tout said exactly the same thing. We're finding so many of our contracts and leases are now going out to being rejected and then having those discussions afterwards because the cost is outweighing the ability for us to be able to pay it. Brett?

BRETT STONESTREET: I think one telling factor in all of this has been the COVID pandemic. Coming out of the COVID pandemic, a couple of major things for me have occurred. One, inflation has taken off and, secondly, the question of skill shortages. They have always been there, skill shortages, but there just seems to have been a lesser quantum of labour in a whole range of areas. The length of time from when, I suppose, a project is initially budgeted and estimated through to the point in time where it's delivered on the ground, when you've got a high inflation rate—we're not talking CPI, we're obviously talking cost of building—that length of time when you've got a high inflationary component in that means that there's going to be a lot bigger impact on that budget.

When we're talking about grants, for instance, there's a whole phase of when terms and guidelines for grants are developed. The budget has to be developed well before that, included in your capex plan, and then you apply for the grant. It's probably nine months or thereabouts until there is an actual tender on the ground, a contractor, and then there is the time to make all of that happen on the ground. I don't think in terms of procurement itself there's a lot that should change. At the moment we do have the flexibility of the vendor panel at New South Wales level where we can get that pre-approval happening to, I suppose, address the $250,000 tender threshold that we must go through. I think it's a matter of the time frame and inflation that's the big issue for us.

The CHAIR: That's all we have time for in this hearing. Thank you very much to all of you for making time to give evidence today to the inquiry. The Committee secretariat will be in touch with you with regard to any questions on notice and you'll have 21 days to respond. Thank you, again. We'll now have a short break.

(The witnesses withdrew.)

(Short adjournment)

Councillor KYLIE KING, Mayor, AlburyCity Council, affirmed and examined

Ms TRACEY SQUIRE, Acting Chief Executive Officer, AlburyCity Council, affirmed and examined

The CHAIR: Welcome to our next inquiry participants. Thank you so much for making time to give evidence to the inquiry today. Would either of you like to start by making a short opening statement?

KYLIE KING: Thank you for the opportunity to appear before you today and for holding a hearing in Albury, acknowledging we're on Wiradjuri land and paying my respects. I'm sure our regional neighbours have appreciated not having to travel a long distance and I've caught up with a few of them this morning so that's noted—thank you. Councils across Australia and New South Wales provide important goods, services and facilities—as we know—to our local communities. It's important to particularly acknowledge the breadth of services and infrastructure provided by regional cities and rural councils, we would argue, in comparison to metropolitan councils. It's that eternal balancing act, isn't it—keeping rates as low as possible, while also delivering on the services and the infrastructure that our communities expect and also deserve as articulated in the community strategic plan, the development of which is a legislative requirement.

We cannot do this with a rate peg system that doesn't take into account the aspirations of our community and appears to be incapable of sustainably supporting the delivery of regional services and infrastructure in a dynamic and rapidly changing economic landscape. It is AlburyCity's view that a better approach would be to utilise the existing New South Wales local government's Integrated Planning and Reporting Framework to better effect. We've just done it recently; we publicly exhibit our draft budgets each year so that our community can have a say on the projects, services and initiatives that we will deliver. We provide responses to every issue raised, the majority of which do relate to additional services or infrastructure that our community is seeking or the timing of their delivery. Councils are democratically elected; we don't need to be held accountable by the New South Wales Government. We would argue that we will be held accountable by our communities.

TRACEY SQUIRE: If I could add, Madam Chair, the rate peg is limited in its purpose and adds to the financial sustainability challenges of regional cities and rural councils in particular. It doesn't take into account demand for changes in service levels and at the moment we're relying on a special variation process to fund changes in service provision, rather than establishing a sustainable rate methodology from the outset. The process associated with special rate variation is resource intensive and politically contentious, and has, unfortunately, become a place of last resort for councils, as we've seen over the last 12 months.

The current approach is not working for regional cities and rural councils. An alternative approach is required, one that recognises our unique challenges. As part of the solution to our financial sustainability challenges, AlburyCity's submission also seeks the support from the New South Wales Government to advocate to the Federal Government to restore the Local Government Financial Assistance Grants to 1 per cent of Commonwealth taxation revenue, to transition away from legislated minimum grant requirements, and to reinstate the three-year indexation previously paused to support the sustainability of rural and regional communities based on greatest need. Thank you for the opportunity to present and we welcome any questions from Committee members.

The CHAIR: Thank you so much for hosting us. We will now move to questions.

Dr AMANDA COHN: Thank you so much for hosting the Committee here in Albury. My first question is about your suggestion about councils being able to raise revenue through the Integrated Planning and Reporting Framework rather than through the State government rate peg. That suggestion has been made by a number of councils and it's also raised concerns from some stakeholders that, in a cost-of-living crisis, you might end up with bill shock for households. How do you see it working? If the Committee were to recommend removing the rate peg, how can you ensure that the community has input into the service level of the council and to avoid that bill shock?

TRACEY SQUIRE: The process that we work through with the community in developing the community strategic plan is significant. It is looking at a 10-year-plus horizon. We engage with demographics across the community: the very young, our young adults, our middle-aged community members and then our older community members. What we seek to capture through that process are the aspirations and ambitions of our community. As always, that's got to be balanced with what's actually achievable. The difficulty we have at the moment is the rate peg doesn't give any consideration to the unique needs and aspirations of communities. We do go through an extensive, not only development process, but public exhibition process in regard to the development of the community strategic plan. Then, when we build our four-year delivery program in our budget, everything in that needs to be able to be directly correlated back to that community strategic plan.

In terms of how we ensure there's no bill shock, I think what's happening at the moment with the special variations is evidence of the fact that the current system is actually creating an environment where communities are subject to bill shock. If councils were able to better set their rates in line with community need, but recognising the financials circumstances of their respective communities, then we wouldn't have that significant situation which, to be honest, has probably in the been in the making since 2010 when rate pegging was first introduced.

Dr AMANDA COHN: Albury is obviously part of a cross-border community. Are there particular recommendations that we should be looking at to the State government in terms of how to better take into account the needs of a cross-border community?

KYLIE KING: I'm relatively new—this is my first term on council—but I can certainly hear about some of those stories in putting grant applications where there was a weighting applied historically in terms of how many Victorians might benefit from whatever it is that we might be looking to develop. So I'm happy for Ms Squire to direct, historically, what has taken place in our community in relation to that.

TRACEY SQUIRE: Certainly, we had evidence—and have had evidence—in past years where, in applying for infrastructure investment funding, we became aware of the fact that our application was subject to significant discounting based on the calculation methodology that Treasury was using at the time. As the mayor indicated, what that effectively did was sought to determine what the Victorian benefit of that infrastructure might be and to discount the merits or the benefit-cost ratio of our project to reflect that. Our understanding is that does still happen in terms of the methodology that's applied by Treasury. Whilst we can appreciate that New South Wales may not have an appetite for benefiting Victorian residents, as a border community, that puts us at significant disadvantage in comparison with other regional cities across New South Wales because every infrastructure project that we submit for funding is subject to those same considerations. So certainly we would welcome any recommendation from this Committee in regard to eliminating that process of border discounting of infrastructure and any other funding applications that might be coming from border communities.

Dr AMANDA COHN: We've heard a lot through this inquiry about various innovative ways that councils have collaborated to create economies of scale or share expertise. I was hoping you could share with the Committee Albury's experience with Halve Waste project.

KYLIE KING: As a current mayor, I'm extremely proud of those who've served before me in working really hard in this Halve Waste program. I recently did an interview on the project about a trial we did with black fly larvae being able to reduce waste and the City of Sydney were looking at applying that similar concept. So I think, very much, we've collaborated and led the way but I'm happy for Ms Squire to answer, in terms of the historical context of that program.

TRACEY SQUIRE: The Halve Waste initiative—we have a joint regional contract for all our kerbside collection services, which has I think eight councils involved in that now. As part of that, we actually retain a percentage levy which we invest into a regional Halve Waste education program. We have developed all the branding and all the intellectual property that supports that, to build community understanding and awareness around how we reduce waste in our day-to-day living. As the mayor touched on, we've done a number of trials. I think our latest trial coming up—or underway, but about to be expanded—is around soft plastics recycling and how we can eliminate those soft plastics from landfill in the future, recognising that some of those are not part of any sort of recycling stream at the moment.

It has been a really effective process. I do want to acknowledge the State Government is giving consideration to review of the waste levies that apply in metropolitan areas and some of the regional communities surrounding those. We've made a submission along those lines. We don't need a levy applied by the State Government. We believe we are leading the way in terms of our efforts to work collaboratively to reduce waste in our communities and how that waste is treated and, wherever possible, to utilise that as a resource and support a circular economy across the region.

Dr AMANDA COHN: I appreciate my last follow-up might need to be taken on notice. You've talked about the effectiveness of the programs. Particularly, given that we are looking at financial sustainability, is there evidence of the cost-effectiveness of that program?

TRACEY SQUIRE: Our waste management facility does deliver financial returns for council, including the fact that we are, year on year, reducing waste to landfill. If you can get the operating model right and if you can get the critical mass through regional collaboration, certainly waste management can be sustainable. But I think that is something that is very difficult to achieve for some communities where they don't have the benefit of that regional collaboration or, potentially, they don't have a regional waste facility where all of those waste streams are coming into one central point wherever practicable so they can be reutilised.

The Hon. SCOTT FARLOW: From the outset, thank you very much for hosting us in Albury. It's wonderful to be in your city, and it's a beautiful city indeed. Going back to those border issues, what is the comparison between the rates here in Albury compared to Wodonga across the other side of the Murray?

TRACEY SQUIRE: I couldn't tell you in exact dollar terms.

The Hon. SCOTT FARLOW: Sure.

TRACEY SQUIRE: Certainly my understanding is that Wodonga, for example, the average rate for a property is higher than what you would see in Albury. Victoria have only recently become subject to rate pegging. In previous years Wodonga local council area has averaged of the order of 7 per cent per annum. They have been able to, historically, determine their own rates.

The Hon. SCOTT FARLOW: So 7 per cent per annum growth in their rates?

TRACEY SQUIRE: Yes. This was prior to the introduction of rate pegging, and that would vary year on year. I'm not an expert on Wodonga council rates but I certainly have awareness of them. They apply a capital improved value calculation methodology, so the methodology is different. But, as I said, historically Victorian councils have had the benefit of being able to determine their own rates in consultation with their community, albeit that has changed in recent years.

The Hon. SCOTT FARLOW: Other councils have advocated as well for a 2 per cent increase, effectively—we could go and have a 2 per cent increase outside of the special rate variation process. I'm interested in AlburyCity Council's views on that potential. If you were to go down that path, what guardrails do you think there would need to be to ensure that councils didn't just jack it up by 2 per cent every year?

TRACEY SQUIRE: Yes, we support the philosophy around councils having the opportunity to apply a slightly higher percentage to the rate peg, provided that they can demonstrate to the community that it is needed to fund community aspirations and ambitions. As we talked about at the outset, we worked through a comprehensive process in developing our budget each year, and we must demonstrate to the community how those initiatives, activities, services aligned to the community strategic plan. Our community is very active in providing feedback on the budget. We can vary from 50 to over 100 submissions each year. Every single one of those submissions is considered by us and responded to individually. That in itself is a mechanism to ensure that the council of the day is listening to the community in terms of any considerations they might be making of applying, if it were available, a percentage increase above the rate peg. But I think the integrated planning and reporting framework provides the guardrails, and it's already in place.

The Hon. SCOTT FARLOW: Just to segue from that—that was my next question—in terms of that approach that you would advocate as well as the integrated planning and reporting framework, how would you see that actually rolling out? What sort of role do you think there would be for the State Government in coming back, for instance, and maybe marking councils' homework? What do you see that rolling out and looking like?

TRACEY SQUIRE: Effectively, the State Government can do that quite easily right now. All of our budget papers are public, our response to community feedback in relation to budget submissions that we receive are presented formally back to council prior to the adoption of the budget, and then obviously we have our current financial reporting requirements. I would say those mechanisms are already in place. It's perhaps just the lens that the New South Wales Government might choose to apply to it.

The Hon. SCOTT FARLOW: You also talked in your submission about the model that had been used in terms of CPI—the change in the actual CPI that was in place but also, effectively, that councils' basket of goods isn't necessarily the same as what the RBA looks at. I think you might have even mentioned the price of bitumen and the like or the price of petrol, for instance. If there were to be a basket of goods applied for local government, what do you think that should include?

TRACEY SQUIRE: I think the basket of goods actually needs to look at what are the costs that are impacting service delivery and asset renewal for councils. It's all well and good to apply, as is now the case, to RBA's CPI forecast, but, as we indicated in our submission, that doesn't give consideration to the dynamic changes that can happen from an economic perspective. Construction costs are forecast to rise more than 30 per cent in the next 12 months by some, if you talk to the construction sector. But there are a whole raft of operational expenditure items that don't necessarily form part of that RBA CPI forecast. We would certainly encourage, if the New South Wales Government was contemplating making a change, think about the actual costs that councils are bearing as part of their day-to-day operations and set some benchmarking around those, perhaps.

The Hon. SCOTT FARLOW: How much do rates actually make up in terms of AlburyCity Council's revenue at the moment?

TRACEY SQUIRE: Rates and statutory charges are about 49 per cent of our total revenue. Of that total revenue, about 60 per cent roughly is ordinary rate revenue. It is a significant proportion of our revenue.

The Hon. SCOTT FARLOW: I've got to say, we've gone through a lot of councils—that's probably higher than a lot of others we've spoken with.

TRACEY SQUIRE: Yes.

The Hon. SCOTT FARLOW: In terms of grants, how important are they for Albury council?

TRACEY SQUIRE: They are incredibly important. Whether you're talking about the Financial Assistance Grants—untied grants are particularly important to us in supporting our service delivery and recurrent expenditure, but we also recognise the value of infrastructure funding to support the creation of new assets and facilities for the community. Whilst we absolutely welcome those and they are critical to our ability to deliver on the needs of a growing population—and a population that's actually providing facilities and infrastructure for a regional community, which a city like Albury absolutely does—it comes with a lag cost to council by way of depreciation. For those of you that may not be aware, our budget this financial year is looking at a $12.7 million budget deficit; $28 million of that is actually depreciation. We obviously need to be able to reinvest in our assets and maintain them so they continue to meet the needs of the community. But when you are a growing city like Albury and you need to build new infrastructure and assets, the residual impact of that is the depreciation expense that has been applied to your total budget.

The Hon. SCOTT FARLOW: To that point, in terms of infrastructure grants, I think we've heard from some other councils today that the environment has become more competitive for those grants. From Albury's perspective, have you seen a drop in the number of grants that you've been able to apply for in the last 12 months or have you seen a more competitive landscape? What's the experience for Albury?

KYLIE KING: We're still following up on some of the grant applications that were successful previously. We've been very mindful of delivering on what we have already been able to achieve. We've been able to obtain some minor grants. In terms of the process, I'm more than happy to refer to the executive team on their feedback in terms of that process.

TRACEY SQUIRE: I would say, generally, yes, there has been a reduction in the grant funding that has been available. We recognise the austerity that some levels of government are trying to apply to rectify the post-COVID budget challenges. As the mayor mentioned, we have been very fortunate as a council and we have been successful in securing a wide range of grant funding and significant investment at that. We have only got a certain amount of capacity to deliver. As I mentioned, we are also cognisant of the fact that there comes a residual cost with those new facilities and infrastructure by way of not only depreciation but also operating cost and expenditure. So, yes, we potentially had seen a slight reduction in the number and availability of grants and so therefore they are more competitive. But we have been very successful in the past and, to be honest, have had our work cut out just delivering on grant funding that we have attracted over recent years in the past 12 months.

The CHAIR: I wanted to pick up on the point you made earlier about depreciation. We heard earlier today from other witnesses about the impact of depreciation. In terms of the revaluing process as it currently stands, do you have any views around that and what, if anything, we could change to assist councils in that process better?

TRACEY SQUIRE: Certainly, it's an area where we are giving due consideration. We have developed a financial sustainability improvement plan, which has been endorsed by council. One of the things we are looking at is the methodology that's applied to depreciation. We historically have applied a straight line methodology, where the reality is that assets perform for an extended period of time, often with minimal levels of renewal investment. Giving consideration to the genuine asset life and the capacity of that asset to serve the community rather than looking at a straight line methodology is an opportunity. I think it is something that the New South Wales Government could give consideration to and ensure that that asset depreciation methodology is realistic and actually reflects the condition of the asset as opposed to simply being accounting methodology.

The CHAIR: Should it be the case that the State Government should set expectations around that or leave it for individual councils to tailor to their communities better?

TRACEY SQUIRE: That's a very good question. I think it is probably something that councils have a better insight and awareness of in terms of how their assets are being utilised by the community and what their life might be. If the New South Wales Government were going to provide guidance around that, that could be useful. But, I think, as part of that process, it would be important to allow some flexibility for councils to justify the conditions that might apply to their particular community.

The CHAIR: Is it the case that you think the process at the moment is that you are having to revalue assets more frequently than is needed or it is too frequent? We heard earlier today that it should perhaps be a longer cycle than five years.

TRACEY SQUIRE: I think, particularly for those assets that have a long life—if you are talking road assets, for example—instead of renewing those every five years it may be beneficial to extend that out for a further period of time, yes.

The CHAIR: You mentioned Wodonga and their rating levels and the fact that they use a capital improved value system. I'd be interested to hear your views on the capital improved value system. It's something we have heard about throughout the inquiry about our unimproved system versus capital improved. Would that have any advantages for Albury?

TRACEY SQUIRE: I know in our considerations and the various submissions we have made to government over time that both have their benefits and disadvantages, not necessarily just in regional areas but particularly in metropolitan areas. I think capital improved value can be increasingly complex. Whether or not the basis of ordinary rates—does it really matter whether it's land value or capital improved value? Is it actually about the methodology and the cost factors that go into the whole analysis around what the increase should be? I am happy to take that on notice, Madam Chair, and provide some further information from our team in regard to that one, if that's okay.

The CHAIR: That would be great. In terms of procurement, I was interested in getting your thoughts on how procurement is currently being done by the local council and if there is anything that perhaps the State Government could do to improve that, given that procurement and local costs are such a big expense for council. Is there a role for the State Government to play in assisting or improving councils in the way they procure services?

TRACEY SQUIRE: At this point in time, the process for procurement is fairly well set out. We potentially are in a better position than some rural and regional communities in that we have a solid network of providers that are able to compete for project services initiatives in our community. The process that we apply is open and transparent. We still publicly present all our tender reports and they are available to the community to view. We certainly use panels where that is beneficial from a financial sustainability point of view. I think, at this point in time, there wouldn't necessarily be anything specifically. Whatever the New South Wales Government can do to boost competitiveness and stimulate economic activity in the regions will be reflected in the pricing that we see.

The other consideration—and we have raised this previously before. It's probably not directly related to procurement but more related to the timing and delivery and forward planning that the government applies to major infrastructure investment, which is always welcome in the region. Certainly, if you look at this region and the projects that are happening, there is the hydro upgrade, the Transgrid upgrade and we've got the Department of Defence investing $1.5 billion in its facilities in the region combined with all the capital projects that the councils themselves have. What we do find is, when there is significant infrastructure investment by the New South Wales Government, often that can create challenges in terms of actually achieving great pricing. As I said, we are very supportive of the investment but sometimes it's around thinking around the timing and the capacity of a region to absorb and deliver a wide range of major infrastructure projects concurrently.

The CHAIR: I am hearing that there is a need for better infrastructure coordination.

TRACEY SQUIRE: Yes.

The CHAIR: Is council best placed to help or assist in that coordination, would you say, or is it a regional organisation that could also have that role?

TRACEY SQUIRE: I think, yes, it could be councils or it could be joint organisations, which obviously have that perspective of all of the initiatives that might be happening across the region, noting that a lot of the time it's actually State and Federal government major infrastructure projects where we see a bit of a clash. I think it's all levels of government collaborating.

The CHAIR: I will now throw to my colleague the Hon. Stephen Lawrence online, who has a question. We can't hear you, Stephen. We will see if we can fix that. Are you on mute?

The Hon. PETER PRIMROSE: I can hear Stephen on my end.

The CHAIR: Apologies. We will try to address that at this end. In the interim, I might continue on with a further question, if that's all right, while we make sure Stephen can ask his question. We have heard from a previous council in this inquiry that the cost of construction of delivering a service would be upwards of $1 million more—this was a metro council—if council delivered the project themselves rather than a private contractor. Is that your experience in Albury?

TRACEY SQUIRE: I think it depends on the project and perhaps it's different for organisations like regional cities or AlburyCity. If there was a major construction project, we would absolutely be putting it to market. We wouldn't have the skills and capabilities to deliver that in house. When it comes to minor projects in capital works, often we do deliver those in house where it presents value for money, but that's generally a judgement call that we make at the commencement of the budget planning process, as part of our—whether it's our feasibility analysis or preliminary design and project planning.

The Hon. STEPHEN LAWRENCE: I'll try again. Can you hear me now?

The CHAIR: Yes, we can.

The Hon. STEPHEN LAWRENCE: Ms Squire, I'm interested in your thoughts on what a significant increase in rates might mean for housing affordability in Albury, particularly for renters, in the context of the current market conditions?

TRACEY SQUIRE: I would anticipate that any landlord is going to pass on any holding cost associated with their property direct to tenants. One of the challenges we have in Albury at the moment is our residential vacancy rate is 1.5 per cent, so we do not have sufficient residential housing rental stock available to meet current demand. Certainly, Albury—as I said, landlords will pass on those on-costs to renters, and as long as their expenditure is going up, then rent will continue to rise. But, like everything, if the community has services and infrastructure that it requires to make sure that the community is liveable, that it's safe, that it's meeting community needs, that it's a cohesive community and that it's vibrant and dynamic, then ultimately there is a cost to be borne by everybody in the community.

The CHAIR: I have a couple of questions about statutory fees and charges. We've heard throughout the inquiry about the impact of some of those statutory fees and charges having not been indexed. At the moment, do you currently identify through your annual reporting what those amounts are for those statutory fees and charges?

TRACEY SQUIRE: Yes, all our fees and charges are included in our fee and charge schedules for the community, and we clearly articulate whether they are a statutory charge or not. I might use development applications as an example. The statutory fees and charges, the revenue we generate from those for development applications is around $600,000 per year. The cost of delivering that service is actually $3 million a year. So statutory fees and charges are not keeping up with the cost of delivering the service. In many cases, there are not necessarily opportunities for us to collect revenue above those minimum charges.

The CHAIR: Why is that discrepancy so large in terms of the cost versus the fees that you're collecting and the actual cost?

TRACEY SQUIRE: Obviously I can't be sure, but I would anticipate that it's as a result of the fact that some of those charges have not been indexed in line with inflation, but perhaps it's also that fundamentally they don't give consideration to the actual cost of providing the service, rather are based on what is considered by the New South Wales Government to be a reasonable cost. Particularly from a planning perspective, I'm sure that you've heard through your journey that in rural and regional communities, planners are very difficult, as are building surveyors, to secure to ensure that we continue to deliver that service. So just the cost of employing those officers, the rate of that is increasing all the time. But we cannot deliver the service without appropriately skilled and qualified people, so it is part of the cost factor.

The CHAIR: In terms of the skilled staff, and we have heard about this—obviously it's particularly more acute in regional areas but it is, it's safe to say, an issue that's felt across the board. Is there work that council is doing at the moment with regard to traineeships or anything like that? Is there a greater role that that could play in terms of trying to address that issue perhaps in the medium term?

KYLIE KING: I guess in terms of our human resources, I'm happy for Ms Squire to direct that, but there are definitely opportunities for growing your own. It's something that they've always been very proud of and giving opportunities for employees to maybe look to sidestep into directions that they may not have considered in terms of a career. That's certainly something that I'm aware that we're doing. I'm happy to be supported further by Ms Squire.

TRACEY SQUIRE: We have had a goal, a target, for many years to have 10 per cent of our total workforce as Grow Our Own, whether they're trainees, apprentices or graduates. We have consistently sought to deliver on that. That has returned significant investment to us as an organisation over time. Many of the people that started with us as trainees, graduates or apprentices are now managers, leaders and specialists that add significant value to our organisation—but who have also then left AlburyCity to go on to contribute to other local government areas with their expertise. So it's not something that's new to us, and certainly we will continue to grow our aspirations in that regard. What is important is that you've actually got the skills and expertise in your organisation to support those trainees, apprentices and graduates so that they can have appropriate mentoring and guidance as they go through their career journey to set them up for success. So, again, another area of focus for us, but, yes, absolutely a priority for our organisation.

The CHAIR: You mentioned you've got a target of 10 per cent. What is the actual that you are finding you're reaching? Is it close to that number? Should it be more?

TRACEY SQUIRE: Certainly the number of full-time equivalent positions in our organisation, we have achieved the 10 per cent in terms of approved positions. We have got a number of vacancies. I'd have to take on notice exactly how many of those trainee or Grow Our Own program positions might be vacant at the moment, but it is cyclical. It also depends on the support mechanisms—so the education programs—that are available. But, generally, we achieve that 10 per cent. As I said, it's something that we will be looking to grow in time to come.

KYLIE KING: I could also add, it's that compounding problem in terms of the remuneration that local government is quite limited in. In fact, we've lost some key personnel to State Government, for example. Industry—certainly in Albury, there is a presence here. So that has been an issue: The private sector are able to offer that remuneration. While we continue to promote the benefits of local government and really working in partnership in delivering these benefits for your community, it's clear that we're not always able to compete on a remuneration basis for some of these highly sought after skills that we need.

The CHAIR: How long have you had that target of 10 per cent? Have you tried going higher?

TRACEY SQUIRE: I'm recalling this off the top of my head, but I would expect probably since about 2006. So it's been a longstanding position of AlburyCity to work towards that 10 per cent or to sustain the 10 per cent figure.

The CHAIR: Do you have any final remarks that you wish to make or clarifications?

KYLIE KING: Just thank you for your interest and great questions. You've got us all thinking further, so it's great to take some of those questions on notice to be able to give some more vital information that might help the Committee form some of its recommendations.

The CHAIR: Thanks so much for making time to give evidence today and, again, for hosting us in your wonderful city. The Committee secretariat will be in touch with you with regard to the questions that you have taken on notice.

(The witnesses withdrew.)

Mr PETER VENERIS, General Manager, Lockhart Shire Council, on former oath

Councillor GREG VERDON, Mayor, Lockhart Shire Council, sworn and examined

Mr ADRIAN BUTLER, General Manager, Federation Council, sworn and examined

Councillor PATRICK BOURKE, Mayor, Federation Council, sworn and examined

The CHAIR: Thanks very much to our next lot of witnesses. Welcome. Thank you for making the time to give evidence to the inquiry today. I'd now like to invite you to make a short opening statement. If you would like to proceed, perhaps Federation first and then Lockhart.

PATRICK BOURKE: If it's not short enough, just pull me up. On behalf of Federation Council I'd like to thank the Committee for the opportunity to speak to you today and thank the New South Wales Government for instigating this inquiry. I speak on behalf of Federation Council, noting the council has made a formal submission to the inquiry. I speak as the only elected mayor of Federation Council since its formation as a result of forced mergers of many councils in May 2016, with Federation being the amalgamation of Urana and Corowa councils. I am now in my seventh continuous year as mayor. Whilst I speak on behalf of Federation Council, I also bring my experience and knowledge of being mayor of Urana Shire Council for two terms prior to the merger, and councillor of that council for many years prior to that. I also speak to the experience of my knowledge going from my current role as an executive member of Country Mayors Association NSW and as chair of the very successful Riverina and Murray Joint Organisation, RAMJO.

We need real and structural and immediate changes to the way local government is financed so we can continue to be a respected tier of government. Councils have proven over hundreds of years that they can maintain and improve their infrastructure in their communities but have been dragged down by the continued weight of things like rate pegging since the late 1970s, I believe; never-ending cost-shifting; increased government requirements and regulation, such as increased audit cost, ARIC committees et cetera, some of which are welcome but come at a cost; ignoring depreciation, and by that I mean underfunding assets for maintenance that leads to the assets failing or requiring significant extra money to be repaired that would normally have been with proper maintenance, such as resealing bitumen roads or resheeting gravel roads before the sub-surfaces fail; significant unprecedented changes in funding, such as when governments change, State and Federal grants programs change, stop, pause or rebrand to suit the focus of the new government and then meet their financial challenges.

As the only level of government that does not have the ability to adjust its own taxes—our rates—it is little wonder why things have got where they are today due to many causing factors, with one of the major ones being rate pegging. I urge the Committee to recommend to the Government so that we can urge the Government to have the courage to adopt a recommendation to remove rate pegging and entrust councils to work with their communities within the IP&R framework to deliver the services that they need. Councils are fed up with having the State Government rate pegging through irrelevant CPI-type increases awarded by IPART each year that do not reflect councils' actual costs, having to do more with less when it's not possible and our communities suffer by failed assets. We are also not accepting continued reviews of rate pegging and minor changes made here and there that is just to tinker around the edges as they are like moving deck chairs on the *Titanic*.

This council now has strategic financial maturity to improve on the years of underfunding, and it's doing so despite facing obvious community concern, given the cost-of-living pressures and the extent to which council has to raise rates to maintain its assets and deliver services, many of which are mandatory. Despite significant unresolved issues around the loss of representation of councillors from the former Urana area, Federation Council has made a very successful start as a new council. It's a pity it takes such a significant special rate variation to turn the structural problems with the budget around, but this council and the previous one do not make easy decisions; we want to make the right ones for the long term, even if they are not popular. Federation Council is in the midst of applying a significant SRV for implementation on 1 July next year.

Whilst work is now underway in preparing the application, the precise percentage a new council—if they support it—will apply for is not yet finalised, but our modelling and earlier temporary approval, granted and implemented in July 2023, suggest it will be in the order of 60 to 70 per cent cumulative, depending on the community consultation, further asset management and financial work and capacity to pay. Our current adopted long-term financial plan has a scenario modelling delivering current services with minor service reductions and renewing assets in accordance with council's strategic asset management plan, requiring a cumulative 80 per cent increase to general rates over two years. This is 50 per cent in 2025-26, effective including the temporary 19 and 17 SRV increases we've applied in 2023-24, and a further 20 per cent in 2026-27. Even this will still not allow us to meet all the financial ratios.

Separate to the SRV, council commissioned an independent review that was undertaken across the latter half of 2023 and is now publicly available, summarising the terms of reference. They were to review if the merger saving proposed by the Government in their proposal of Lockhart, Urana and Corowa—versus the adopted proposals of Corowa and Urana—were achievable; what were the advantages and disadvantages; whether the matters required to be considered under the Local Government Act, such as representation, were poorly considered; and considered any other matters. Not surprisingly, the peer-reviewed report found the savings were never there; it is around 11 per cent more expensive to run the council. It is running very efficiently and, in the main, being run well.

This work has been done thoroughly by three professors—two overseas that are widely acknowledged leaders in the field. We definitely see the benefit in precise, independent, robust work—as do most of the community. The review produced 77 recommendations, many of which have been adopted by council and are being worked through—and, of course, focus on improving council's financial sustainability in the longer term. Council needs proper change to ensure things are improved and, for the merged councils, there appears to be a strong case for some compensation also. Whilst Financial Assistance Grants are granted by the Federal Government, councils across Australia are united in the push for Federal Government to increase these to 1 per cent of the total tax revenue.

The States, through the grants commission process, is determined allocation across each council. All rural councils need Financial Assistance Grants that respond properly to horizontal, physical equalisation—not the current process. A redistribution process needs to occur to look at councils in most—such as those large assets that are based in local populations, yet produce much more of the product that helps both State and Federal governments make their money each year. Council need certainty that the State Government will commit 60 per cent funding at least of major capital works, such as water and sewer, so we can continue to play our part in unlocking housing supply.

I also urge the Committee to look not only at themselves but at one of the recommendations requiring all policymakers to take note of scholarly work. After all, they were absolutely spot on back in 2015. If the government of the day had listened, they would have all have been saved significant grief. The work of Professor Drew in 2015 and since is particularly notable. Thank you for allowing me to address the Committee. I'm happy to take questions.

GREG VERDON: Thank you for the opportunity to appear before the Standing Committee and to give evidence to the Committee's inquiry on the ability of local government to fund infrastructure and services. It's not my intention to simply read our written submission or to repeat everything that was in it. However, I will take the opportunity to emphasise some key points. Local government has evolved over a long period of time—well beyond the early days when it was primarily concerned with providing property-related services such as road access, drainage, waste collection et cetera, which justified a property-based tax as the main source of revenue. Local government's evolution into non-property-based services such as public libraries, parks and gardens, public swimming pools, sporting grounds and the like means that people who do not own property—and therefore do not pay rates—now benefit from a wide range of services provided by local councils.

Society is much more mobile than it was 100 years ago or even 50 years ago. Today, we do not necessarily live in and pay rates to the same local government area in which we work or play our sport or do our shopping or spend our vacations. That means, from time to time, we are all using local government services in local government areas in which we do not own property and therefore do not make a contribution towards the provision of these services. This reinforces the importance of councils receiving a share of Commonwealth revenue so that, through our income taxes, we all make a contribution to local government services, whether we are ratepayers in a particular local government area or not.

For the reasons I have outlined, we believe funding of local government needs to be strengthened. This is particularly the case for rural councils because, one, rural councils do not have the same opportunities to generate our own-source revenue as, for example, inner-city councils; two, rural councils do not have the same opportunity to achieve the economies of scale that come from population density; and three, it is in rural councils where there is more likely to be a market failure and the withdrawal of certain services with the local council always being the one who the community turns to to fix the problem. It is also for the reasons I've outlined that council has an issue with one of the six performance measures that are contained in the audited financial statements of all councils. That is the one that focuses on own-source revenue, with the benchmark being 60 per cent.

For the record, Lockhart shire consistently meets all of the industry benchmarks except for own-source revenue. To set the benchmark at 60 per cent is totally unrealistic for rural councils, and having the same benchmark for rural as well as metropolitan and even regional city councils is difficult to understand. With respect to the rate peg, Lockhart Shire Council has welcomed the recent changes to the rate peg methodology following a review by IPART. As a growing local government area, we have benefited from the revised methodology, which incorporates population growth and other factors, which has moved the methodology away from the one-size-fits-all approach, with a single rate peg applying to all councils in the State, to a more customised approach.

However, having regard to the specific terms of reference as to whether past rate pegs have matched increases in costs borne by local governments, Lockhart respectfully submits that is not the case. Of particular concern to council was the ironic situation that, in the past, the additional revenue generated by the rate peg was swallowed up just by the increases in fees and charges imposed by agencies of the same level of government that was limiting increases in council's rate income. In concluding my remarks, and in reinforcing the point that funding of local government needs to be strengthened, I would like to suggest that I believe there needs to be a change in the mindset. By this I mean that rural councils with limited capacity to generate own-source revenue, and having more than 60 per cent of the revenue coming from grants and subsidies, should not simply be viewed as unviable councils being propped up by other levels of government.

The flow of financial assistance from the Commonwealth to the States and local governments should instead be viewed as good policy in order to have some fairness and equity in how we pay for local government services. This is because the role of local government is expanding and now providing non-property-related services, and because we are now a much more mobile society and using local government services on a daily basis in areas in which we do not live or own property. In fact, it should not only be considered as good policy but essential policy if our system of federation is going to work, because, as we know, the way are constitutional arrangements have evolved means that the Commonwealth has most of the tax-raising powers while States and local governments have most of the expenditure functions and service obligations.

I understand that this inquiry is being undertaken by a standing committee of the New South Wales Legislative Council and has made numerous references to Commonwealth funding. However, I believe that to review local government's ability to fund infrastructure and services or, more importantly, to ensure that local government does have the ability to fund infrastructure and services, one must consider the financial relationship between all three levels of government. Where, as in the past, the focus was on boundary reform and amalgamations, it is respectfully submitted that it is the intergovernmental financial relationships where the focus should lie. Once again, thank you for the opportunity to make a contribution to this inquiry.

The CHAIR: Thank you. We will now move to questions.

The Hon. SAM FARRAWAY: Thank you for appearing. It's so good to see some of you again who I haven't seen in a little while. I want to go to the heart of what regional and smaller and more rural councils face, and that is the distribution of funds from government and the equity in that. Firstly, as a former roads Minister, I'm going to start with roads because it's one of the three Rs that councils look at. What sort of funding model, in your view, should State government, irrespective of politics, be looking at to make sure that there's equity in road funding? I would highlight what the former Coalition Government put in place with road funding, based on size of road network, which the new Government have picked up in the early part of their term. Is this something that should be permanent, moving forward—that all new road funding coming from State government should be dispersed to councils based on size of road network?

GREG VERDON: Firstly, I acknowledge that our council has just received a significant boost into our roads funding, and that is to be greatly welcomed. I think the cost of maintaining all this infrastructure is really one of the big issues and even improving the infrastructure is one of the big issues. What you're suggesting, I think, would be very welcomed by most rural councils especially. In our case, we have some 1,500 kilometres of roads that we need to maintain with a very small rate base, so we rely heavily on grants and government contributions. So, yes, I would support that.

PATRICK BOURKE: Thank you, and great to see you again too, Sam. I think, primarily, yes, but I see a lot of factors involved in that. That would be we've got 2,000 kilometres of road; wet years, so therefore you need more funding in those particular times; and the GDP that's produced in areas—wheat crops and what is produced. Whatever is produced there equates to the condition of the road and the quality of the road, so there's money going back into that area that is producing GDP for the State or Australia. I do take your point about road length, but there are a lot of road lengths where the country is not as fertile or self-producing. I think there are other factors that would come into play there.

The Hon. SAM FARRAWAY: I suppose my point is, to both gentlemen, it's how government disperse funds. That's the point to my question. What I'm seeing, and I think that has come from evidence throughout the inquiry, is that governments think they're clever by putting BCRs on everything but, in actual fact, in rural communities—in particular, unsealed roads—up until this funding program was put in place, you had Buckley's of getting road funding from State government to grade roads. My point is, one, about equity in dispersing government funds. If government have $300 million on the table, what is the most equitable way to disperse those funds? It shouldn't be, in my view—and this is what I would like your feedback on—a beauty contest. It shouldn't be Federation versus Lockhart on who has a better BCR. Would you agree that BCRs for rural councils for roads really shouldn't be the hard and fast rule for funding?

PATRICK BOURKE: Yes, I would.

ADRIAN BUTLER: I wonder if I might make a comment. Thank you, Mr Farraway and Chair, and thank you for the opportunity to address the hearing as well. Certainly, I take that point—it's too long that councils have had to scramble for competitive road funding grants in addition to, obviously, the recurrent funding. I think that's just a no-brainer. I think that would be a great move forward if there was more allocation on a per-kay basis. In the Urana Shire Council days, they were, I think, very fortunate, but through a lot of work and a lot of hours of staff time putting in for those Fixing Country Roads grants—so the freight link, Boree Creek, Oaklands. I know Lockhart is similar—they've got significant grain silos and bunkers that are around the place, but they're not always going to get up on a BCR. Our council, and I think many others, have followed suit. We have opened up basically all our roads to B-doubles, B-triples—you name it—road trains, because we're unlocking the productivity efficiencies there.

Farmers are telling us now that they're not getting queued up at silos anymore because more and more they've got the bigger trucks coming through. The ability to then be strategic—I think councils, through RAMJO, through REROC, or the JO, I should say, Riverina, have got ability to be strategic in that funding. They can still do a per-kay basis. There would still be an assessment to say if those kilometres went to that road between us and Wagga or us and Oaklands or Mulwala, it would still make sense across the LGA boundaries. We've got freight plans that we've worked on through our JOs. So it's really important. Just to finish on that, in addition to that, we're really hurt when we don't get the increases to the block grant, the repair programs—as in the CPI or better. We get block amounts. Councillor Verdon has mentioned the R2R, the Federal stuff, being increased and we hope that promise comes through. But we also just need to be keeping up with the rising cost of diesel and aggregate and things like that. The last point, sorry, was about the regional roads—the significant amount of regional roads that councils took back on and have been hamstrung by that funding being pretty static.

The Hon. SAM FARRAWAY: I have a couple of follow-up questions, if I could, to any of you gentlemen on the panel. One, do we think road block grants should be reviewed in terms of the methodology? It's my understanding that those road block grants haven't been reviewed for a couple of years now, and a lot has changed in that time. That's my first question: Should they be reviewed? I'm happy for anyone to answer that question. The second question that I have for anyone on the panel is about betterment funding. Obviously, every council—and I suspect Federation and Lockhart—have had their fair share of weather events, natural disasters, roads crumbling. Do you think that the Federal and State governments should be doing more to review the disaster recovery funding arrangements and to include more betterment, specifically for road repairs, so we don't keep going back repairing the same roads with the same aggregate and same materials when, in actual fact, if we spent a little bit more on things like drainage, culverts or a little bit of road raising, we would actually build resilience into that infrastructure to withstand more weather events more often, which is a better use of taxpayer funds? Anyone on the panel.

GREG VERDON: I think that would be essential. Given, as Councillor Bourke and Adrian have pointed out, the advent of B-doubles, B-triples and all these larger vehicles now utilising our roads, if we're only repairing to the same standards they're going to continue to crumble because of the increased traffic tonnages et cetera that's on them. I think it's important that there has to be a betterment element added into that road funding to allow us to build the roads that will sustain that type of traffic. Yes, that has always been an issue as to saying, "We're only repairing to what was already there." It was only a four- or five-metre-wide road. How do cars or trucks pass on those roads safely and whatever? So we need to have that capacity to improve those roads.

PATRICK BOURKE: If I could just make a comment on the disaster funding and such. It's not always disasters that create the havoc on our roads. We have had five great seasons—good rainfall. That has been fantastic for production but chaotic for repairing roads. They just don't seem to—they don't line up. And it's because of the way the roads were built many years ago. I just want to make the point that it doesn't take a disaster to wreck our roads; just good seasons will do that.

The Hon. SAM FARRAWAY: In trying to secure road funding, it's very hard for local councils to predict how good a season is going to be to calculate the economic output of the region into your submission two years before the season actually is a bumper crop. I suppose that is the point you are making, isn't it?

PATRICK BOURKE: It is the point I'm making, yes.

The Hon. SAM FARRAWAY: We need to be looking more holistically at overall averaged output if you are going to be looking at a return.

PATRICK BOURKE: And our two shires being the largest grain-growing and receival areas in the State has to come into play.

The Hon. SAM FARRAWAY: Does anyone else want to make a comment before I move on?

PETER VENERIS: If I could just make a couple of comments, referencing back to the comment that funding shouldn't be a beauty contest, I just wanted to say that I agree with that 100 per cent. Whilst the question was probably more around road funding, I suggest that that should be the case in other areas as well. One thing we have welcomed in recent years was the approach taken with the Stronger Country Communities Fund where, instead of finding yourself having to compete with other local government areas, there would be a notional amount given to an LGA. Provided you were able to submit projects that aligned with the Government's criteria for that funding program, you weren't competing in a beauty contest, so to speak. I wanted to make the point that I agree with the comment and even taking it beyond just road funding.

The Hon. SAM FARRAWAY: You just pinched my next question. For the panel members if they want to contribute, I will touch on the point I have raised throughout this hearing across the State and that is equity. Irrespective of who is on government benches, how does a government return equity to rural communities? It has to be in the way it disburses the funds. I would like to know if Lockhart or Federation has seen a reduction in grants that you have been able to apply for and also grants you have been able to secure, particularly in the last 12 months.

ADRIAN BUTLER: I am happy to take that one as a start. Absolutely, there has been a freeze, which is not uncommon when State and Federal governments change over. In a sense, we are caught in a jam of both levels of government in terms of freezing some of the Federal growing region-type funding and the stronger country communities funding. Our last EIs have all been paused. We get all levels of government. We have got budgets to balance. But they still make a certain amount every year and they still spend a certain amount, so it's where they spend it. Absolutely, I think that has been an issue.

I was hoping to quickly track back on to the betterment funding. I get that people in State government especially have got to work within the constraints—as in, the officers—but we've literally got a stretch of road 10 or 20 metres long and we've got potholes that will be funded under flood damage and the next one won't be because of an existing impairment. Our staff are literally having to juggle working with the agency, of course, so it's all done correct. Working out how to patch a bit of road here out that door and how to allocate funding is quite ridiculous. Going forward, that betterment approach—not just to put a bigger culvert in but even how we treat damaged road pre-event condition versus the current event. We know there has got to be a better way to dilute that approach.

The Hon. SAM FARRAWAY: It's very practical measures, isn't it? It's culverts, it's road raising and it's drainage. From your experience, it doesn't meet community expectation or ratepayers expectation that you replace the same culvert with the same culvert. Is that fair to say? Especially to Councillor Bourke's point around freight and economic output is that you are just sheerly not keeping pace not only with the economic output of your region but there is no resilience being built into the infrastructure long term, which essentially comes back to councils issue, doesn't it, whenever you get the next rain event?

ADRIAN BUTLER: Yes, 100 per cent. There is a corner right near Rand down on the Greater Hume edge of our boundary where the road has been redone under a flood damaged plain. There was never a culvert under it. The farmers have rang up and said, "Why wouldn't you be putting a culvert under there? The farmer has changed the grade of his paddocks and now it's just going to blow out again." The answer is, "It can't be funded. We can't do betterment." We didn't have the other funding to do—and we wouldn't be talking about a 300; it would probably be a 600 culvert. It just doesn't make anyone look any good when that happens.

The Hon. SAM FARRAWAY: Again, I would like to ask: Have Lockhart or Federation experienced, as a local government, cash flow issues because of the very clunky DRFA process? For your information, most councils have expressed frustration at it throughout all the hearings we have held to date. I am interested, particularly in the roads space, if you have encountered significant cash flow issues from Transport for NSW because the system is pretty clunky.

ADRIAN BUTLER: We are managing cash flow and we appreciate the advanced payments. I will throw over to Peter. We also still haven't got our final claim across three or four claims. We could be looking at $12 million to $15 million but we still haven't—and we have gone through another harvest already and we are going through another one at the end of this year.

PETER VENERIS: I am aware it has been a bit of a statewide issue. We haven't had a major problem from a cash flow point of view. While I've got the opportunity, I will again say that I certainly support the philosophy of betterment funding. I think all levels of government, because of the budget cycle, can fall into the trap of short-term planning. I think betterment funding is all about planning for the long term and so it should be supported.

The Hon. SAM FARRAWAY: For pretext, this is a question I have asked other councils in the hearing. How do you manage ratepayer and community expectation when you don't have the ability to secure some of the small infrastructure grants, like through Stronger Country Communities Fund where it might have been for a small skate park or to upgrade female change rooms at the footy club or a local toilet block—the stuff that council don't necessarily budget for? You can manage the depreciation of a toilet block but how do you manage the expectation if you are unable to secure those grants after the last few years of having those grants available? How do you message and manage those expectations with the community?

GREG VERDON: I've got to say that, from Lockhart shire's perspective, through the local roads and community infrastructure and the stronger country communities, we have reduced a significant backlog of community expectations on what was required. I would say that there isn't a sportsground or a swimming pool or a community facility that we haven't upgraded under those grants, and they were fantastic. There was also a realisation that COVID unlocked a lot of money but that couldn't continue and also that there may have had to have been some belt tightening in that respect. I think that was not unexpected.

The stronger country community grants certainly allowed us to give more back to the community through our community strategic plan on whatever the communities did want. But I've got to say that I think we have satisfied the majority of those concerns with the grants that did come our way. I'm sure other ones will come up. Our biggest issue, I think, is all these new shiny toys that we've been able to do. They've got to be maintained and that's going to be the next challenge for the local government—maintaining all these facilities.

The Hon. SAM FARRAWAY: You must have a good local member to get you all those grants.

PATRICK BOURKE: We have. I will vouch for that. But it's a tough gig, Sam. You've got to look at that communities have all their wishes. Some are mandatory, such as dog parks et cetera. We can't fly by the seat of our pants. If it's not in the budget, it's not on. We have to guide the community through processes of trying to achieve grants for different outcomes. There would be a lot of times that you would like to be able to help communities such as the Corowa-Rutherglen football club that was flooded, but you are pretty much tied within the boundaries of grants and insurances. There is just not that spare cash there to do that. We have to be strong as a council and stick to our budgets hard and fast.

The Hon. SAM FARRAWAY: Do Lockhart or Federation councils have enough resources to have a dedicated grants officer? We've heard from some larger councils, like Albury and Wagga, that they have their own dedicated grants officer. Do you have the resources as smaller councils compared to those city-based councils to have a dedicated grants officer?

GREG VERDON: I think I can say we don't. No, we don't have that capacity. There are certainly other staff positions we'd like to fill.

ADRIAN BUTLER: For the record, Federation doesn't either. We went through a period early days of merger with some grants officer and some other areas in economic development, but, again, as the mayor just alluded to, everything has to get cut right back now to what is a—when you're going through a special rate variation, there's no better way of having the community examine every aspect of your operations and we don't have a grants officer. I think that goes back to that thing about there shouldn't be as many competitive grants either, because that's the challenge then, isn't it?

Dr AMANDA COHN: Thanks so much for coming to Albury today. My first question is for Councillor Bourke. I'm particularly interested in your experience as a mayor of a council that was forcibly amalgamated in 2016. I understand that the previous Government offered some financial compensation at that time to cover the immediate costs associated with the amalgamation. At this point in time should the Committee be considering recommendations around the unique circumstance of councils that were forcibly amalgamated? Is the amalgamation still having an impact on your budget?

PATRICK BOURKE: Absolutely. I was deeply saddened, I have to say, at the ALGA conference just recently with Charlie Sheen, who has fought for his community for many years, being allowed, given the permission, to demerge and can't do it. There are no legal tools to do it. There's no funding behind it. Councils like Urana and Corowa councils, at the time of merger both communities were against the merger. They didn't want to merge. I suppose looking back we've created a lot of inefficiencies. I look at Urana Shire Council where there were approximately 30 outdoor staff. That's down to eight. Indoor staff, down to a couple from 10 or 11. So it is dying. It is the case that from the merger the efficiencies haven't been there. And they couldn't be there because of the distance. Urana shire had a general manager, a finance department and—what's the other one?

ADRIAN BUTLER: Planning.

PATRICK BOURKE: Our planning and engineering. We don't have any of those. We have one of the staff who's from Corowa come down once a week. It really has affected the community and the economy. It has affected the cost of running the council. I will say that, though, when we were merged, we did take the attitude, "Here we are now. We've got to make the best of this in the situation we are." That's what we've tried to do. I believe that Federation Council staff and councillors have done a very good job of that, and we'll continue to do that.

But is there any help for us? No-one asked for it. It was forced; it was against everyone's will. Our biggest issue is I come from a community or a council of 1,200 people. I went into a council of 12,000, nearly 13,000 people. I was the previous mayor of Urana Shire Council, so I was known and I fluked getting mayor of Federation Council. But where is our future? It's very clear to me and the other councillors—we're a great council with good relationships and we talk about it. It's too far; it's too inconvenient. Where's our future? Where's our representation? How do we hold that community? We have.

Anyone that knows the old Urana Shire Council—a lot of towns in New South Wales have died. We haven't. We've got water. We've got leisure. We've got tourists coming in each weekend. But the community is fighting to keep that. We do need help, yes. I think there should be some form of compensation—or thought. Give us some representation for the future and we'll be happy and we'll go away and just live on and make it the best we can. That's what we want. We want representation. We were told at the time by the Minister of the day that we would have a guaranteed three own council by proclamation. If that can happen, make it happen. It just needs to happen and we will stop annoying anyone and get on with the job.

Dr AMANDA COHN: I also have one question for Councillor Verdon. This morning your general manager was speaking on behalf of the regional organisation of councils and brought up the leadership that your council has shown on early childhood education in filling a gap that's been left by the private sector. The question that I couldn't ask the general manager but I'd like to ask you is about the community sentiment on this kind of issue. When we're talking about lifting or removing the rate peg and the community appetite to fund services that are well outside of that traditional roads, rates and rubbish, what do you think the community sentiment is on things like council stepping in to provide early childhood education if you were seeking to raise rates to be able to provide services like that? Is it something the community would support?

GREG VERDON: Good question. I think I would say yes. I think the community has been—the response to council's initiative on trying to plug the gap on this child care has been very supportive. I think it's probably not something that we necessarily wanted to get into, but we see that it's such an important role within the community, especially with working mothers et cetera, that we do have some facility there. We've had no—even though the council's had to stump up some money to make sure this can happen, there have been no adverse comments from the community to say that why are we doing this or whatever. I think that as a general rule, we see child care and out-of-hours school care and all those things as essential components of a viable community.

The CHAIR: I wondered if I can pick up on Federation Council. In your submission you mentioned the financial issues facing Federation Council that are:

> … not as a result of merger, nor have they occurred over the time since merger, they are as a result of sustained underfunding and a lack of strategic management.

That's a quote from your submission on page 3. There are two issues there. In terms of the sustained underfunding, let's park that for one moment. Then there's the lack of strategic management. I wondered if I could invite you to comment on that "lack of strategic management", how you think we can address that issue and whether it is a good idea to tip more money into councils if there is that lack of strategic management. Are we still just going to have the same problems ad infinitum?

ADRIAN BUTLER: I'm happy to speak to that one, thank you, Chair. Having been involved in councils for around 20 years, I felt personally that the councils in many aspects—and I think it was just an agreed thing where depreciation was just factored in and then taken out. Then it was just balance your budget, make a surplus—if you can, a cash surplus. I think rate pegging has been the driver of those issues. But I think that councils have never had the resources to actually invest in strategic financial management, until perhaps around when 2012 came along and we all went through the integrated planning and reporting framework.

I think that some councils have embraced that really well. I think Parkes Shire Council are an example in the early days. I was across at Lachlan as a director when Parkes went through a really strong process and they, off the back of that, got a successful SRV at the time and improved their rates base to then drive that community.

And they got a lot of other advantages where they are. Our council is very similar in a lot of characteristics to Parkes, in terms of land area, road length, population—they're growing a bit more and they'll probably take off, but we've got the Murray. But I think there are examples where councils in those early days were at the front of it and they did put in for their SRVs. It's a lot easier then when you're working on a rate base of 15-plus million compared to us who are down to about nine or 10.

I think the councils just didn't have—and not only in financial but also in strategic planning to do all the growth work. I think the State can play a real role in terms of solutions, in terms of examples like the Office of Local Government being more resourced. I understand there's more funding being pushed into that office now. When you talk to people who have retired already, they said that in the old days—I don't know what years they're talking about; probably the '70s or '80s—the OLG was a real capacity/capability organisation. Now I think the attitudes are great right down through that team, but I don't think there's enough there to actually be proactive and have councils working forward.

They had things in the old days like promoting better practice reviews where you could actually have your council scorecard and you could work forward across those areas. Now we find we have Professor Drew reports, and we have all these other consultants that we pay upwards of $100 grand just to try to get some externality around what we probably mostly know. I think this Committee could recommend a much stronger framework around improvement. We're put under the Audit Office now for a reason. We have ARIC committees, which I think has one of the, I suppose, newer GMs into the scene. Why would we shy away from all that? Why don't we welcome all that red tape but then get funding to continue to improve? Give our communities confidence that we can then raise rates—not 3 and 2 per cent, but maybe 10 per cent when we need to, if it's through an OPR process.

Do the child care. We do a great thing at Urana, and it has carried through Federation. It is mobile preschool. There are a hundred and something kids that would get mobile preschool across Boree Creek to Oaklands and Daysdale that would never have that chance. Early education is critical. We are thankful of State Government support through that program—we don't have to go into the child care as yet. I think there's a real chance for strategic financial management. I think everyone has hit it now. They have realised, with all this focus on the mergers. They probably took the easy way out with the reforms in 2015: did the mergers; didn't do the rest of the strong work out of that review that could have built that capability. But I think everyone is realising that you can't ignore depreciation going forward.

PATRICK BOURKE: To that point, Chair, I think also with a merged council there is such a massive workload. Just combining your rates harmonisation, LEPs—there's a massive workload that comes on those councils, and they are under-resourced. In relation to a lot of communities with a lot of planning to do with underground utilities, it's just getting those staff and the cost of running those studies. But to enable future housing, future developments—yes, definitely need help in that area, for sure.

The CHAIR: Did you have any comments to make on either of those items, Lockhart, before I move to another question?

PETER VENERIS: No.

The CHAIR: In terms of the strategic financial management that you mentioned, Mr Butler, and in terms of the role of OLG, is it the case that you would see OLG as having more of a role to play in that area? It sounds like there are councils across the State that are, perhaps, doing better than others. Is there a way that we can bring everyone up across the board?

ADRIAN BUTLER: I think so. I think OLG—you know, they are not the finance experts. We've got the Audit Office and we've got TCorp, so a lot of things have come about since 2015 in that space. I think it's just making sure that it's coordinated and everyone can move forward. They are all on a different journey. We've all got different backgrounds in terms of our rate bases et cetera. But I think, yes, that OLG should be able to play a capability-build role and get us back to a bit more of a generic template standard approach instead of everyone having to charge off and do their own thing with reports and reviews.

The CHAIR: Is there a need to upskill in other areas, would you say? I invite you all to make a comment on that, in terms of whether it's just the financial management. Is there a need for upskilling in other areas for the councils currently involved?

PATRICK BOURKE: I was just going to say if we could upskill the planning portal, it would be great, thanks.

PETER VENERIS: One thing I was going to add in relation to the references to OLG is I know some of the feedback I get from my staff has probably got to do with the auditing of our financial statements by the

Auditor-General and the amount of focus on certain aspects of it, which we sometimes have difficulty understanding why there is so much focus on certain things. To be fair to the Auditor-General, we have had plenty of opportunities to provide feedback. Of course, what they indicate to us is that they don't set the framework that they have to audit against. They have to audit us against the code, for example, of accounting practice. And they, I think, at times, too, aren't sure what the benefit or what the reasons are for some of the things they are auditing.

That's where I think there could be, maybe, some better alignment between OLG and even the Auditor-General in terms of where the Auditor-General is focused to pay a lot of attention on some things that we just see there is little benefit in. It's probably mostly around asset valuations, for example. You know, a lot of feedback about how much time and effort and cost has to go into valuing assets that, obviously, we can't sell—you know, can't be disposed of in any way. They are mandated to us. The Auditor-General—I suppose, because it's in the code, they spend a lot of time focusing on that. But they can't explain the benefit to us of that either. They are forced to audit those things. I think that's the sort of question that could come back to an OLG.

The CHAIR: So there is a need to review the current accounting model that is being used?

PETER VENERIS: Yes, and I think where a lot of the resources are focused on audit, you know. We are obviously different to a corporation. If we were a private corporation, there are a lot of reasons why a user of the financial statements would want to make sure about certain things. They might be thinking about lending money to that corporation. They might be thinking of investing in it. But with local government, we're talking about a lot of time being spent on what a road is worth or what a pipe under the ground is worth, which, no matter what amount of financial trouble we would get into, we can't sell those things off to save ourselves. So you've just got to wonder what the benefit of spending so much time on those things is.

The Hon. SCOTT FARLOW: This reminds me of another hearing where they were talking about the requirements they had in terms of actually being able to justify the impact of disasters on their assets and the like, and how they weren't actually able to justify it because they didn't have photos of the road from six months ago, so to speak. I am interested in your perspective on what you have to do to be able to show and catalogue that database and asset management, and what sorts of requirements council has in that regard.

PETER VENERIS: There are probably two things there. One is there is a fair bit of compliance and photographs and the like for reporting on the disaster recovery funding we get. But, separate to that, in terms of the auditing of our financial statement, it's more around we are often outsourcing the valuation of those assets to independent valuers. And then, when we get those reports, we are asked whether we have questioned or challenged those reports to make sure they are robust enough, even though we are not valuers ourselves, and the whole purpose of going out to an independent, qualified valuer is to get that sort of information. That's the sort of thing I'm talking about in terms of the amount of effort and time and resources around these things.

The Hon. SCOTT FARLOW: A lot of cost for very little reward at the end.

PETER VENERIS: I suppose that's the question: What is the benefit at the end? That's the answer we haven't received. What's the purpose of it?

The CHAIR: Did you have further comments on either of those points?

ADRIAN BUTLER: Yes. I guess it's just a real challenge. Like Peter picked up, we are not a corporation, we are not a private entity, but somehow we've still got to be—we still have funds and we've got to account for them, so we can't have a whole separate accounting practice outside of the code. The engineering part is there are so many variables in that. The road—we don't have data that says 20 years ago there was $100 million put under that bit of bitumen and this bit has only got $50 million. A lot of that stuff is still going to be a bit variable when we are dealing with old roads. I think what Peter is going to is the time and the churn of staff working back and forwards in the auditor's offices is where it doesn't then allow us to get the funding out onto those roads. So somehow, I suppose, in between, there has got to be a better way of doing it.

We have impairment, where community members say, "Why was your last quarter—you had a really drastic result in your operating result." Non-cash, obviously, but there was an old bit of road that we still had a value on, but we built a whole big new road over it. They don't just get that. They think we're somehow trying to hide the figures. Some of that impairment discussion has got to be cleaned up, I think, as well. As we said, we didn't sell the old bit of road; we just built over it. I think we are in a hard place there, but there has got to be a better way through it.

The CHAIR: Do you have suggestions for that? Sorry, I didn't mean to interrupt, Mr Veneris.

PETER VENERIS: All I was going to add is that if I was the OLG, I think I'd want councils to know or be concerned with what the condition of their assets is, and how much it might cost to bring them up to an acceptable standard or to the standard the community want. I don't know that I'd want them to focus on what the market value of them is, and that is where we seem to be spending a lot of time.

The CHAIR: Thank you. Do you have any other suggestions around improving that cycle?

ADRIAN BUTLER: I think the engineers and that would have plenty of suggestions. I'm planning by background, but I think the engineers would have a lot of suggestions. Even to Peter's point, I think that's where it lands. It's saying, "Let's just focus on what the backlog is and how can we improve that road, not just to the six metres; we want eight metres now. We want to be able to cater for the bigger trucks." That's the other problem with accounting. The backlog only puts it back to what it was; it doesn't do the betterment thing, and not so much betterment from a flood but betterment to create roads for the future for our current trucks. That's where the accounting standards do fall over, too—because they're just saying, "Your backlog's only putting back your small road, but you never would build that road again; you're going to build a better road because we've got bigger trucks and more freight." So there's another dilemma there that I think needs sorting through.

The CHAIR: Should councils not be forced to revalue their assets quite so frequently, would you say, as well?

ADRIAN BUTLER: Yes, I guess, with caution. Roads obviously just stands out on its own, but I think the revaluation of other assets like water and sewer is critical. There are far easier to get industry benchmarks on those products and plants. But, yes, I think the churn around the road revaluation is probably where the wastage occurs.

The Hon. SCOTT FARLOW: I have one question for the Federation Council. I think you went through a special rate variation process. Was that last year?

ADRIAN BUTLER: The year before, so we're now in our second year of a temporary approval.

The Hon. SCOTT FARLOW: How did you find that process? From your experience with that, what do you think could be done better in terms of the amount of resources you had to put into applying for that special rate variation?

ADRIAN BUTLER: Certainly significant work. We did most of that in-house this time around, through only receiving a temporary approval and getting the independent review done as a separate matter. But there were some SRV recommendations, naturally, from that. We've engaged assistance with a capacity-to-pay report and a new hardship policy, and some community consultation. So we'd certainly, probably—if we had our time again, we'd gain some more outside assistance, but it was also a great way of bringing staff up to speed.

We did fail on the community engagement or community awareness aspect of that, mainly around hard-copy mail-outs, and we didn't take that option as strongly as we should have. But as far as through IPART, we couldn't have faulted any of that process. They were very supportive of that whole process. The community—it's always going to be quite alarming when Urana had never gone through a rate increase before. They had flagged one if we had survived the merger, and Corowa had gone through a number of minor ones—7 or 8 per cent ones—which weren't really going to go anywhere, but they got those approved. But, yes, the community certainly came out strongly against those large numbers. But as far as through IPART—

The Hon. SCOTT FARLOW: So there was quite a bit of bill shock, it's safe to say, in terms of the community's response.

ADRIAN BUTLER: Yes, there's certainly an awareness. As the mayor pointed out with the flooding and that, there's certainly awareness that there was a need to inject some more funding into our assets. I think through the independent review, led by Professor Drew, it showed that there's not a lot of wastage. We are proven to be one of the most efficient councils, and the merger's cost us around 11 per cent a year. That's backed by the data in the independent report.

Certainly, I think the shock of—some of the community thought we could just cut a bit of tourism or cut a bit of this or that and we might be able to just throw it onto the roads. The scale of where the road backlog is up to, I think, probably put some shock out there. But we've also got to look at our own rate base. We are quite low when compared to other councils. I know that doesn't help; you can't just put it straight up because you've got cost-of-living pressures. Yes, we're in that real challenge. We're going to reset, reapply for a special rate variation to lock in those two temporaries and seek another couple of years. But that'll be up to community engagement and up to a new council, as well, to endorse that. It's well underway.

The CHAIR: Thanks so much. That's all we have time for today. Thank you for making time to be here and give evidence to the inquiry today. The Committee secretariat will be in touch with the details around any questions on notice and any supplementary questions on notice.

(The witnesses withdrew.)

(Luncheon adjournment)

Mr STEVEN PINNUCK, Interim General Manager, Snowy Valleys Council, before the Committee via videoconference, sworn and examined

Councillor TRINA THOMSON, Deputy Mayor, Snowy Valleys Council, before the Committee via videoconference, sworn and examined

Ms EVELYN ARNOLD, General Manager, Greater Hume Shire Council, affirmed and examined

Councillor ANNETTE SCHILG, Deputy Mayor, Greater Hume Shire Council, sworn and examined

The CHAIR: Welcome to our next lot of inquiry participants and thank you for making the time to give evidence today. Would any of you like to start by making a short opening statement?

EVELYN ARNOLD: I'm fine to just go to questions but the deputy mayor may want to speak.

ANNETTE SCHILG: Hello. I was just going to say a little bit about Greater Hume council. It's a wonderful, diverse community with about 11,000 population—hovering around that. We're placed nicely between Albury and Wagga Wagga, two larger centres, and on the Melbourne to Sydney railway line, which is very convenient for everyone. We're not far from the snow, the sea and the outback. We consist of five large towns and six villages. We have diverse industries. A large proportion is primary production, which is very important to us. We also have three high schools and multiple primary schools, and we have private and public in all of those areas. It's just a great place to be.

STEVEN PINNUCK: Firstly, thank you to the State Development Committee for providing Snowy Valleys Council the opportunity to appear before the inquiry. The opening statement will briefly touch on the inadequacy of Financial Assistance Grants, cost-shifting and rate exemptions. Since Financial Assistance Grants were introduced in the 1970s, the financial sustainability of local government has been the subject of multiple inquiries and reviews. The only constant over this period of time is that local government continues to be squeezed, particularly in rural areas of New South Wales. In Australia, local government is at the bottom of the food chain, with limited taxing ability and being rate pegged in New South Wales since the 1970s.

Financial Assistance Grants are local government's rightful share of the Australian national taxation revenue. However, since their introduction, local government's share has continued to diminish from around 1 per cent of national taxation revenue to around 0.51 per cent following the 2024-25 Federal budget. The Federal Government will argue that other programs such as Roads to Recovery and the Local Roads and Community Infrastructure Program have been introduced to offset the reducing FAGs in real terms. The challenge for local government is that FAGs are untied whereas other programs are tied predominantly to asset construction or renewal. For local government, this is the crux of the problem. Through the reduction of untied FAGs and cost-shifting from both the State and Federal governments and rate exemptions, local government is dying a death of a thousand cuts. The intent of FAGs is to ensure equitable levels of service by reasonable efforts of council, and for that reason it is untied.

The diminishing FAGs in real terms continues to impact on the ability of local government, and particularly in relation to Snowy Valleys Council, to administratively operate and provide basic services such as adequate road maintenance, libraries, waste services and swimming pools, all of which this council has had to significantly reduce in recent years and as late as last month. The tied grants such as Roads to Recovery have been gratefully received and assist in asset upgrade and/or renewal of infrastructure assets to meet the changing transport and social needs of our communities in the twenty-first century. But if council is operationally unsustainable, then there is a major issue which needs to be addressed.

The squeeze caused by reducing FAGs in real terms has been compounded by cost-shifting, particularly by the State Government in the form of policies such as the Emergency Services Levy. At least a decade ago the State government of the day stated that there would be no changes to policy on local government unless the financial consequences were identified and compensated. Unfortunately, this has never occurred and the recent introduction of the Interment Services Levy with little genuine consultation is just another example of the many changes that have been made over the years that impact on local government.

Finally, rate exemptions, including pensioner concessions, legislated by the State Government are continuing to impact significantly on local government. Pensioner concessions are clearly a welfare measure which quite rightly should be the remit of other levels of government. With regard to Snowy Valleys Council, another significant anomaly is the New South Wales Forestry Corporation operating as a commercial forester and not being charged rates on their commercial operations. It seems incredible that Forestry Corporation does not pay rates on its operations, however a private operator next door does. Those are just two examples of many rate exemptions that are manifestly unfair to local government. In conclusion, this inquiry provides a unique opportunity once and for all to develop a sustainable future for local government, which is at the grassroots of our democracy. Committee members, Snowy Valleys Council implores you to keep an open mind when recommending significant change before local government withers on the vine before our eyes.

Dr AMANDA COHN: Thanks so much for travelling to Albury today, and to Snowy Valleys for being here online. My first question is to Snowy Valleys, picking up on something that you mentioned in your opening statement, which was Forestry being currently exempt from rates. I appreciate that you might need to take this one on notice. I'm wondering if there has been any work done to calculate the value of that loss of rates to your council.

STEVEN PINNUCK: I will take that on notice if you don't mind. There are about 154,000 hectares of State forest within the shire, but we'd have to do an accurate analysis of exactly how much of that is under active forests and how much is just normal State forest, which would obviously apply to other councils as well. I'm happy to take that on notice.

TRINA THOMSON: Can I just add to that as well. It's not only Forestry Corp that is unrated land. We also have significant national parks. Across our Snowy Valleys Council area we have probably 60 per cent of our land that is unrated. It still has the roads going through it; it still requires infrastructure. The staff who work in there utilise our communities. So 60 per cent unrateable is a significant area that we're actually trying to maintain.

Dr AMANDA COHN: I also wanted to ask Snowy Valleys a similar question that I asked Federation Council earlier this afternoon because you are a council that was created through forced amalgamation in 2016. I understand the previous Government provided some short-term financial support at that time for newly amalgamated councils. Moving forward, are you still feeling the ongoing impact of that amalgamation? Has the financial support been adequate? Do we need to be looking at amalgamated councils in a more unique position than the broader financial picture across New South Wales?

TRINA THOMSON: Our council is actually in the middle of a process of trying to de-merge. It was always sold as "fit for the future" and sustainability and capacity, but what we have found since the forced amalgamation is that our capacity to actually extend the services and the infrastructure across the whole of Snowy Valleys Council is diminishing. We now have 9,000 square kilometres for 14,500 population. We have a population density of around 1.6, and yet we're still expected to deliver. Geographically—ironically, today apparently it's snowing at Laurel Hill, which is halfway between the two major centres, and we have staff who are expected to travel for both. So the funding was never adequate and, without being completely disrespectful, it felt like the 30 pieces of silver handed out to try to appease people, but it was never ongoing. The funding to actually enable the merged entity to function was not continuing. With the rate peg, we as the former larger centre are now looking at services that we never had to fund. Tumut shire council never had to fund child care. It never had to fund aged care. It never had to provide health service outlets. There are so many of these services that we now have and it's taking from a wider cross-section.

STEVEN PINNUCK: I might just add to that to some extent because I suppose Snowy Valleys' circumstances are a little bit more unique than Federation's in that the amalgamation itself is a great disruptor to the organisation. Having previous experience of amalgamated council, it takes a long period of time to recover from that upheaval. I suppose the other challenge that Snowy Valleys Council have had is that, in 2019-20, 45 per cent of the shire was burnt out from the Black Summer bushfires, so it was an organisation that was still operating in some level of a crisis mode when those bushfires hit. We'd just got the fires out and then, of course, we went into COVID.

So it's been an extraordinarily difficult period of time for Snowy Valleys over the last eight years that it's been amalgamated. There's no doubt in my mind that a lot of the challenges that Snowy Valleys faces are because of that are upheaval, one after another, which has made it very difficult for it to find its feet as an amalgamated council. In our case, yes, some additional funding would be great to allow us to achieve some things that never got achieved through that period of time, but the biggest challenge for Snowy Valleys Council is that the whole structure of the council is unsustainable; we just can't generate enough revenue to maintain our operating expenses. That's the challenge that we face at the moment.

TRINA THOMSON: Part of the issue of concern is the fact that we've also lost virtually every senior executive. Since the merged entity, we've lost so much of our intellectual knowledge across the organisation, so we go from one thing to another, but it's things when you come down to the basics. At the national general assembly last week, they spoke about liveability and walkability. We have communities that are now being pitted against each other just because they want additional hours of library services, which also acts as a service centre. So that original merger is now dividing communities even more because they're having to try to decide who gets the piece of the pie—that the library is open an extra day, or the swimming pools for an extra day. We're just financially exhausted.

Dr AMANDA COHN: One more question to all of you, which is that it's very clear that rural and regional councils are providing a huge range of services that metropolitan councils don't have to. Today, we've spoken about child care, aged care and supporting health services. You just mentioned disaster resilience and recovery. I'm interested if you could give us some local examples of your councils stepping in to provide those services, and how you're currently funding those.

ANNETTE SCHILG: With a lot of those services, it is repeated in Greater Hume, but it's 20 years since Greater Hume had the forced amalgamation that was just a few months ago—that was 20 years. It has taken a long time, but there are still issues with parts of the shire. They haven't adjusted as well. In those days there was absolutely no support with financial assistance. On Friday afternoon they went home as three different councils, and Monday morning they were expected to be one, so there's a credit to the people that navigated through all of that. Even within our shire, the eastern part is quite a different agricultural area; they're more grazing, and we also have forestry as well. The west is more dry land, cropping and sheep and that sort of thing. Even within our small shire—we've recently been upgraded to a large rural shire but we didn't get any extra benefits for that—it's still very different from one end of the shire to the other.

Over time—we used to have aged care facilities but we chose to do away with that. We're very involved with child services, long day care—and that is a huge need within the shire. With the three hospitals and some nursing homes, we have a lot of demand for nursing staff and to have them fit in with the shift work with young families, it's very challenging. So that's a big service that we've taken on and it's been run very well but it's still—the hours are not quite enough for everybody. To keep nursing staff, which is vital in our community, it's a real challenge. One lady on the edge of our shire in the west drives from out near Rand over to Walla, drops her child off and then goes to work and then comes back. So she's doing 2½ hours a day just travelling to get her child and then by the time she gets home it's just straight to bed. Those sorts of challenges are there.

As has already been said, the emergence services levy, the libraries—that's another important vital service that's under pressure because we have the five towns and each one expects a similar service, which we want to provide, but it's stretching the dollars all the time. The emergency levy, that's just been very unfair and I'm sure you've heard that already many times. It's not even our asset, but we're expected to take the brunt of the costs of it. Where do we find that extra money? It is harder to maintain the services that people do expect and we don't have the rate base like the bigger cities or the bigger places. We can't put parking meters up to get some more income and we rely heavily on what's given to us. I've forgotten if I've answered the question or not.

Dr AMANDA COHN: It's a great list of examples. The last bit was about how you're currently funding those things—things like child care.

ANNETTE SCHILG: We just need more money, basically.

Dr AMANDA COHN: Are you having to fund those things out of your general rates revenue?

EVELYN ARNOLD: Essentially any shortfall we have has to be breached, as you say, by our rate base. A couple of critical examples for us recently: We provide a budget, if you like, for the maintenance of Rural Fire Service plant and equipment. This year that's $100,000 in the whole. We've met with the current service, but the vehicles and plant need to be serviced. We weren't given a budget. They haven't got a budget and they've tried to put in a bid and so we're on the wing-and-a-prayer type of budget. That shortfall we have to find. We can't not fund that. I'm placed in an impossible situation of saying to them, "Only essential maintenance now because we haven't got the funds." The funds aren't there.

Another example of where we are trying to bridge the gap with ratepayer funds is our biosecurity and weeds control. That has now become a grant-based process. We were unsuccessful in the grant, which was unfortunate, especially as we had already spent the $85,000 we were expecting to get. Those numbers are not large from a metropolitan point of view, but that's almost $200,000 that I am now short that has to come from Greater Hume ratepayers when we're already struggling to make our business as usual work.

The funding model simply doesn't—if you're looking at it from a business point of view, we are not sustainable. We manage to keep going as local government—it's not just Greater Hume—because we have to and because the State really has to fund us, otherwise those services stop. But we are now very much in what I would term a Hunger Games-type scenario, where we are forced to cannibalise each other to try to prove that Greater Hume ratepayers are more disadvantaged or more needy or more prioritised than Snowy Valleys or my other colleagues and neighbours, which is not the fact and not the truth. They all deserve to have those services and that infrastructure maintained. It shouldn't be based simply on whether I can put a better business case than my neighbours. That's just not a sustainable way.

If the State is really focused on trying to make this work, the whole model of how we are funded simply has to be reviewed. In answer to the question, we can't. We simply can't. Snowy Valleys has pointed out, quite rightly, they've got different challenges from us but the challenges are the same. You scratch the surface of every single—especially in the rural and regional areas, because we don't have the opportunity to generate revenue in the same way. We really are reliant on what we are given and an acknowledgement of what we are trying to provide and do for our community. I don't think that you should be able to judge one community more worthy than the next, based on the grant funding process, for some of those services.

ANNETTE SCHILG: Can I just add with the weeds? I've had a farming background. The wind and the birds don't know where those invisible boundary lines are. Why on earth do we have to compete with our neighbouring councils to get funding to manage that? Not just weeds—they can make a heck of a mess to creeks and rivers. We've got the Billabong Creek running right through us, and we're on the border of the Murray River. At the weir, we've got quite a long shoreline there. How can you consider that even a possibility to make us do that, to apply for money to manage the weeds? And it is a problem because we will be up the creek. We won't have a paddle because we won't get through the weeds. That's just not common sense, in my book, that you've got two shires, or three shires, or however many you might border on, that you're fighting for funding. It just doesn't make sense. It's just making it harder and harder, and the State seems to just keep handballing more responsibilities to the local government, and then we're supposed to find the money and the time and effort to follow through.

Dr AMANDA COHN: That's a great example. Does Snowy Valleys want to add to that, before I hand back to my colleagues?

STEVEN PINNUCK: Basically, what I would say is that I concur with everything that Greater Hume said in relation to the funding model. It just needs to be completely reworked. I certainly agree with the comments that the general manager of Greater Hume said in relation to "not just weeds". A similar thing happened to Snowy Valleys, wherein two Local Land Services are here, Murray and Riverina. We were successful in Murray but unsuccessful in Riverina. As it was pointed out, the grant announcements were that late this year that in 2023-24 the financial year was virtually over before the successful people were notified. As it was pointed out, councils have gone on and expended some money in those areas in good faith and then were unsuccessful in a competitive grant program. It's just ludicrous. How that was allowed to happen, I do not know. Probably we can have a meeting with Local Land Services about that, and that's probably a discussion for another day, but it's just one of the many things that's impacting on rural councils in some areas.

TRINA THOMSON: You were asking for some examples. One of the examples of Snowy Valleys Council having to fund probably things that our metro relatives don't have to is things like child care. Particularly in the Tumbarumba region, child care is so essential because if you don't have the provision of child care, then you don't have access to professionals with young families. They won't move to an area if they can't have their children cared for. So we have that. The next two terms of council have some really hard decisions to make financially, and it's an incredibly difficult thing to ask the elected representatives to say to their community, "We have no money and you can't have it."

One of the examples of that is that within our own budget, because we were unsuccessful when we applied to IPART for a special rate variation, we had to come up with—at least for this year—$1.2 million of cuts. One of the areas, or a couple of areas, included—we had to cut the grants that we had, our community grants, our sports grants. We've had to reduce the hours for the libraries and the pools. You can imagine how well that has gone over with the community because, just like local government to State and Federal for funding, some of these smaller community groups really look to those grants that we provide each year for some of the basics that they want. We're going backwards. We just don't seem to be able to get our head above water.

The Hon. SCOTT FARLOW: Thank you for being here in person. Thank you to Snowy Valleys as well for being here online. I might pick up on that point in terms of the special rate variation for Snowy Valleys. I note that when it came to that decision, it wasn't approved by IPART, and they have said to keep to the rate peg. I wondered if you could perhaps outline to us that process and where to from here for Snowy Valleys after that determination.

STEVEN PINNUCK: I'm happy to talk about that. We were of the view that the assessment by IPART was particularly tough, and we have since had a meeting with IPART around that. To some degree, some of the comments that they made were fair. It relates to the immaturity of Snowy Valleys Council as an organisation, unfortunately, in relation to some of the documents that we probably should have that we don't have, like robust asset management plans et cetera. In my way of thinking, given that I've only been here for about 11 months, it's a product of all the challenges that Snowy Valleys Council has faced since it got amalgamated.

The decision is what it is. I was a bit surprised, given our financial position, that they didn't give us anything, even if it was a temporary increase, to try to allow us to get some of those documents that we would need to substantiate our case completely, but that was the decision they made at the time. As the acting mayor has said, we're still pursuing a de-amalgamation here, which we hopefully might know by the end of this calendar year as to where that's going. Given that we were unsuccessful this year and the future of the council is still a little bit uncertain, we won't be going back to the well in 2025, but I think that council will probably, either as one council or two councils, in 2026 would go back for a special rate variation application.

TRINA THOMSON: Can I just add to that? When the council was merged, there were very strict guidelines around the staffing and what you could or couldn't do. You couldn't just walk in and suddenly harmonise all of this stuff and move people on and to offer redundancies at that time. There were very strict time lines. What is now happening and what has happened with the fact that we didn't receive the special rate variation is that we've had to come up with $1.2 million worth of savings just in this year. That's where we are looking at the reduction in services. But we've also had to look significantly at reductions in staff. You can imagine that, in our rural areas, when you start talking about staff reductions, even though it's a necessary thing and we don't really have an option or a plan B, that has an enormous flow-on effect not only to the community per se but to the other staff.

We have staff who feel guilty that they actually have to compete against each other for a position. That really is, in a time of such uncertainty, economically, an awful thing to have to impose on our communities. We get that nobody wanted a special rate variation; we didn't either. But people also didn't want a reduction in services. We are stuck between a rock and a hard place and, at the end of the day, we have no opportunity to generate that income other than through exceptional fees and charges, and even some of those are legislated. Again, that's not real community. It's a tough gig trying to generate income from a rock.

The Hon. SCOTT FARLOW: To pick up on the question that I have asked a few councils in border communities—to both of you, with what I think would be Towong in the case of Snowy Valleys and Indigo when it comes to Greater Hume, what's the comparison between your neighbouring councils and the other side of the border in terms of their rates compared to yours, if you are aware? You can take it on notice.

EVELYN ARNOLD: We might need to take that one on notice. We just recently struck our rates. We are lower compared to most of our neighbours and we have stuck with the rate cap with a variation only for growth. But we, generally speaking, haven't looked—one of our neighbours is Federation and they have a significantly different approach. They've had a special rate variation. We are probably in the mid to low range, but I will check those numbers and come back to you.

The Hon. SCOTT FARLOW: How does that compare to the other side of the border across in Victoria?

EVELYN ARNOLD: That I'd have to check because we normally just look at the New South Wales world, to be honest.

The Hon. SCOTT FARLOW: It's just interesting because we've had a bit of evidence in the North Coast as well in terms of Queensland and some of the considerations taken into account there and also looking at Victoria. These are quite acute when it comes to border communities. Is there any perspective on that from Snowy Valleys?

STEVEN PINNUCK: I think we'd have to take it on notice as well. The only thing I would say though is that, from reports that have been put out before around the review of the rate pegging legislation, generally speaking, the rates in Victoria in rural areas are higher than New South Wales.

The Hon. SCOTT FARLOW: I think, Ms Arnold, you used the terminology when it came to grant funding of the "hunger games", which is quite funny in comparison to some of the other analyses where it has been the "beauty contest". But I think you were telling quite a different story. We have heard throughout this inquiry from other councils that sometimes the councils are able to stack up a business case and councils that are able to outline, effectively, through a grants writer or the like how their project is better, whereas you are telling a story somewhat of where councils need to show even more need than their neighbour. I'm just interested in terms of how that comes into the equation, so to speak, and that need that you are outlining when it comes to grant funding and being successful in grant funding.

EVELYN ARNOLD: It's a real challenge because Greater Hume is not really big but not really small. Our population has quite a good socio-economic base so we are not considered—depending on what models and definitions, and they change each time the grants come out, to be honest. We do shift, but we are not considered, in some aspects, to be disadvantaged.

The Hon. SCOTT FARLOW: For instance, I think of a defibrillator program that was being offered where it looked at lower socio-economic community, for instance, and even within certain council areas made a division based on suburbs and their ranking.

EVELYN ARNOLD: Yes, exactly right. There was one recently that we were unsuccessful for—I forget the name of it but I think it was around growing the regions—where we would have also had to provide a greater joint funding. The other challenge for us, because we are not really big and not really small and not considered disadvantaged—I hate to use that word but it's not my terminology—we are also happy to find more money to match. Every grant comes with a matching requirement, which assumes budget capacity. We can make a very good case but, when we compare to some of our neighbours and some of the other projects, on that basis, we simply can't compete.

A good project and a great project will make a good impact in our community but, in the broad scheme of things, it's very difficult for us to make that case that we are exceptional and should therefore be funded. And then, if we are, we then have the challenge of finding the matching funds to go with it. It really does make us feel a lot like we are competing and we have to prove a greater need to be able to get that money. That's a challenge for Greater Hume because we are pretty good financially, in lots of respects.

The Hon. SCOTT FARLOW: But you are not good enough, so to speak.

EVELYN ARNOLD: But we are not good or bad enough, if you know what I mean. That's how it feels. That's just my opinion, looking at the grants. It really is how it feels. The community is either not big enough or not small enough or not wealthy enough or not disadvantaged enough. I would say there would be a few of us in this category. AlburyCity and Wagga are bigger and so they have different opportunities. It really is that just getting ourselves on the map as somewhere that should be funded is a challenge for us.

We have proved recently through the disaster recovery funding we did get how well we can perform when we are given the funds to improve the infrastructure, but therein lies my worry. We had to have a series of disasters to get sufficient funding to fund and repair our road infrastructure. I really don't want to have to do future budgeting hoping that we are going to have another disaster so I can ensure I've got funds to renew that or maintain that. That's where we sit at the moment—we have to continually prove our case for the stuff that we are already delivering for our communities and doing very well when we are funded appropriately to do so.

The Hon. SCOTT FARLOW: To Snowy Valleys, would you classify yourselves in the same category that maybe you are not eligible in one category because you are not big enough and not eligible in another category because you are not as disadvantaged?

STEVEN PINNUCK: In our case, I suppose, the level of disadvantage varies considerably across the shire. In some areas there is little disadvantage, a bit like Greater Hume, but in other areas there is significant disadvantage. But the number is small, unfortunately. The same rules apply to Snowy Valleys that apply to Greater Hume that you are trying to make your case stack up against bigger councils and it's extraordinarily difficult to do so. Even with the matching contributions, the same applies. If we are going to match a contribution for a grant, unless we've got those funds somewhere in a capital budget for a certain area that we can shift to use for that particular project, then it's outside our financial capacity to match the grants. Therefore, that will diminish the amount of grants that we can apply for because we just haven't got the financial capacity to do it.

There is no discretionary funding there that councils like ourselves have got, if you like, that we can seize on these opportunities as they come from time to time. We just haven't got the capacity to do that. That's why the untied grants or non-competitive grants are so important to councils like Snowy Valleys and other rural councils. For example, the Local Roads and Community Infrastructure Program was a non-competitive grant. They are good programs that the Federal Government, for example, is putting in place. And the same applies for the Stronger Country Communities Fund, even though I know it's quite controversial in some areas. Those non-competitive grants that provided every council with a share of the funding are far more desirable in rural areas than having to go up against councils in these competitive grant rounds. More often than not we don't have the financial capacity to find that matching funding.

TRINA THOMSON: Can I just say too that the grants that come that are for renewal grants—and that means that we've already got the infrastructure on our books and we are upgrading and that's fantastic. The difficulty then arises when you start having new infrastructure because the grant funding that is available does not take into consideration the long-term ongoing impacts of the maintenance and the depreciation of that new asset. Every time we have to put a new asset onto our books, it actually adds to the bottom line through the depreciation and maintenance.

And none of the grants ever include an ongoing funding source that enables those to happen. Within New South Wales we have integrated planning and reporting that is purely targeted towards making sure that we don't overextend ourselves, but that's almost impossible with some of these grants—and just selling to the community that grant funding is not free funding because it always come with a sting in the tail unless it's purely for renewal of existing infrastructure. So it's unbelievably difficult. We look at grants to fund things because, unlike metro areas, we don't have massive car parks, we don't have facilities that we can actually generate enormous incomes through.

The CHAIR: I might just start by asking a couple of questions. You mentioned earlier on about revenue bases and generating enough revenue being obviously part of the problem here. We've heard from a number of regional councils who have successfully managed to generate revenue with things like waste facilities and airports. What can we do to ensure that councils are generating as much as they can, but also acknowledging that not everyone can necessarily have a waste facility or an airport that generates them revenue?

EVELYN ARNOLD: From my perspective certainly waste is an area that could generate revenue for Greater Hume. I think it's also because of where we're located. Normally with waste you need to have a critical mass and we could certainly get that with our neighbours. Our barriers to entry and most of those generate in the areas will be the capital expenditure. To be able to put in a system by way where maybe you're capturing carbon emissions from your landfills and were using that to generate revenue, for example, or using your waste to generate energy, you need millions of dollars of investment into the capital infrastructure.

From our perspective, the opportunity to be considered for those projects and have a chance to really—usually there's a specific criteria. So being able to have a chance to be considered on the merits of the location to be able to do capital expenditure in that way would certainly be something that could change the future financial sustainability of a council like Greater Hume. We don't have an airport. At the moment we have an airstrip but, because of where we're located, it wouldn't make sense for us. So really it would be about providing us with the platform and the opportunity to explore those sorts of investments and what that might mean. Certainly waste and renewable energy are areas that could be a real game changer for a council like Greater Hume, but you're talking about millions of dollars that we'd need a joint venture to enter into.

We have also the possibility of subdividable land. We have quite a lot of that in one of our growth towns. Again the challenge there is that we need $8 to $10 million to develop it. We were in for grants to do that, for economic development, but then the focus for State Government changed to be in more about homes than jobs so we lost the opportunity to do that. There are certainly opportunities for us as a council to generate revenue. It would need to be a bit more of an innovative approach. We also don't have lots of car parks and things like that.

And typically local government, as you will know, takes on the services that don't make money because we're doing that to provide those services to our community. It would mean we'd need to open up the opportunity to be involved in a more commercially viable enterprise that we'd be able to go beyond our rates base. Because, to be perfectly honest, rate variations are hard work, and they probably aren't going to solve all the problems, certainly not long term. We're talking about $800,000 to do a kilometre of road for a brand new stretch of road so you're talking about a lot of percentages and rate increases to even make inroads—if you pardon the pun—into those types of projects. It needs a different view on the world as to how and where that money might be generated from, and there are definitely opportunities for us that we'd love to be involved in if we could find the right ear.

The CHAIR: Did Snowy Valleys have anything to add?

STEVEN PINNUCK: The situation for us is a little bit different because of our more remote location. Non-local government revenue sources for us are pretty hard to find. We're trying to do what we can with the existing assets that we've got around caravan parks, for example. We're currently going through an expression of interest for all of our caravan parks to try to do two things there: one, try to uplift those caravan parks to better meet the needs of our tourist and visitor economy, which we're trying to build on at the moment, but also to generate better revenue streams for the council from those assets. So it's probably more us looking at the current assets that we've got and how we can generate higher levels of income from those than what we're currently generating.

There is some small capacity for subdivisional expansions in the shire. I suppose I was a little bit surprised when I got here that there isn't a lot of subdivisional work that goes on, either residential or industrial, at the moment, and that would be an opportunity. But we're no different to Greater Hume. Having the capital to embark upon some of those projects, we'd be relying on grant funding to be able to do that. It's very difficult to get, particularly when we're competing with the Alburys and Waggas and bigger centres like that. They can produce a better cost-benefit analysis and, therefore, they're going to be higher up the assessment tree than what we are.

TRINA THOMSON: We do actually have FOGO, the waste. Unfortunately, when they designed and planned it, they hadn't received the approval for the amount that they wanted to generate to turn it into a commercial venture by accepting a lot of FOGO from other centres. But I think that's something that we're still going to be looking at. Hopefully the State will give us a bigger approval for the amount of FOGO that we can bring into our waste centre. We do have an aerodrome. I'd like to point out the big difference between aerodromes and airports: The airport is your commercial where you've got your domestic flights and the aerodrome itself is more recreational and more RFS. We do have an aerodrome. I know that the Federal Government has put out the funding for upgrading of rural and small remote airstrips and things, but I don't think that's going to impact on us.

With the housing, it's a little bit frustrating because whatever the flavour of the month is—and I get that housing is the flavour at the moment, and even at the National General Assembly they spoke about three levels of government working together for housing. In small rural communities it's unbelievably difficult for us to have that role to play. It's not Snowy Valleys but within Tumut we have very commercial developers who are doing developments of their own, and that is housing developments. But it's the smaller communities like the Tumbarumbas where as a council we would need to support them, which has been done in the past. But that all comes at a cost. You need to have undenied funding in order to be able to advance some of those projects. I just don't know whom we generate revenue through, through the waste and through the aerodrome and through housing.

The CHAIR: In terms of the issue now of the ongoing costs of maintenance—we've heard about depreciation of assets and that sort of thing—I know Snowy Valleys has an aged-care facility and a preschool that is mentioned in your submission that has been unable to recruit an early childhood teacher. I just invite you to comment on why that might be the case. We've heard from other regional councils that also have aged-care and childcare facilities that have been able to operate them successfully or by breaking even, by turning a small profit in some cases. Is that the case for Snowy Valleys? If not, why not?

STEVEN PINNUCK: I'd just like to clarify in relation to aged care that it's independent living aged care, not an aged-care residential facility, so it's a little bit different.

The CHAIR: Thank you for clarifying. That is quite different.

STEVEN PINNUCK: But in relation to child care, we run both long day child care, but we opened a small preschool at Khancoban. Now, that's the preschool where we have been unable to attract a teacher to since late last year, so quite a while now. The issue there is that it's a part-time position and it's quite a remote location. It serves a valuable purpose in that southern part of the shire, but it is quite a remote location. We have offered, as part of that position, to offer them alternate employment at Tumbarumba, but it's a 50 minute drive from Tumbarumba to Khancoban, both ways. That adds a couple of hours per day to someone's day. We have tried everything we can. We're paying over award wages. The conditions are pretty good. The community down there would really embrace someone if they were to live within the community. But we just can't attract anyone to that particular facility.

In relation to the long day care at Tumbarumba, we're no different, I don't think, to most regional or rural locations that have difficulty in attracting and retaining childcare staff. Again, we probably pay over the award to try to attract and retain. Look, it has been well documented that, unfortunately, the pay at both ends of the life cycle, being early childhood and residential aged care, is pretty low, unfortunately. It's great to say, "Look, we need to pay our childcare staff more," but there really isn't the capacity within council to do that unless we get a bigger level of subsidy from the Government to allow that to occur. We just can't continue to put up the fees because of the demographics of some parts of our shire. I think, at the moment, we're paying about $100, before the CCB—I think it's about $110 this year, per day. As a daily fee, that's probably about the maximum that we could expect to set it at.

The CHAIR: In terms of the independent living—thank you for clarifying that. I also invite you to make comment on that and how that is operating. Is that operating at a loss?

STEVEN PINNUCK: Yes, currently it is operating at a loss. This is what I mean—projects across the shire. The former Tumbarumba Shire Council had a clear vision as to how that facility was going to operate in that the initial four units were supposed to be, I think, the first four of about 12. However, with the amalgamation, that priority sort of disappeared to some extent with the new council. So the economies of scale of that facility now are such that it's not running at a break-even point. The council has committed to it, but there isn't really much we can do with that facility at the moment, except to fund the shortfall.

TRINA THOMSON: Can I make comment on that, too? It's really difficult because there is a saying that sometimes you need to spend money to make money. But in order to be able to spend that money, you have to have it. What is happening within local government, particularly in our rural areas, is that the capacity to generate untied funds is eroding to a point. Once upon a time, you used to be given a budget that your staff would present you and say, "This is 75 per cent of the budget that is already set. We've got the superannuation, we've got the wages, we've got the basic infrastructures—we've got everything that needs to be paid. And you've got 25 per cent discretionary funding. Right, now everybody sit down and let's go through the wish list." We don't have that anymore. We are flat out. It's 100 per cent being spent on opening the door, turning the lights on, keeping the community engaged. That's where it's becoming so hard. We don't have the money to be able to spend to try to generate an income that's going to take us forward financially.

The CHAIR: Greater Hume, did you have anything to add?

EVELYN ARNOLD: I would say that we are in a similar but different position. We don't have any sort of aged care. There is a hostel, but that is not run by council anymore. We transitioned from the service a few years ago. Our challenge has been children's services and family day care. That model was a community-run model, and that started to fail—I would say it was a couple of years before I arrived at Greater Hume—and so council stepped in and took over that service, which has proved to be a major challenge for us, not dissimilar from all of our neighbours that are in this space. Staffing is a real issue. Attracting skilled staff is an issue, and also just the regulatory frameworks and the different type of business model to adapt to rather than the other services we normally provide has been very resource hungry for us.

It is improving—we have got some great staff in there now—but it really is a classic example of where we stepped in as the community model failed, really not probably completely understanding what we were taking on, but doing it for the best reasons of trying to provide the service to our community. It is a crucial service. That's probably the biggest one that really is a bit more of a challenge for us; the rest of them are pretty standard things that we provide. And older infrastructure—our challenges will be that we have five outdoor swimming pools and 14 to 15 community halls. The outdoor swimming pools, two of them will be due for renewal—probably one or two are overdue. The community halls are really on care and maintenance at the moment. Those are huge infrastructure challenges for us with our community as to how we manage the expectation that they will remain and they will all be of a standard.

That's the ongoing future challenge for us, is managing the expectation as those are outgoing. We had the luxury the last few years with our LRCIP and Stronger Country Communities and other things to actually provide additional discretionary projects for the community. That's gone. How that works in the future, I'm not really certain. We've got one budget and we're good with that. We're trying not to look too far into our long-term financial plan. But, quite honestly, if the numbers aren't red, then I've probably missed something, is where we are at the moment, to be fair. You know, if they are not looking pretty scary, then I probably missed an asset or something somewhere that I need to be looking after, because that's our view of the world at the moment.

The Hon. SAM FARRAWAY: To follow up, Ms Arnold, we've obviously heard that councils throughout this inquiry have the challenge around depreciation. If we park that issue for a moment, what you just highlighted—I think you articulated it well, by the way—every rural council has. The depreciation is one issue, but on the other hand you might have legacy infrastructure that was built a long time ago, like a swimming pool or a community hall, that you can't even find the cash to upgrade. It might be care and maintenance, but it will get to a point where you will go beyond care and maintenance and it is knock down, rebuild or do we refurbish it?

EVELYN ARNOLD: Yes.

The Hon. SAM FARRAWAY: Where I draw both councils in on this question is about—I have been talking for the entire inquiry about equity and how rural councils in particular can get their fair share. I have a couple of quick questions. Does either council have a dedicated grants officer as part of the team?

EVELYN ARNOLD: We had one, but they moved on. But we are actually in the market again to recruit one that will certainly spend a good percentage of their time looking at grants.

The Hon. SAM FARRAWAY: And Snowy Valleys?

STEVEN PINNUCK: Not quite. I suppose we have got a couple of options. Some of the economic development staff that we have have the ability to look for and apply for grants. We've also got a projects officer who is more around a grants coordinator than an actual grants writer, because there have been a lot of grants flowing into Snowy Valleys Council—due to the amalgamation, due to the bushfires, due to COVID. To be honest, they probably got a little bit out of control, the amount of grant funding that was coming into the shire, so we put on a grant coordinator or a project coordinator to help keep oversight over those projects. It's more of a grant oversight role rather than a grant writing role, but they do provide assistance in writing grants for different areas. But at the moment, as it is now with council, if it's a fixing country roads opportunity, then it's probably going to be done by the engineering department. If it's more of an economic development opportunity, it would be done by the economic development staff.

The Hon. SAM FARRAWAY: A question to both councils: Leaving aside any disaster or DRFA funding, and parking to one side the grants that you're delivering upon that have been in the pipeline, have you seen a decrease in grants that you've been able to apply for in the past 12 months? Secondly, of the grants that you have applied for in the past 12 months, what sort of success rate are you getting with those?

EVELYN ARNOLD: I might leap in there first. There's absolutely a decrease in the grant opportunities, not only for ourselves but also for our community. We regularly have community groups reach out to us looking for heritage grants and other small amounts of money to be able to keep our community assets looking nice and maintained, and that's simply gone. We've gone for two major grants in the last six months and been unsuccessful in both of them.

STEVEN PINNUCK: Yes, look, it's a similar story here. But I'd draw you back to the comment I made earlier about the opportunity to participate in non-competitive grants—like your Stronger Country Communities Fund, like your Federal Government Local Roads and Community Infrastructure Program—where every council is provided with a share of the pie, because then we're not in that direct competition with other councils as to what is the greatest need at a particular point in time.

It's an allocation based on population, based on road lengths—based on a whole host of factors whereby every council has got some needs. To pit them against one another is pretty tricky, whereas those non-competitive grants—and both of the two that I've mentioned no longer exist; more's the pity—have got the ability for you to do some basic community council services like extending your footpath networks and those types of things, which in larger regional centres you take for granted but in many rural towns still don't exist. Particularly, it's a lack of footpaths to key facilities within towns, like to your public schools, to your swimming pools, to your sports grounds—those types of things. In many rural communities, those good footpath linkages still don't exist. With some of those non-competitive grants, it certainly provides you an opportunity to do some extra work that you might not necessarily have had the chance to do.

The Hon. SAM FARRAWAY: You almost stole my next question. To wind up, this is my question to both councils. No matter who was in government, would you support a better funding system that was based off the size of the road network—if it was for road funding—or a model like the Stronger Country Communities Fund, where the funding was disbursed based on LGA, so you knew what the quantum was and then it was about pitching good projects? The point to this is that it fits so many different parts of the criteria. Firstly, does it fit the fact that you can use it on infrastructure where you normally wouldn't have the rate base to support building that project? And it could be for smaller projects. Secondly, the fact that it is equitable funding with no BCR that delivers essential community infrastructure. Would you agree with that observation?

STEVEN PINNUCK: Probably.

EVELYN ARNOLD: Absolutely, as part of a model of really looking at how local government is funded so that some of the key, major infrastructures, like roads, are better understood as what's needed. In local government, we tend to ask for what we think we can get rather than what we think we need. I think that's the difference, too, when it comes to something like roads. You'll go in for the $3 million because that's what you think you can get and that's the grant or you're given that, when, in actual fact, I know I've got a business case for a road which is a major regional road that's a $35 million business case. I can spend the $3 million and the $10 million, and I'll be happy to do that. We have, and we happily will, but it's not actually what we need.

It's a combination of allowing for that discretion to be able to do those allocations based on equity and then having a real understanding of what's needed across the State and the regions and working out a model for how we can work with the State and Federal governments to be able to secure those funds, long term, to be able to deliver that. Because we don't want to be seen as not being capable of delivering on the services and therefore having to have some sort of structures and rules put around us to check.

Really, we're here to try to do the best we can for our communities. I've got nine councillors, and that's why they take those calls at seven o'clock at night about a pothole—because they really care about their communities, and that's what we're trying to do. Really, what we're trying to do as a sector is get enough resources to be able to continue to do that and not have to limp from one disaster and one grant funding thing to another, hoping that it has to be okay—because otherwise, if we're not here, who's going to be?

ANNETTE SCHILG: Can I just add with the roads—

TRINA THOMSON: Can I just say—

ANNETTE SCHILG: Sorry, Trina.

The CHAIR: We are over time, so if we can just keep it brief, please, too.

ANNETTE SCHILG: It was just with the roads. We've got over 2,000 kilometres of roads, and we've got three parts of highways in there as well. But we've got half and half, roughly, of sealed and unsealed. If that was the case, that would make it so much better for our rural people to go about their daily business—getting their products from the farm to whichever service they need to deliver, to have a safe pathway to do their job. If you understand more what's the—

TRINA THOMSON: The only comment I was going to make—

ANNETTE SCHILG: Sorry, Trina.

TRINA THOMSON: I'm just trying to be really succinct. I think the devil will be in the detail. I think that to fully understand what that scope of the grants would be and how it would be decided—because FAGs grants started off as one thing and evolved, and now councils that don't need it still get it. The very quick point I just wanted to make is that, as local government, there is such a shortage of good quality staff or staffing that we're now advised to offer above-award wages to try to attract staff to rural areas. The fact is that I know that Snowy Valleys Council at one point, in a relatively small budget, spent in excess of $4 million in six months on consultants. The fact that we're having to pay that much money for consultants because we can't attract the staff is also a burden that local government is wearing.

The CHAIR: Thanks so much to both councils for making time to give evidence to the inquiry today. Our Committee secretariat will be in touch with you about any questions on notice or supplementary questions. That concludes the hearing for today.

(The witnesses withdrew.)

The Committee adjourned at 14:55.