REPORT ON PROCEEDINGS BEFORE

STANDING COMMITTEE ON STATE DEVELOPMENT

ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

CORRECTED

At Studio Room, Shoalhaven Entertainment Centre, Nowra on Tuesday 23 July 2024

The Committee met at 10:00 am

PRESENT

The Hon. Emily Suvaal (Chair)

The Hon. Stephen Lawrence

PRESENT VIA VIDEOCONFERENCE

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

* 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 ninth hearing of the State Development Committee's inquiry into the ability of local governments to fund infrastructure and services. I acknowledge the traditional custodians of the lands on which we are meeting today. I pay my respects to Elders, past and present, and celebrate the diversity of Aboriginal peoples and their ongoing cultures and connections to the lands and waters of New South Wales. I also acknowledge and pay my respects to any Aboriginal and Torres Strait Islander people joining us today. My name is Emily Suvaal, and I'm the Chair of the Committee.

I ask everyone in the room to please turn their mobile phones to silent. Parliamentary privilege applies to witnesses in regard 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 comments they may make to the media or others after completing their evidence. In addition, the Legislative Council has adopted rules to provide procedural fairness to inquiry participants. I encourage Committee members and witnesses to be mindful of these procedures.

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

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

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

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

The special rate variation process puts a bad taste in our community's mouths about local government as it makes it appear that our council [inaudible] when actually it is an odd problem as they impact council's ability to afford these services and infrastructure, such as supporting an ability to raise rates when we do the rate peg and the rate base of regional, rural and remote councils due to low population and a significant amount of non-rateable land such as resorts, national parks and State forests[1]. The current standard requirements, such as how depreciation is required to be accounted for by councils, also affects the ability of council to operate under similar situations. Rate pegging [inaudible] some financial assistance. Rates need to be enough to keep councils financially sustainable, not forcing individual councils to apply for special rate variations just to keep afloat.

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

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

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

When IPART sets the rate peg, we put that they should be looking at general rates only, not water and wastewater fees and charges. The last point is around the financial assistance grants. So three points to make. They are inadequate, in terms of the amount. The early payment of the grants is masking councils' financial sustainability concerns. The State's formula for distribution of the grants disadvantages regional, rural and remote councils in that they have substantial road networks. Especially, there is an issue with how vehicles are counted.

[1] Email from Sharon Houlihan, Canberra Region Joint Organisation, clarifying evidence given at 23 July 2024 hearing

For example, B-doubles are counted the same as a lightweight, small electric vehicle. They clearly have a different impact on road maintenance and design life. The early payment of Commonwealth financial assistance grants is masking the problem of councils being unsustainable financially, because it falsely shows higher revenue in the accounts which in reality relates to expenditure that won't be incurred until the following year.

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

RUSSELL FITZPATRICK: Yes, there is a whole scenario to it all. No council cash backs their depreciation. So its basically an indication of what you are going to be spending on your maintenance in the ensuing financial year. We're all running asset management plans across the board with our orders, saying we have to revalue all those assets in a five-year cycle in our water requirements. So the actual depreciation being the old statement actually just masks or makes councils look like poor managers, because we actually run our asset management pretty well and reallocate the necessary funds to maintain those assets.[2] The problem is that the income level is not substantial enough in regional and rural councils to actually maintain those assets and the amount of assets we have.

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

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

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

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

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

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

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

[2] Email from Sharon Houlihan, Canberra Region Joint Organisation, clarifying evidence given at the 23 July 2024 hearing.

how we actually fund grants and whether it's operational and capital grants need to be looked at and worked out with the grants commission.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In all other circumstances with State government infrastructure priority lists and so on, there are processes that are gone through with pre-planning to have projects approved to be in the pipeline. We could apply the same logic to betterment projects and have them in the pipeline, pre-approved and assessed, so that the uncertainty that every council has to face, not only will they get the money back—will they get it in time to not send them into financial dire straits before the money comes through?—but also will they only get it for like-for-like? It could be an 80-year-old bridge that is clearly not suitable. If we had a system of pre-approval of certain projects for betterment so you don't have to have the argument and go cap in hand and try for an announcement from the Minister, pulling on the heartstrings to get a betterment project, you could have it, in a systematic way, pre-approved through the arrangements rather than wait until after.

The Hon. SAM FARRAWAY: Thank you, Ms Houlihan and Mr Fitzpatrick, for attending today. I couldn't have said some of those betterment comments better myself. Obviously, maintaining assets has been a big theme that you've been talking about, so I want to stick to the roads theme. In terms of maintaining assets, how should State government be funding the maintenance of road infrastructure for local councils? We've seen programs rolled out under the former Coalition Government around the size of road network, including sealed and unsealed roads. My question to both of you, on behalf of your member councils with the JO, is should the State Government be consistently funding their road programs every budget based on the size of road network to councils, allowing them to spend that money on their priorities on the roads that they want to repair in their LGAs?

RUSSELL FITZPATRICK: There are a couple of things to that for me. The duty is also on council to recognise what level they want their roads and level of service to be at as well. In our shire, we've still got 1,500 kilometres of dirt road. We'd love to have all that sealed, but it's not going to happen tomorrow and we have to have a plan of how we're going to do it. So it's how council plan their assets, and then that should come into the State Government budget as to what can be done and what can't be done. At the moment, it's higgledy-piggledy. You don't know when you're going to get money. There have been some great programs over the years. With every change of government, it doesn't matter which colour is in government, the plans will change. They'll either be rebranded, given another name or the conditions will change, both at Federal and State level.

So that gives us no certainty of what you're going to get. We need certainty. We need certainty of funding and the programs to be consistent right across the board so we know that in the next four-year term of this council that these are the roads we can do, these are the upgrades we can do to the current level of service, or we can maintain this level of service right through with that funding coming through. We need the funding to be certain. I've argued over the financial assistance grants road coverage that the population factor should be reduced and that should be increased into the road network funding. So that's a whole different scenario that would benefit rural and regional councils significantly.

The Hon. SAM FARRAWAY: To that point, Mr Fitzpatrick, it's one thing to have road funding but it's another thing securing the grant; we've heard about the volatility in grants in general. But if we're just sticking to the road theme, should a BCR be applied when State Government is distributing funding for roads that require maintenance within your LGAs? I would ask for an extension to that around how can your member councils justify a BCR on unsealed roads when you obviously haven't actually got the cash to seal it in the first place? How do you ever get a BCR to seal that road? Should we be using BCRs in general for these types of road funding projects?

RUSSELL FITZPATRICK: If you use a BCR in regional and rural New South Wales, you'll never get any funding to our roads. It's as simple as that. No, it shouldn't be used. I understand why they're used. I am an ex-businessman; I know what doing a cost analysis and budgets are all about. I understand that you need to have some governance mechanisms in place. But it comes back to the commonsense approach that I talked about before. In rural and regional New South Wales, there may be a road but then you'll end up with a death on it because kids don't learn today how to drive on gravel roads. As you move forward we should have a program through the council. As I said before, responsibility starts with the council—having a plan as to what you're going to do, what you can afford to do, then the income stream over a period of time to do that. But the income stream needs to be guaranteed to council. It can't be a competitive grant process right through the board. It needs to be a funding stream that maintains those roads on the road network.

The Hon. SAM FARRAWAY: To that very point, because we've discussed maintaining the assets, and we've discussed the condition of the road network that the council wants and the expectations of the community. Just to drill into that point with both of you, how should the State Government be distributing road funding? Again, should they continue the program where, in each budget of each year, funding is distributed based on the size of road network to local government from a general pot? Whatever that pot of money is, it is divvied up based on the size of road networks, sealed and unsealed roads, and then it is up to the council to identify their priority roads, to have done the work to get the tick off to spend that money, but giving far more autonomy to local government to fix these roads with the support of State Government?

RUSSELL FITZPATRICK: I totally agree that that's the best option, and hopefully we can move down that track in the future. Personally, dealing with our road network, we have 2½ thousand kilometres of road network and 70 per cent of our income goes on our road network—full stop. There is not a lot left for other services because the road network that we have to maintain, so we need funding. As is alluded to, we need funding that's confirmed, confident that it's going to be there every year and you can rely on it so we can actually work those plans out with our community as to what's important.

The Hon. SAM FARRAWAY: A follow-up question to either Ms Houlihan or Mr Fitzpatrick: The New South Wales Government's new Regional Road Fund—this is their fund that they've got out there to fund new infrastructure—have you or any of your member councils been able to secure any funding from that program to date?

RUSSELL FITZPATRICK: No, not to date, we haven't. But I'd have to ask our other councils. I can only speak on behalf of Bega Valley who is presenting later on. Perhaps, Mr Farraway, it'd be best to ask the CEO at that time and he can elaborate on what funding we've received and what we haven't.

The Hon. SAM FARRAWAY: Would it be possible, Ms Houlihan, on behalf of the JO, to take it on notice as to whether any of the member councils as part of the Canberra Region JO have been able to secure any funding from the new Regional Road Fund? This is not the emergency repair fund; this is the new Regional Road Fund that is to fund new road infrastructure. Are you able to take that on notice for the Committee?

SHARON HOULIHAN: If you can provide the question specifically, I can get that information.

The Hon. SAM FARRAWAY: I will feed that to the secretariat post today's hearing.

SHARON HOULIHAN: I might, through the Chair, respond to the first question just to build on Councillor Fitzpatrick's points there. With the question around, my understanding is, should State government continue to consistently fund based on the size of the road network and let councils autonomously decide how to spend that money, I think the emphatic answer for that is yes. Regardless of what the formula is, the councils need to know how much is coming for their forward estimates for their 10-year financial plans, which are a bit of a joke if you don't know what's coming in terms of funding. They need certainty and consistency, but then they need the flexibility, which is the second part of that. They need to have their own plan for what the priorities are and spend the consistent known quantity of funding on what their priorities are.

But also in determining what the amount is that comes to councils, yes, it's the length of the road; yes, it's the type of road—how much is sealed and unsealed; and it's also the types of vehicles that are using the roads because they have a significant impact on the design life and maintenance requirements for the road if they're being used for large trucks versus small cars. What we're really trying to get across today is that it comes down to the revenue base as well. It's not just the physical length of road. It's the ability that often goes with long lengths of road—the inability of councils to raise its own revenue. If you've got a lot of kilometres of road, your population is sparse, you're likely to have a lot of non-rateable land—the reserves that we talked about before—and so it's not just about the length of the road and the type of surface of that road and the type of vehicles using that road; it actually goes to the ability for council to raise revenue. What is its revenue base like and how much rateable land is there compared to the overall percentage of the council's geographical area?

The Hon. SAM FARRAWAY: Well put. Whilst I have limited time, just to keep moving, a question on behalf of your member councils around equity. We've obviously discussed that about road funding, but I'm talking about now community infrastructure. Yes, depreciating the assets is one thing to handle, but I am sure, like you said earlier, Russell, you have multiple pools within your LGA and taking away a pool is almost impossible to do in a small rural community, which I appreciate. Are there grants, and have there been grants over the past 18 months, that your member councils have been able to, one, apply for, and, two, secure for pool upgrades or for critical smaller community infrastructure that local government wouldn't normally be able to fund through their rate base? As a bit of context, I point to a program like Stronger Country Communities where you knew how much funding was available for your LGA in a particular round and you were able to tailor applications with the community. Have there been any grant-like programs, like the SCCF, over the past 18 months where your member councils have been successful in grants?

RUSSELL FITZPATRICK: Not over the last 18 months. Previously we'd been successful under them. Bega Valley currently is looking at the renewal of the Bega swimming pool, which is our second major-use pool, and we're looking at a cost of $20 million to $25 million. Even with our rate rise, we won't be in a position to contribute any more than probably 20 per cent of that funding and we'll need 80 per cent of that funding over a period over the next five or six years as we plan that. At the moment, there's nothing available. We have to go to different funding streams and then you have to work out whether you qualify for those funding streams. Then you go through stages. Recently we went through a stage with the Federal Government on our Bega sports complex. We passed the first stage, got to the second stage, we were told to submit, we spent a lot of time doing engineering, cleaning works—the whole lot—only to miss out. We have that similar problem for other grants where up-front it costs councils a significant amount of money and time and resources to actually do all the planning, do the engineering of those and then be unsuccessful for a grant. It's another huge cost to council when you miss out as well.

The Hon. SAM FARRAWAY: Ms Houlihan, I don't know if you had anything else to add on behalf of the JO or—

SHARON HOULIHAN: I don't have the information as to, in the last 18 months, any successful grants from the membership. I don't have that information.

The Hon. SAM FARRAWAY: A question more so for Mr Fitzpatrick as a local elected mayor: How do you manage community expectations for the community with that swimming pool? Because if it's $25 million to replace the pool—pools are expensive—the New South Wales Government have no grants because they're stingy, and three, your rate rise won't allow you to even cut a quarter of the cost of that, how do you manage community expectation around when that pool reaches its used by date and is no longer fit for purpose?

RUSSELL FITZPATRICK: It's an ongoing problem and it's always been a problem. A lot of the pools that we have—in this case it was a war memorial pool from the Second World War, so it's a legacy item that we have and the community will expect it to be renewed, and rightfully so. It will be renewed but we'll have to find ways to do that, even through funding. If we do borrowings, that will reduce our ability, or our general rate income, to do our normal service and delivery of service of what people expect in the community, whether it's anything from cleaning toilets to lawnmowing. That gets cut because you're paying that back in a loan repayment without capital grants for it. It will be competitive capital grants, so there's no guarantee, as I said before, but we'll have to spend significant money planning and doing community consultation around it beforehand with no expectation that it may actually get funded.

The Hon. SAM FARRAWAY: As a mayor in the Bega region for some time now and also as leading the Canberra Region JO, you mentioned earlier in your comments that a lot of mayors of the last election were not returned because they needed to put forward a rate rise and the community didn't accept it, or for multiple different reasons they weren't returned. What is the view from your member councils and your local and neighbouring mayors in your region? Do they feel that a lot of those councillors will not run for local government elections again because they don't feel supported with the financial support from State and Federal governments to make their local governments work into the future and be sustainable?

RUSSELL FITZPATRICK: Yes, I have that problem, trying to get people to run. They say, "Why would you take it on?" The remuneration part—I don't want to go into that but it's very poor. And with the abuse you cop when you do the rate rise, they say, "Well, why would I want to take it on?" The people who sit down and look at your finances with you and understand it fully appreciate why you're doing the rate rise, but those are few and far between. Most people don't look at it like that. Unfortunately as a mayor you're the leader of the organisation so, when they come out with the baseball bats, that's usually the person they hit first. That's just the way it is. That's democracy; you live with it. Hopefully some will live with it, some won't. I'm fully expecting those sort of outcomes exactly as we had three years ago, or two years and nine months ago—exactly the same. As I said, out of the 11 mayors, I was the only one returned at that time. The rest—some of them weren't even elected back to council so—

The Hon. SAM FARRAWAY: With all the cuts that have come over the past two years from the Federal and now New South Wales governments for community infrastructure in regional New South Wales, do you fear that there's only one trajectory with special rate variations—and that is more of them—because of the lack of support from the State and Federal governments through existing funding programs?

RUSSELL FITZPATRICK: Yes. I think I've made it pretty clear in our submissions right through that I've been involved in that. If we don't get the 1 per cent back, then we'll continue. If we don't get 1 per cent of Federal taxation back from the Federal Government, the special rate variations will continue. There is no way that this council, even in five years time—and we did a long-term financial plan. In five years time we'll be coming back again, without further income from operational grants from the Federal Government through the financial assistance grants.

SHARON HOULIHAN: The other thing to add to that is the real point to make about the divide between regional, rural, remote and metropolitan. We put in our submission—and so did the Country Mayors Association, actually, which had an excellent submission—the reliance of regional and rural councils on grants compared to rates. When you look at that for rural and regional compared to metropolitan, you can really see that there is going to be a significant disadvantage when grants are reduced, much more so for regional and rural and remote councils than for metropolitan, because of the cold facts of the significant overreliance on grants as a source of revenue. The smaller and the more remote the council gets, the more it relies on grants. If the grants get cut, then they are going to have a much more significant disadvantage than their metropolitan counterparts.

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

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

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

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

(The witnesses withdrew.)

Mr ROGER STEPHAN, Chief Executive Officer, Illawarra Shoalhaven Joint Organisation, sworn and examined

The CHAIR: Welcome to our next inquiry participant. Thank you so much for making time to give evidence to the inquiry today. Just for your information, we do have a number of Committee members who are appearing online this morning and will also have questions. Mr Stephan, would you like to start by making a short opening statement?

ROGER STEPHAN: I'll just make a brief statement. You have heard from joint organisations before, and I'm sure the Committee is well versed in what a joint organisation does. Just to recap, the Illawarra Shoalhaven Joint Organisation manages advocacy strategy and regional voice for its four member councils. The four member councils all lodged a submission with the inquiry. The ISJO didn't lodge an overall submission, but it should be taken that all the contents of our member councils' submissions have the organisation's full support.

The CHAIR: Thank you. We'll move to questions now. Questions will be free flowing, coming from either members in the room or online. Just noting your comments about the member councils, I noted one of the member council submissions mentioned about areas such as payroll, rates and governance where there are single officers and the risk that that poses and the challenge that that poses for some councils. Does the joint organisation currently play a role in that space? Is there scope for that to be expanded or improved?

ROGER STEPHAN: The joint organisation in my region currently offers such services. There's no reason why a joint organisation couldn't. The joint organisation model was based on the regional framework developed in the Hunter region—and I was the CEO of the Hunter organisation that it was based on, so I know it well. That organisation provided centralised services over a range of different areas: training and development, procurement, legal services and a whole range of other services. There is no reason why a joint organisation couldn't, either through a delegated authority or through a direct service agreement, provide those services.

The CHAIR: As a disclaimer, I may be quite biased as I live in the Hunter and know some of our fellow councillors on the joint organisation. That is a JO that is often held up as one that has performed or is performing well, if you like. What are some of the reasons, do you think, that is the case? How can that be replicated? Indeed, are there areas that JOs more generally are currently being under-utilised where we could improve that?

ROGER STEPHAN: Looking back on the Hunter model, I was the CEO there for 10 years. The model that operated in the Hunter operated on what was called the catchment of an activity. Payroll services is a very good example of an activity that doesn't need to be constrained by local government boundaries. Payroll is payroll, and there would be no reason why councils could not contract a single provider to provide payroll services. The Hunter model evolved as a balance of what made sense to operate at a regional level, what made sense to be provided potentially commercially to other people, and what made sense in terms of saving costs. That's actually a difficult model, and I think that the Hunter joint organisation, with the greatest of respect, is perhaps not as diverse and strong as it used to be because it's a difficult model. But there is no reason why the model could not be rolled out across the State, and, quite honestly, there are compelling reasons why it should.

Just to add to that. We are currently working very closely across the State with joint organisations and councils on disaster resilience, on improvements to planning frameworks, and on housing support programs. That collegial work across the State is providing enormous benefits and significant savings. Just in my region, our councils contribute collectively $230,000 to provide the funding for the organisation, which is not a lot of money, I have to say. But last financial year we gave the councils back $760,000 in direct cash, as well as a whole series of strategic programs and technology. So the model works and it works well. There is some great work being done across the State at a regional level. It can yield direct financial benefits as well as strategic benefits.

The CHAIR: You mentioned some of the areas of the Hunter model being difficult, but then that is obviously a very successful example of the way that the JO has been used to really deliver economies of scale. Do you have suggestions for us in terms of the recommendations that we may make as a Committee either to strengthen or adjust the framework in which the JOs currently operate? Or is that something that's better afforded to each local area, to have an element of flexibility, if you like?

ROGER STEPHAN: I think the current legislation is fine. The current legislation requires joint organisations to do core roles of strategy, governance, strategic voice. And it allows joint organisations to do other things like direct service provision. I think the Government failed when the joint organisations were first released. The Government failed to require councils to participate. You've heard, quite honestly, the ridiculous situation where you had councils saying, "I don't like the mayor next door, therefore I don't want to sit in a room with him." And you had councils just not participating. I could list the councils that did not wish to participate. That fundamentally weakened the framework. You're either a joint organisation in legislation—well, you are, you're legislated, you don't get to pick. But the government of the day allowed the councils to just decide they didn't want to play.

That really made it very difficult to legitimise the structure across the State. I think of the original 13 or 14 joint organisations, in real life there are about seven that are fully operational. That's a shame. Having said that, we have worked hard with State agencies, who have been difficult to engage. State agencies, I think now, are really seeing the benefit of working at a regional level. Quite honestly, if you could deal with a group of people in a room, or one organisation, or 140 local governments, local councils or 10 councils in a region, or 11, then you would want to work with "a" group. So the model works, there is nothing wrong with the legislation. There was everything wrong with the governments allowing councils not to play, initially. I guess the Office of Local Government probably could have been more resolute in its support of the model.

The CHAIR: Those are very interesting insights. I wonder if you could share with the Committee, from your experience with the Illawarra JO, and indeed with your experience in JOs more generally, any examples of how procurement has been benefited from the role of the JO or things that the JO has been able to do to achieve savings overall and advantages that may exist there?

ROGER STEPHAN: I can speak with direct authority on the Hunter model, because we established a procurement division that did two things. It saved councils a great deal of money in terms of procurement. It was specialised procurement for the region in which the councils operated, so it wasn't generic. It was tailor-made procurement. It also generated, through management fee income, a significant income for the joint organisation. In the Hunter, that's an operating company but, when I was there, we made a profit of about $1 million from that activity, at its best. That goes a long way towards funding a regional entity.

In this region, the regional procurement process isn't as highly developed and, I think, in terms of economies of scale for councils, is difficult to work with. The Hunter's procurement entity had councils across the State, so you get economies of scale and economies, I guess, access to skills because there was a critical mass helping to resource the activity. For councils, it is a little small to do that in this region; nevertheless, we do work together collegially on power purchasing and a range of other activities. But aggregated procurement is a highly profitable activity and, if that income were to be devoted to a regional organisation and sent back to the councils, that's a great benefit.

The CHAIR: Absolutely. So you had an entire procurement team or structure within the JO?

ROGER STEPHAN: In the Hunter?

The CHAIR: Yes.

ROGER STEPHAN: Yes, it was regional procurement and operated around New South Wales. As I said, it both benefited the councils enormously and, when I was there, we also gave back 25 per cent of the profit as a refund. So not only did you save when you bought with us but you also got a cheque at the end of the year as a bonus.

The CHAIR: Are there other councils that could be involved within the Illawarra Shoalhaven JO that currently are not achieving those economies of scale you mentioned before? You have obviously got four councils. We heard from the Canberra JO this morning, which has 11 member councils, so it seems quite a diverse range.

ROGER STEPHAN: Well, four is not really enough, but our programs already operate outside our region anyway. The procurement activity need not be based in the Illawarra Shoalhaven Joint Organisation; it could be based in the Canberra joint organisation, and I would support that. I think that the benefit is saving money for councils, wherever it's located. Just to give you the scale, when I said that the regional procurement generated, in one year, a $1 million profit, that's based on an average management fee of about six per cent. So that meant—you can do the maths. Procurement across the State by local government is enormous. Typically, a great majority of that is based on a procurement aggregator and you pay a management fee. So there is an enormous amount of income being generated for somebody, and it makes a great deal of sense for that to be going to councils directly because they're the ones who are spending the money.

The CHAIR: Yes, that would be a good scenario that then benefits the local community, and we have heard so much through this inquiry about the state of financial sustainability of councils. Do my colleagues online have any questions?

The Hon. SAM FARRAWAY: Not many, but I do have one or two questions. Thank you for attending today, Mr Stephan. I want to keep the theme going that I was discussing with the former witnesses around road funding and ask now about your Illawarra Shoalhaven Joint Organisation member councils. I wanted to ask about the equity in the funding model and your thoughts around how councils, when funding infrastructure as important as roads, better plan for road maintenance if they do not know how much they are going to get from the

Government? Two, should a BCR be included for the maintenance from regional grants on roads in local government areas?

ROGER STEPHAN: There are multiple levels to your question. In terms of certainty of funding, that is critical. Road maintenance is a critical issue for all councils. I did note that the Canberra joint organisation did point out that it's highly critical. It's most critical for regional councils because, to some degree, some small regional councils in the west of the State are effectively roads authorities. That's what they do. Certainty of funding is a critical aspect. I think there are multiple levels of complexity, particularly for my region, in relation to roads.

One level of complexity that I'm sure has been raised with the Committee is the degree to which the influence of disaster events has just thrown out the capacity of councils in certain parts of the State to actually plan for anything in terms of the road network. In this region, and particularly where we are now in Shoalhaven City Council, both had disaster event after disaster event. So they're patching up roads constantly, trying to establish them at the previous level of adequacy that's proven by the next event to be an insufficient level.

There's no capacity to really plan for road maintenance, the complications of disaster events, the restrictions on funding in terms of building back better—which is what you would like to do as opposed to restoring what was there before and was inadequate. In regional areas, particularly regional areas where climate change is having a significant impact, the councils are almost at breaking point. I think Shoalhaven City Council is a prime example where the council is just unable to manage maintenance of its road network, let alone improve its road network, let alone cope with the potential increase in the complexity of the road network because of population growth.

The Hon. SAM FARRAWAY: A follow-up question then, Mr Stephan—especially about your comments around betterment and building back better, and highlighting the contribution from Ms Houlihan and Councillor Fitzpatrick in the previous session. Should betterment funding automatically be part of the criteria in disaster recovery funding arrangements with the State and Federal governments?

ROGER STEPHAN: The short answer is yes. Again, looking very close to where I'm currently sitting, there's example after example where a road has failed or a bridge has failed in an event. It's been put back in its previous form and it's failed again. It's essentially wasting public funds when a far better use of public funds would be to address the inherent problem associated with the infrastructure and make it more resilient and more disaster proof. So the short answer to the question is yes, building back better makes sense on every level. The only level upon which it doesn't make sense is how much it might cost.

The Hon. SAM FARRAWAY: Mr Stephan, even on that level, it could be argued—and there have been studies all around the world—that, for every dollar of betterment, you could save between two to four dollars per that dollar spent longer term on the infrastructure. Do you believe that there needs to be a change in not only the criteria but the way of thinking that, if we're going to rebuild infrastructure—even if it means building it at a different pace but building it back properly—that should be investigated in the future?

ROGER STEPHAN: Yes, it should be investigated. We have almost completed a major study of our road network, looking at its resilience and critical weakness points, as part of building a case to argue for building back better. I agree with you—it makes financial sense. But sometimes government decision-making looks at the short term rather than the long term and how saleable it is to a State or a Commonwealth to say to them, "We want a lot of money up-front to address the situation." I'm not sure, in the current environment, how saleable that is. It makes absolute sense, I agree.

The Hon. SAM FARRAWAY: I have another question regarding equity and grants. We've heard throughout the inquiry about the volatility in local governments being able to secure grants for community infrastructure. Has there been a reduction in grants available to apply for over the past 18 months? And, secondly, of the grants that your member councils have applied for, have they been successful in those grants?

ROGER STEPHAN: I wouldn't be able to quantify that at this stage. The short answer is there is a perceived and probably actual reduction in the amount of grant funding available, and a perceived and probably actual lessening of success in gaining access to that funding. Interestingly, a number of regions in the State applied to the Commonwealth—in a related area—under the Housing Support Program to look at regional approaches to improving the ability of councils to manage the impact of housing growth and to facilitate it. That was rejected by the Commonwealth because they weren't expecting regions to apply for funding. They thought it would be councils only. I think there's a good example where we are trying to be innovative in the space and look at regionality, and looking at saving money and spending funds efficiently, but other levels of government haven't caught up with us yet. I think State agencies are getting there, but the Commonwealth didn't even know that our structures existed and when they did know, they said, "Oh well, it doesn't matter. We didn't think you'd apply.

Therefore, we didn't give you the money." Going back to your question, there is a perceived reduction in access and a perceived reduction in success, yes.

The Hon. SAM FARRAWAY: To that point, then, if there is a perceived or actual reduction in grants and the ability to secure the grants that are available—because I think there may be a BCR applied to all grants now and, as we've heard from previous witnesses, if you apply a BCR to grants in regional New South Wales, firstly, you won't get the grant and, secondly, you won't build anything. How do your member councils manage community expectation out there that if there is a reduction in grants—and some may be going down an SRV process. Isn't all this a bit of a compounding effect where they're going to have to manage community expectations because they're unable to secure any of that traditional grant funding from the State and/or Commonwealth government?

ROGER STEPHAN: I think the managing of community expectations is always difficult. We had a recent example where a council in my region, because of significant perceived community opposition, didn't apply for an SRV. It's entirely appropriate for councillors to make that decision, but that's at the significant cost of the community. I think it's always problematic, in terms of SRV processes or other processes, to go to a community and say, "This is going to cost you more," or, "We're not going to be able to supply this because we can't afford it." It's difficult for communities to understand the complexities of local government finance, and it's often the case that community responses to either a lack of service provision or an increase in cost are based on emotional ideas or perceptions of local government that aren't necessarily backed up—understandably—by an awareness of the financial situation. It's always impossible, in my view, to manage an environment where your base income—rates income—is insufficient, where grant income opportunities are diminishing and expectations of councils are ever increasing. That's a situation where there is no good outcome in terms of community positivity sentiment. It's all enormously difficult for councils in the current environment.

The Hon. STEPHEN LAWRENCE: I have one question, if I could. Is there any particular joint organisation perspective or issues in relation to rates? Particularly, does the JO have any role in the IPART processes? Do you see any future possible role in terms of rate setting that might involve JOs?

ROGER STEPHAN: Joint organisations recognise that one of their roles is strategy and advocacy. The whole issue of rate income and the SRV process is going to become an increasingly animated discussion. The reality is that we focus on rates income, but for many councils rates income isn't a very large income generator. Even if you give a 10 per cent increase, if your rate income is $2 million then 10 per cent is nothing. It's swallowed up by the annual award increase or something like that. So I think the animated and increasingly urgent discussion is going to be about the whole nature of local government financing—the degree to which rates income, in its current form, is doing the job it needs to do.

The whole issue of rate caps, quite honestly, was a political construct almost 50 years ago, and remains a political construct because it's a nice idea and it's palatable to the community. Again, it's very difficult to get a community to understand why you're applying for an SRV. In an environment of cost-of-living increases, it's almost impossible to sell that and to say, "Well, we need to have a 25 per cent rate increase." It's enormously difficult to get a community to understand and embrace that as a concept. Quite honestly, if they have to embrace it as a concept, there's something fundamentally wrong with the way the council is being funded, to be honest, because it shouldn't need a 25 per cent increase, in many ways. So I think joint organisations will increasingly become animated as a regional voice, and collectively across the State, saying the local government financial funding arrangement is fundamentally broken for at least half the councils in the State.

The Hon. STEPHEN LAWRENCE: Do you see much variation between your member councils in terms of what they're charging for particular services?

ROGER STEPHAN: Yes. On waste management services, for example, and I'm talking very publicly and somewhat out of school here, you can get maps that look at the hotspots of who is charging the most for waste services. Kiama council has very high waste service charges. Historically, that's built up. They have their own capacity to do waste management, as an example, and they do it all in house. That compares to other councils—Wollongong City Council, for example—where it's done in a very different way and the costs aren't significantly less.

Now I would have to say that's a good example of a situation where, quite honestly, Kiama council does not need to provide its own waste services. But extricating itself from that situation is complex and particularly with recent legislative change—very complicated to get out of that situation. But, yes, there is enormous diversity in what councils charge for certain things. Some of those are historical. Some of those are based on the ambition of the council in terms of particular areas. But in terms of fees and charges, that's a relatively unregulated area for a council and, quite honestly, councils look at that because they can recoup costs in that space. But there's enormous diversity and across the State—an extraordinary degree of diversity.

The Hon. STEPHEN LAWRENCE: Is that something that you think might justify an augmentation of the role of JOs to ensure that revenue consistency can be achieved?

ROGER STEPHAN: Going back to back the Hunter model, because I know it very well, you can achieve great efficiencies operating with a greater footprint. I go back to the model that I developed for the Hunter, which was essentially the natural catchment. The natural catchment of a council's activities is diverse. There's a natural catchment for operating a fleet of trucks and that is the cost to drive the truck from the depot to the farthest part of the council area. Payroll has no natural catchment that's geographical. In resources, generally speaking, the same way. Provision of legal services—I dealt with a legal services company in the Hunter that became very profitable and is doing great work. So absolutely joint organisations are a mechanism to provide things efficiently, effectively and in a economical way. The current legislation doesn't prohibit that. It doesn't require it but it doesn't prohibit it.

The Hon. STEPHEN LAWRENCE: In terms of planning agreements and developer contributions and value-capture type proposals, are you aware of any lack of consistency between councils in similar areas around those sorts of revenue sources or potential sources of revenue?

ROGER STEPHAN: There's a range of sophistication on the part of the councils about their role in those. Again, it goes back to larger councils that are well resourced and have the ability to attract the right sort of staff in a very difficult labour market for local government and an expensive labour market for local government. They tend to be able to approach these things in a much more strong position than smaller, less resourced councils. There's a good example in regional areas, for example, with solar farms and things. Some of those local councils just have no capacity to effectively deal with those. I think that the State—the department DPHI—has a role to play in assisting councils come to terms with that. I think that the larger councils have a role to play in terms of mentoring smaller councils in the process. There is great diversity and I think that, again using the solar farm examples, there are councils out there that have missed out enormously on potential opportunities in regard to planning agreements, not just in terms of planning outcomes but also income, because they were just not equipped to do their part.

The Hon. STEPHEN LAWRENCE: In terms of grants, lastly, have you got any particular suggestions about how councils and governments can avoid this issue of sugar-hit grants were a council becomes liable in terms of depreciation, maintenance and operation expenses down the track for what seemed like immediately attractive grant opportunities? Have you got any specific thoughts on how that can be avoided? I don't know—whether a proportion of the grant should be tied to those future expenses or the council might have to certify that it's financially fit to cater for the grant or things like that. Any specific proposals around how to address that issue?

ROGER STEPHAN: I sometimes have animated dialogue with councils, not just in this region, about—councils focus on cost shifting, and it's quite true. It's certainly a real issue, but there's also expectation acquisition where—and this is related to what you've asked the question about. In 1976 I think when rate pegging was established, councils did certain things. Councils in 2024 do a vast array of things that they wouldn't have even dreamt about doing in 1976. I think the sugar hit is part of, quite honestly, councils saying to themselves, "Do we need to do this?" There are many occasions where the councils actually don't need to do it. But if somebody is going to give them the money, they'll take the money and then they bear the consequences later.

I think the part of the grant process should be not just, "Do you want the money and how are you going to spend it?" It should be, "What is the strategic business case for you to take this money?" and actually require the council to have a business case not only for the spending of the money but also for the ongoing activity, which is essentially what you're saying. I think that councils need to be much more scrupulous about looking at these opportunities, and the funding entities need to be far more diligent and far more prescriptive in terms of requiring the councils not only to justify how they're going to spend it but why they want it, what they're going to do with it, what are the outcomes they're going to achieve and how they're going to sustain it. That's the business case. Many councils would struggle with a lot of these opportunities to actually justify why they're doing it.

The Hon. STEPHEN LAWRENCE: It seems to me that kind of systemically over decades State government hasn't trusted local government in terms of the rate issue, for example. Is there an issue here in terms of the legitimacy of local elected representatives? Do we need, for example, to spend more on councillors to change the nature of that role in some way to augment it so that local government is more trusted by the community perhaps as well as by State government to do things like set rates, ultimately?

ROGER STEPHAN: I think it's absolutely true that State agencies and State governments have tended not to trust local government. I think to some degree it just takes a rogue council or two to legitimise the view that they shouldn't be trusted, and unfortunately there's probably not a lack of examples of councils who have not done the right thing by their sector as a whole. I think partly the issue is—and I was having a discussion just before I came in here and I know Councillor Fitzpatrick mentioned it—I've had prospective councillors want to talk to me about local government, which I will do to the degree that I think it's appropriate.

Part of the issue is if you're a successful person at the height of your career, you'd be an ideal person to go on a council but you don't. Why don't you? You don't because the remuneration's appalling, the time consumed is significant, you're not in a comfort zone and you get accosted in the aisle at Woolies. To some degree, who in their right mind would want to become a councillor? The answer is, they don't. So the people who become councillors, generally speaking, are earnest people who want to do the right thing, who want a better community, but they're not necessarily equipped to do it.

In Queensland, for example, there is a different approach to the remuneration of councillors. Whether that guarantees better councils, I don't know. Better remuneration, looking at the degree to which councillors are able to really guide the strategic development of the council area—looking at that in a real sense, the role of the councillor—would help I think because, quite honestly, if you've got this council here in a very difficult financial situation, it's a challenging place. If you're a councillor, wow, how do you deal with the complexities of the problems of a council in financial difficulty? How do you do it? I don't know. But I think if you're empowered to make decisions, if you're empowered to demand the real information that you need and you're remunerated to some degree to compensate you for the time you're putting into it, that would help.

The CHAIR: Thank you so much, Mr Stephan, for making the time to appear and for your evidence given today. Our Committee secretariat will be in touch with you if there are any questions on notice.

(The witness withdrew.)

(Short adjournment)

Mr JAMES RUPRAI, Director of City Development, Shoalhaven City Council, affirmed and examined

Ms KATIE BUCKMAN, Chief Financial Officer, Shoalhaven City Council, affirmed and examined

Cr AMANDA FINDLEY, Mayor, Shoalhaven City Council, affirmed and examined

Ms ROBYN STEVENS, Chief Executive Officer, Shoalhaven City Council, affirmed and examined

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

AMANDA FINDLEY: Yes please. Madam Chair, first of all I welcome you, and all of the crew here today, to the beautiful Shoalhaven. For those that are joining us online, it's a shame that you couldn't join us on a spectacular Shoalhaven day. The sun is out, even though you do not know it. There's a lot to see and do in this gorgeous city. We are home to almost 110,000 people across 50 towns and villages within a 4½ thousand square kilometre area. With 165 kilometres of magnificent coastline, we are also proud to boast the most number of ICOLLs—the intermittently closed and open lakes and lagoons—in New South Wales, another burden that is under-considered when it comes to management. We have large areas of bushland and mountain terrain, which we are known for, with over 90 per cent of our landholdings being held in national parks and in State forestry.

Through the years we have sustained a lower rate base than our neighbouring and similar councils, and we are now stretched to beyond to provide the services and facilities that our communities require and need. We know through our own financial sustainability review that costs have far outgrown the income and that this is a position that more and more councils across the State are finding themselves in. For 23 consecutive years and beyond, we have maintained the lowest residential rate average for all of the Office of Local Government group five councils up until we brought in an SRV—special rate variation—in 2017. Right now we are dealing with an infrastructure backlog that is at least going to cost $200 million to address. Had we progressively raised residential rates to be on par with the average of our OLG group five councils, we would have levied an additional $210 million during the past 30 years, which would have covered this backlog. You can instantly see the dilemma of the current financial situation that we face.

Compared to the rest of the State, we have a lower proportion of people under 18 and a much higher proportion of people over 60, with one in five of our property owners being pensioners. We also attract a lot of investors and visitors who want to enjoy our beautiful city, as I opened with those words. In fact, around one-third of people who own property within the Shoalhaven live outside of our area. Our population doubles in summer and places a great deal of strain on our infrastructure and our beautiful places. Some of our suburbs have extremely low permanent occupancy rates.

With the beauty also comes the terror, that terror being the natural disasters that we grapple with on a year in, year out basis. For historic purposes, Shoalhaven has on average dealt with one natural disaster per year until the last four years, where we have on average dealt with four natural disasters per year. In fact, we have one of the highest numbers in New South Wales. Along with four other regional councils, we have had 15 natural disaster declarations from the 2019 bushfires, which continued into 2020, until today. While we welcome the Government's support that we have received to date, we have had to pay up-front, non-recoverable costs of $3 million to start the immediate and necessary remediation works for the last six events. I am sure you can appreciate that there is a great deal of difficulty in trying to deliver business as usual in such a volatile environment.

These natural disasters continue to set us back on our ability to maintain our road network. Our network is 1,800 kilometres. If you drew a line from here to Mackay in Queensland, that gives you an idea of what we deal with. We are struggling to maintain all of that network with the income that we generate. Even if we devoted 100 per cent of our rates just to roads, it would take an enormous number of years to renew the network at the expense of all of the other services and infrastructure that we provide for our community. Within the same four years that we have been trying to recover from these consecutive natural disasters, we have had to deal with cost inflation. We have also been expected to collect an increasing amount of revenue for the State Government—from waste to DAs—while covering more of the costs of emergency services and prices increasing for library services as well, which totals, on average—and you would know this from other submissions—around $460 per ratepayer annually. That has been calculated by Local Government NSW.

All the while, we have been receiving less funding from the Australian Government's financial assistance grants, which is now sitting below half a per cent of the personal taxable income revenue. If this was reinstated to 1 per cent, as promised under the Hawke Government, the sector would see an immediate decrease in the number of councils reporting operating loss. Based on the financial year of 2022 data alone, this would result in 36 of 54 councils who reported operational losses in that year alone returning to an operating surplus. We very much appreciate that the inquiry is taking the time to listen to local government, but my optimistic self also hopes that the inquiry produces some real and lasting results for local government for the sector. Without some real and lasting results, the only pathway forward will be one of detriment and deterioration into the future.

The CHAIR: Do any other participants have any other opening remarks to make?

ROBYN STEVENS: No.

The CHAIR: We will start with questions.

Dr AMANDA COHN: Good morning. Thank you, Councillor Findley, for your opening statement and also for hosting the inquiry in the Shoalhaven today. I am very sorry that I couldn't be there in person. The first question that I want to ask is about cost shifting, which you mentioned in your opening statement and has been a prominent theme in this inquiry. Are there any particular examples of cost shifting from the State Government in your local area that we should be looking into?

KATIE BUCKMAN: I can talk to that one first. In regard to cost shifting, the key ones for us that we struggle with is the EPA levy, which, when you look at the amount of levy that we pay as a region, is approximately $250 per ratepayer. We also have a number of non-rateable properties, which obviously then puts the rating burden onto our remaining residential ratepayers. The impacts of the pensioner subsidy not being increased has a substantial impact on us as well and our ratepayers' capacity to pay, as well as the non-indexation of the stormwater levy. That one there, if we had had that increase by CPI since its induction in 2006, we would have levied at least an additional $8 million, based on our rate base. I'll pass over to Director Ruprai, and he'll talk a little bit more about the statutory fees, particularly in the development space.

JAMES RUPRAI: Thank you, Ms Buckman. It is a significant issue, I think, that has been raised a number of times over a great many years. LGNSW did a body of work which outlined the total burden across councils in New South Wales. That was backed up by a report that summarised the 2021-22 financial year, by Morrison Low. That report in and of itself showed that the top five cost-shifting categories for councils were waste levies, with $288 million; rate exemptions at $273 million; DA and regulatory functions at just over $200 million; and then emergency service contributions and the funding of libraries. Specifically for Shoalhaven, and looking at the numbers that we have around development applications, we're a high-volume development application council in the scheme of the State. We come within the top 10, typically, in number of applications lodged and determined per year, and that's part of our strategic framework, but it's also part of being a growth council in a regional area.

Looking at the numbers—and I'm happy go into some of the detail—effectively, the statutory fees are set by the State. We don't have a hand in setting the fee structure for full cost recovery of that statutory function; only recover 44 per cent of the total spend that we require to see those development applications determined, aiming to determine those within the time frames that are set by the State Government. So there is a significant shortfall between the statutory fees and the cost to deliver the service locally. I'd probably add, as a secondary point, that the function of planning and development at a local level is an important one to retain. Local government is the first touchpoint for many members of our community. Local government tends to have a fairly good grasp of local character and local requirements when it comes to settlement patterns, population growth and the type of development that is appropriate for a certain area. The retention of that function, which is well resourced and appropriately delivered, is something that is a core and fundamental role for local government.

AMANDA FINDLEY: I'm just going to embellish that story a little more. In my opening remarks, I talked about the natural disasters that we've experienced over the last little while. To connect that to the red fleet and to the issues that local government experience with managing—well, not really managing because we don't get the oversight of what goes on with RFS. How I tie that in for you so that you can understand, I said that we had 50 towns and villages. If you can imagine the pressure that is on council to support the strategic ask of our local RFS to enable their brigades to service the communities that they operate in, many of our villages are one way in, one way out coastal villages. It's very important for those villages to feel the safety of having their own proportion of red fleet within them, meaning duplication of fire stations and duplication of the number of trucks and so on. That's a massive burden for us. Then of course in the recovery space, it has been very difficult, to say the least. While there has been the change around moving from Resilience NSW into Recovery NSW, how that impacts on council's ability to respond to the community—because the community expect to be able to pick the phone up to the council and speak to someone to assist them, and we are not funded for that function at all.

ROBYN STEVENS: Just finally, whilst not specifically articulated as cost shifting, there is the impact of social policy programs that are funded by the State and Federal governments for a time-limited period—so a four-year timeline. Homelessness is a prime example where we'll have—and recovery resources, particularly—staff funded for a period of time. That creates an expectation and a service level within the community, which then has an ongoing expectation of continuation even though the State funding is not continuing. Grappling with that, when you have different social policy and social dynamics within our communities, it's really challenging, particularly in those two spaces. But I think that is a more hidden cost-shifting impact on local governments in that social policy area.

Dr AMANDA COHN: I am interested in the unique position of the Shoalhaven, both in terms of the enormous visitor economy and also that enormous proportion of your LGA that's taken up by State forest and national parks. Do you have the mechanisms that you need to be able to levy revenue from visitors and from industries like the timber industry? Or what suggestions would you have for ways that you could raise revenue to support the infrastructure that you need for visitors and for State forests?

KATIE BUCKMAN: In regards to tourism, it generates around $1.4 billion for the Shoalhaven annually. That is obviously a revenue stream that we are not receiving a dividend from. But with that, we have to maintain the assets and infrastructure required to accommodate that level of tourism. We don't have a tourism tax. I know other councils have spoken in the inquiry around, really, the only way of raising revenue is through parking. The way the rate peg works, we don't have the ability to levy our Airbnbs or our investment properties any differently. So we are very much constrained in what additional revenue we can raise to support the needs to maintain that level of tourism in our LGA.

JAMES RUPRAI: Having worked in both New South Wales and Queensland and seeing the difference between the rating structures, the ability for a tourism levy is certainly a mechanism that could potentially assist local governments in New South Wales to recoup some of the costs of delivering functions to deal with tourists. However, that is still a burden on ratepayers. So it becomes an additional burden. The impact of GRP from tourism and as it flows into tax collection and taxable income, it could be redistributed back through the financial assistance grant. That may be a direct mechanism for assisting with a percentage of tax collected via tourism activities that could be redistributed through an existing grant mechanism to local government.

AMANDA FINDLEY: The other issue that connects through too—it's a very tenuous kind of connection but I'm going to try and make it for you—is that Shoalhaven is actually on a strategic corridor for the national Defence Force. We have two bases here in Nowra, we have *Albatross* and *Creswell*, that obviously require servicing. One of those bases is deep in the heart of Booderee National Park. There are over half a million visitors that traverse Jervis Bay Road alone. We are very grateful for the funding that is going on at that intersection at the moment, but that road gets more than half a million. They are the ones that we know are going through the gates at Booderee. But not only are they going through the gate, but we also have that Defence Force presence at that end of line. While we were also part of a strategic corridor, to our south we have the Eden munitions depot, connected back into Sydney Harbour. The only way that you can get from Sydney Harbour to Eden is across the Nowra Bridge.

We have this fantastic piece of road called the Princes Highway, which is not so fantastic at all, and it is overburdened by tourists during all of the summer season. If there was a national disaster that required Defence to connect its munitions in Eden back to its base in Sydney or to the two bases here in Nowra, there would be a great deal of work that would have to be done strategically and logistically to move the people who are congesting from Nowra all the way down to Eden at those peak points in time. I know that sounds like a long bow to draw, but it's something that gets forgotten in the conversation and I think that it just needed to have some mention.

Dr AMANDA COHN: Can I just clarify for the record if the roads that you are talking about are local roads that council is responsible for maintaining?

AMANDA FINDLEY: The Princes Highway is maintained by the State and we've seen some additional investment into it, but Jervis Bay Road is maintained by Shoalhaven. That leads directly to Creswell and to Booderee National Park, which is part of the Jervis Bay Territory, so it's technically ACT. We maintain some services to that locality. There is another road, Albatross Road, that leads from the Princes Highway to Albatross, funnily enough. Then there is the main road 93 or the Braidwood Road, which connects that base back to Canberra and JQHQ—whatever it is—the joint national headquarters for strategic things. I don't have the acronym, sorry. That is maintained partially by council and partially by the adjoining councils. It's a heavily used route to the nation's capital, but it's also quite strategic for the base that's at the other end of it, being Albatross.

Dr AMANDA COHN: In the answer to the question about cost shifting, the first thing that was mentioned was the waste levy. I am wondering if you have any particular recommendations around ways that could be more equitably distributed or calculated?

JAMES RUPRAI: As an opening comment, it is a really important topic for those who are within the levy area. This is not unique to New South Wales, but I think it is endemic right across the waste industry nationally. The waste levy introduction intended to be used to both disincentivise the dumping of waste or the diversion of waste from landfill into other mechanisms. I think one of the things that has been very quickly forgotten through the processes and policies is that local government is the level of government that is tasked with end-to-end waste management—so it goes. We have full cradle to grave. We do everything from kerbside collection to running open tipping faces and right through to remediation of old landfill sites, which can, effectively, carry on in perpetuity for many decades post a landfill closure.

The landfill levies are then distributed both to private and public sector through various mechanisms, whereas I think the original intention would have been to enable the whole-of-life-cycle waste management. So there is a component that local government is potentially missing through the collection and redivestment of the waste levy that would contribute to, say, landfill closure, as an example, but now needs to be picked up through the increase of localised waste charges on top of the levy to cover those full end-to-end management cycles. Katie, I don't know if you've got any other comments.

KATIE BUCKMAN: I don't, no.

AMANDA FINDLEY: One of the anomalies for Shoalhaven is that South Coast people are faced with a metropolitan rate for their waste levy. I have been on council now for 16 years. In that 16 years we have asked repeatedly to be recategorised not as metropolitan. It's unfair that the Blue Mountains can be called rural or regional—whichever one they are—and we are not. We're classified as a regional growth council and our waste levy should be in comparison to that. Also, our track record in the ability to take things out and our commitment here to the circular economy has been incredible over the years. We've had some wins. We've had some misses, which have been talked about thoroughly in the media.

But the fact that we've been willing to take risks and then had great results from that, which haven't been fully funded and have come from our ratepayer base, just shows that we do have a strong commitment to the outcomes. As we go forward with waste management, the State's expectation around FOGO and green waste will have a further financial impact upon our community who, only a decade ago, had told us, loud and clear, that they didn't want to pay an extra $350 for a green bin. We are getting a change in our demographic. People do want that but, again, it's something that will add to the rate burden.

Dr AMANDA COHN: I think my follow-up question on that categorisation is for the Minister rather than for you, Councillor, so I'll hand over to my colleagues.

The Hon. SCOTT FARLOW: Apologies for not being in Shoalhaven today. It sounds absolutely wonderful down there, but I will be down next week. I want to pick up on something in your submission. You talked about the cost-shifting imperative when it comes to Crown lands. As Dr Amanda Cohn reflected on, your national park estate—I remember from a previous inquiry in Shoalhaven that there is a large amount of Crown land as well within the local government area. What are some of the impacts that council is facing in terms of its management of Crown lands?

JAMES RUPRAI: Great question. There are multi-pronged impacts. Obviously, roads and some of the linear infrastructure that council is required to maintain for the residents that live throughout the 50 towns and villages surrounded by or bordered by those national parks and Crown lands is a critical one. But, further to that, a lot of the management authority that's divested back to local government through things like plans of management for Crown lands incurs ongoing management costs, and that's for lands that we are not able to rate. So there is a gap not just in the ability to fund but even in local government's ability to achieve any own-source revenue for the management of those lands. They're probably the two major ones that spring to mind immediately.

The Hon. SCOTT FARLOW: And with that own-source revenue, I know we've heard from a lot of regional councils that say that they're constrained in what they can do in terms of own-source revenue compared to metropolitan councils. Looking at what this Committee would recommend, is there anything you'd like to see us recommend in that line, particularly when it comes to Crown lands?

JAMES RUPRAI: It is a tricky question because, again, I think without having a current framework for either grants or direct funding injection based on the amount of Crown lands, it's probably open to a broad interpretation and a broad number of options. I think local government would welcome any recommendation that gave a direct funding injection for the management of Crown lands from Federal and State government at this point, given that it's not a parcel of land or property that we are able to rate or able to collect revenue on.

ROBYN STEVENS: I'd suggest further that the methodology consider the amount of Crown land that covers each municipal area and the rateable properties. So the methodology needs to consider the whole impacts so that the application of the funding, should it be a potential opportunity to be explored, would enable councils to respond based on meeting their existing residents' needs as well as their responsibilities with regard to Crown land management and environmental sustainability going forward.

AMANDA FINDLEY: One of the things that I think we need further assistance with is untied, unmatched grants for coastal management. I'm really glad that you'll be down in the Shoalhaven, and I'm sure you'll enjoy one of our over 100 beaches, but with 165—

The Hon. SCOTT FARLOW: Unfortunately, I don't think I'm going to get the time for that. It's a work trip, not a pleasure one.

AMANDA FINDLEY: You'll have to get up earlier and go for a run on the beach, I think. With the beaches and all of the Crown land reserves that are attached to them, those are the assets of the nation, not just the assets of Shoalhaven. That's why we really need to see that there is, untied, no requirement for Shoalhaven to contribute additional dollars to the management of those areas. I did also mention in my opening remarks the intermittently closed and open lake systems that we have here in the lagoons. Management of those catchments is really important, and getting some focus into those catchments will be a challenge for the Government. I totally get that.

It's kind of like we have two categories of Crown land, and that's the coastal Crown land and then the hinterland Crown land. If you look at the work that's being done by forestry, I don't think there's enough accountability to the State Government or to local council about the state of the roads and the impact that forestry has with their heavy vehicles on the roads. We have a causeway at a place called Shallow Crossing. It's a concrete causeway that's quite old. It's a major connection across the Clyde River. Even though there's only a small population of people who live to the west, that bridge gets used consistently by forestry trucks to bring logs to the coast, and that has an impact on the quality of the crossing. Any changes to the crossing or any maintenance to the crossing in the future is not a cost that council should bear because, again, that's part of the nation's assets, because people are using that to access tourism product around the river but also because of the damage and the impact from the Forestry Corporation themselves.

The Hon. SCOTT FARLOW: That leads perfectly to my next question in terms of roads funding. What is the model you'd like to see when it comes to roads funding? When we were in Albury last week, we heard from Federation and Lockhart councils, who I think had similar concerns to you, in a sense. Their impact came from grain trucks and the like down there, with some of the largest grain centres. What would you like to see in terms of a road funding model that's equitable for all councils?

KATIE BUCKMAN: I can start on that one. The issue that we have in the Shoalhaven is that the consecutive natural disasters and the accelerated deterioration of our road network is a major concern for us. The condition of roads, whether they're sealed or unsealed, don't come into a lot of the formulas for the allocation of grants. It's normally just based on length of roads and length of bridges. Some consideration around what is the actual quality of our road network in the allocation of that money would be, I guess, the first step in the right direction.

The other side of it is—we were talking about this earlier—if we spent 100 per cent of our rateable income on roads alone, we would have about $48,000 a year to maintain a kilometre of road. That would mean that we would have no money to provide any other services to the community. We wouldn't have any money to provide any other legislative requirements that we're required to as a local government area. AMPs indicate that the amount we should be spending on roads is more in the vicinity of $15,000 to $16,000 a year, so our roads alone would wipe out about a third of our rating income in any given year. So it's really important that we do have that uplift from the State and Federal governments through the use of grants.

The other challenge that we do have is obviously our considerable backlog that the mayor made note of in our opening address. We need to be able to bring our roads up to a condition that's in line with other local governments before we can move into a phase of just ongoing renewal and remediation. As I said, considering the condition of those roads and the backlog is a big part of what needs to be considered in funding moving forward.

The Hon. SCOTT FARLOW: To that point—and you outlined it in your opening statement well—in terms of the severe impact that we're all aware of in terms of bushfires and natural disasters that have befallen the Shoalhaven area, that access to funds, and the council effectively has forward funded themselves—have you been able to secure all of that funding now? Have you been able to use any of that for betterment improvements to bring up the quality of some of your infrastructure?

KATIE BUCKMAN: Council did enter into a tripartite agreement with Transport for NSW and reconstruction just prior to 30 June. By entering into that agreement, we are now able to be cashflow positive on the repair works. It doesn't cover the emergency and the immediate works. We are still out of pocket for those when they occur. That's the work that's normally within the first three to six months of a disaster event. However, for the major reconstruction work that happens down the track, we now are part of that agreement that allows us to receive prepayment for that work.

That was a considerable gain for council when it came to our end-of-year financial position. To put it into perspective, at the end of FY23 we were $18 million prepaid on natural disaster work, for which we hadn't received any reimbursement for. As a council with very limited unrestricted cash, that was a massive burden on our cash balances and our restrictions. To be able to get to a position as being cashflow neutral at 30 June was fantastic. Again, as mentioned in the opening statement, we have an opt-in fee for each disaster event as well. For every event, there's an opt-in fee which is 0.75 per cent of your rating income.

For FY24 alone we had three events. That opt-in fee is capped at 2 per cent for any financial year. So because we had three events, we were capped at 2 per cent. If you compare that to our rate base, we had a 4.6 per cent rate peg in FY24, and 0.9 per cent of that was for growth. Putting that aside, because it shouldn't be used for renewals and maintenance—it should be for growth in services and delivery—that's a 3.7 base rate peg. Two per cent of our increase last year went into paying opt-in fees for natural disaster events.

ROBYN STEVENS: Scott, can I comment on the point of betterment that you raised. The tripartite, whilst welcomed, still does not address the issue of betterment. That is an ongoing conversation we are having at all levels around betterment. We have an example we've provided to the Reconstruction Authority of a bridge that's been washed away three times and rebuilt in the same way three times because the betterment issue has not yet been addressed. In logical terms it just doesn't make sense, from a financial perspective but also from a community impact perspective, that each time that occurs. That's one example.

Also, what I would say is that any works that you do in your infrastructure space aims to improve the infrastructure, so betterment shouldn't necessarily need to be a conversation. It's not to say you want the top level thing as a recovery activity, but you want to build resilient infrastructure moving forward and that needs to be considered in a way that doesn't place that burden back on councils. As Katie has already outlined, the cost burden for us on the opt-in fees is there already. That should cover our contribution to betterment. Then the needs for what that infrastructure should be going forward should be considered as part of the recovery and reconstruction process. That's probably a comment I'd like to just add on that.

AMANDA FINDLEY: Scott, I'd just like to give you another answer too. You asked for what recommendations would we make. One of the recommendations—and smarter people than me can work on the wording of this—would be around having a clearer pathway for councils that are heavy tourist areas, the clearer pathway on how we can get more of our roads considered to be regionally significant roads to be taken over by the State. The other thing is looking at the population factors that negatively impact areas that are growing. Can we look at how a per kilometre factor could be factored in, rather than just a population factor? Because if we could get something like that secured, there'd be other regional councils that would also benefit, not just the Shoalhaven. I think that would be a great way forward for the future.

The CHAIR: To follow on from the discussion around tourism, in your submission you talk about there being several mechanisms that could be used to assess the maximum applicable rate for a property, including whether it be used for short-term rental accommodation et cetera. I invite you to talk a bit more about what you would suggest those mechanisms could be.

JAMES RUPRAI: It goes back to the comment I think I touched on earlier around the differences between States. If I reflect back on the mechanisms in Queensland for rateable categories, local governments are able to levy certain rates for different tourism categories. So if there are Airbnbs or people are not using homes or residential properties as PPR, there is a separate rating component that can be added. We're limited in New South Wales in that respect. We have to go through an SRV process, and that SRV process must relate to either a rating category or a property that is benefiting from a proposed piece of infrastructure. There's a real limitation in the ability to apply different rating categories for the purposes of tourism income. That's probably the fundamental shortcoming of the New South Wales system.

KATIE BUCKMAN: The only other thing I would add is that, as the mayor said in her opening address, about a third of our properties are actually owned by investors outside of our region. They're actually getting the benefit of quite a low average rate at the moment and they're not putting that money back into our region.

The CHAIR: In terms of the disaster funding now, you talk about the short-term funding for roles that is unsustainable to meet the ongoing needs of the communities. Do you have suggestions for the Committee in terms of recommendations or mechanisms we could suggest to improve that, noting obviously the remarks you made in your opening statement about the frequency of natural disasters you're facing here?

ROBYN STEVENS: I'd make a suggestion in relation to that—a broader suggestion, I guess—in terms of the State Government working collaboratively with councils in relation to the roles and responsibilities of a reconstruction authority and councils. As the mayor has pointed out, when there is a disaster happening people will generally ring their council as opposed to—they will ring their State members, but generally for initial support their local council is often the first port of call. We need clarity around emergency management arrangements and the legislation surrounding that, and then what roles should be funded and legislated under those arrangements that either sit within councils and funded or sit within the State, and those are clear.

What has occurred in our current environment is we've had recovery officers for a number of years, given the consecutive natural disasters. We either have to lobby year on year for funding to continue those roles, which creates uncertainty for the people within those roles and also uncertainty for the community members accessing the support services or the support that's provided through those roles. I think recognition within a council context of the responsibility that sits within councils for recovery and funding, that accordingly would be the most expedient way of addressing that problem.

The CHAIR: Do you have a dedicated disaster recovery officer for Shoalhaven and are they embedded within Shoalhaven?

ROBYN STEVENS: Currently we have people with those responsibilities added onto other roles. It is something that I'm looking at, the structure of the organisation and the disaster impacts that we experience, about how we resource that. But, there again, it's about the legislative responsibilities and what we should do to build our own organisational capability of what we feel the State should contribute to in terms of a wider resilience and recovery framework.

AMANDA FINDLEY: People might think that if you have a resilience officer embedded within a council, that is a wasted resource when you're actually in benign times. But the flip side of that is that a recovery officer can pivot into the resilience role and work with our communities to help them to build their own resilience. We've worked very closely with Griffith University around models that allow for our one road in, one road out communities to be more self-empowered. Because, as we know, when it's absolutely hitting it, it's going to be 72 hours before a community will get any assistance from any government agency.

So to keep our ever-evolving and changing communities at the forefront of thinking about how they manage their own selves during impact, and then completely post-impact, is really important. The resourcing for councils that are known by government to be high-level vulnerable councils—for example, Shoalhaven is in the top 10 councils in Australia for bushfire impact. That says immediately to me that we are a place where we should have resilience officers working very closely with our community to help them with not just their bushfire plans but their ongoing consideration of how they work in small pods—I know this is a bit detailed—within community to get the best possible outcome for those groups of communities when it's not great.

The CHAIR: Thank you. That's all we have time for for this session of the inquiry. Thank you all for the time that you've given in making the submission but also giving evidence today. It's really appreciated. Thank you for hosting us in the wonderful "Shoalheaven"—I just want to use Scott's pun. Any questions on notice will be provided to you by the secretariat. Thank you once again.

(The witnesses withdrew.)

Ms JANE STROUD, Chief Executive Officer, Kiama Municipal Council, affirmed and examined

Mr JOE GAUDIOSI, Chief Operating Officer, Kiama Municipal Council, affirmed and examined

Mr ANTHONY McMAHON, Chief Executive Officer, Bega Valley Shire Council, before the Committee via videoconference, affirmed and examined

Councillor RUSSELL FITZPATRICK, Mayor, Bega Valley Shire Council, before the Committee via videoconference, on former oath

The CHAIR: I welcome our next inquiry participants. Thank you for making time to give evidence to this inquiry today. Would you like to start by making a short opening statement?

RUSSELL FITZPATRICK: We won't make an opening statement. We will just rest on our submission of 26 April. As I think I said earlier on, I am from the Canberra joint organisation, so we will just rest on that. I'm happy to answer any questions.

The CHAIR: Would you like to start by making a short opening statement, Kiama?

JANE STROUD: Yes, thank you, we will. Like Bega Valley, we too will rest on our submission, but I would just like to begin by thanking the State Government for commencing this inquiry. As part of our submission, we note that IPART was first introduced in 1976 and 1977, so it's coming up to 50 years of this particular model of rating and the funding structure for local government. We know, with the Federal inquiry into the financial sustainability of local government on foot as well and around the globe, of similar initiatives happening in both the UK and in New Zealand and, in part, in Japan. I think it's really interesting that, at this particular juncture of time, local governments the world over, despite the way we are regulated and constituted differently, are under enormous financial strain no doubt akin to other levels of government. We are not immune to that stress or pressure.

What we do feel as a local government, particularly in Kiama's case, is that, unfortunately, in the New South Wales context, we are probably, if you like, almost the postcard for financial unsustainability. That is of acute concern. Everything we do at Kiama Municipal Council at this point in time—you might know that we are under a performance improvement order. The focus and sole intent of that performance improvement order is two things: financial sustainability and governance. Without those two things, the future of our organisation, like all other local governments out there in the sector, is placed at incredible risk. We come here today with that lens in mind because we would like to be part of rethinking and remodelling and potentially looking at what is now a 50-year-old strategy for how the State interacts with local government. We welcome your inquiry and any questions you might have.

The CHAIR: We will now move to questions. I might start with a question for Kiama, noting the challenges that you have faced as a council and as an area that have been well documented in recent times. What measures have you put in place, would you say, to achieve a more balanced budget?

JANE STROUD: I think, like every local government out there, the most natural response to financial pressure is to look at your own spending habits. Quite literally, running a council is no different to a household budget; there's money in and there's money out. Occasionally, local governments will exceed their available household income and spend beyond their means, and Kiama most certainly did that. The organisation in the first two years, of its own volition, actually trimmed its operations, trimmed its capital budget and really looked for budget efficiencies, whether that was through structural realignment.

We are now in our second year of that and what we are focusing on is the service offering and our standards of service. That is a more particular and acute issue to have and it actually takes a whole lot of work in terms of talking with your community, who are very used to quite a high level of service and, in a lot of cases, without sufficient documentation as to how we have arrived at that or good financial intelligence as to why we are in that service or why we are delivering that particular business to the LGA. Those kinds of back to fundamentals are core to how we are addressing the issue at Kiama.

We have looked to sell strategic landholdings that council, at times, purchased with the pure intention of realising a return on investment. Kiama is the most unaffordable location in New South Wales for housing and property, and that makes any strategic landholdings that we do have as council incredibly valuable. Of course, like every home owner, if you want a good return on your investment, you sell at the peak of the market and not the trough. That is what we too are looking at. But we do have to be mindful of which core businesses are the job of local government. Just last week council announced its significant sale and divestment process of the Blue Haven Bonaira assets and its aged-care services. That particular issue is emblematic of a council that is living well beyond its means and really needs to return to core municipal services.

The CHAIR: In terms of your submission, Kiama, you touched on this in the opening remarks but I would invite you, Bega Valley, if you have also got comments on this to contribute. You talk about the fundamental issue for Kiama Municipal Council being to prepare and produce a balanced or surplus operating result. Talk us through how important that is or challenging that has been over time, but I would also invite you to make comment on—I noted in your submission also the fact that you had not operated a separate ledger for your aged-care facility for what seemed like decades and how much of a problem that was for you as a council.

JANE STROUD: I'll start it sort of the Irish way and begin where you ended. That is actually the original sin of Kiama Municipal Council's circumstance: not having really good and robust and separated ledgers, so not knowing which business is waste, which business is aged care and of that aged care business—because it's not an insignificant business. To give you an insight into the scope, it's a 134-bed residential aged-care facility. So that's a hospital running 24/7, a hospice environment. There are over 200 independent living units—

JOE GAUDIOSI: Sixty—59.

JANE STROUD: So 269?

JOE GAUDIOSI: Bonaira has got 59, and then we've got 200 in Terralong.

JANE STROUD: Yes, across two sites, and a home care service that spans the Illawarra as well as a community transport business. So it is a really significant undertaking. Not constituting that business with a separate ledger from the get-go really did not allow council, and councils of the day, the opportunity to understand how much does the staffing cost, how much does the facility cost, how much does the asset cost. I often would describe the ledger as being the fundamental flaw in the model because it's difficult to make investment decisions if you don't have optics and a good practical working understanding of costs, fees, charges, regulatory changes—which particularly aged care is prone to, especially in the residential aged-care facility post the royal commission environment.

Your opportunity to increase revenue is so limited. I do often wonder, with more financial intelligence at their fingertips and a better feasibility study and the preparation of an operational plan—because it stands to logic and reason that if you're going to build a large facility that requires significant staffing, that you actually cost that. I wonder that if council had a better separate ledger, more intelligence around the feasibility study and an actual operational plan and an asset management plan for its existing holding, if they would have made the same decision, and I doubt it.

The CHAIR: It seems just an absurdity that an organisation could run such a significantly sized business, if you like—it's a service to the community, in fact—without knowing how it's going, if you get my drift.

JANE STROUD: I know. It's a really difficult circumstance, and I don't mean to be critical of the past. I've said in our submission local governments get into all manner of community services or businesses that they feel their local constituents really need. If they sense a gap in the market, they will often move into them. I recently travelled overseas on a scholarship program, and I met with some UK counterparts. Woking council in the UK is $1 billion in debt due to building a residential facility. Councils will sometimes leap into a space that ought to be consumed and operated by private sector or commercial sector, or not-for-profits, who are in fact better placed. Sometimes we don't always make the wrong decision—it might be for what they consider at the time as the right reason—but it's not a financially sound decision. Certainly that has been our circumstance.

The CHAIR: Bega, I note you gave an example of the childcare centre that you run; I think, Councillor Fitzpatrick, you spoke about that earlier. Would you have anything to add to this sort of discussion?

RUSSELL FITZPATRICK: It just probably highlights for me that councils end up doing things to satisfy community without knowing the full cost to benefit or the cost analysis of what's going to happen down the track and how important it is. As you know, elections are coming up. We've got councils out there saying council is going to look for other means of getting revenue, this is what they propose, and things like that. It's just sticking to your core business and making sure you do that properly is my key point of it all.

ANTHONY McMAHON: Yes. If I was going to add anything to that I would say trying to understand what the core business of local government is isn't easy and, even if you said the same type of services were the things that we did as our core business, that doesn't mean they're going to be delivered in equal ways across different council areas. I know we've got some similarities with Kiama, but there's a lot of differences. For example, we've got 62,000 square kilometres in our local government area that we look after. Only 20 per cent of that land is privately owned and there are around 1,500 kilometres of road network that run through that.

Just to try to fund, with the scale of community we've got, those road and bridge assets that run between those national parks and State forests across our area becomes an almost unmanageable burden in its own right, let alone when you start considering the pools, the playgrounds and the sporting facilities that are located in those disparate communities across our shire. The challenge of what we've got to look after with the revenue bases that we've got makes it very difficult. When you start talking about service reductions, you are essentially asking the council and the community whether they're going to close a playground, whether they're going to close pools or whether they're going to close libraries, and that's not an easy thing to try and do.

The CHAIR: In your submission, Bega—and I think it is touched on yours also, Kiama—you mention the disaster recovery officers. We heard a bit about this from Shoalhaven. I would just invite you to talk a bit more about that role within council currently. Have you got a dedicated recovery officer who does that role, and how do they do it?

JANE STROUD: I'm happy to start if you like, Anthony. We don't have a dedicated recovery officer. We have recently, as a region, created a recovery committee and are working with a steering group framework. Each of the councils in the Illawarra-Shoalhaven region are participating in that on a regular cycle. It's really important that coordination during times of disaster happens not just while the event is occurring but post, and that's because things like rail networks and east-west linkages take time. Communities also suffer cumulative impacts, and many of our communities in the ISJO region will move across the local government boundaries. They, rightly, don't understand where Kiama starts and stops and where the Shoalhaven does, and you can't expect them to, so the coordination role between the councils is pivotal.

Recovery is often more important than the actual immediate disaster response. Disaster response is all about life saving and making sure that citizens don't lose their lives and then, beyond that, it is about protection of property. But recovery is more complex than that; it is actually dealing with things like waste and, in our circumstance, we don't actually have an active landfill. If we have a flood event or a significant east coast low, which we did on the weekend, and excessive tree fall, we will actually have to transport that material out of the region, often to Sydney and often to Shoalhaven. In a recovery sense, you will be dealing with a resident who arrives at the weighbridge and who isn't a citizen of that LGA, and the way that recovery funding works is that you have to prove that your property is amongst the affected. If you are a resident of Kiama, you recently were actually turned away at the weighbridge while you were trying to drop off waste at a neighbouring council. That's a quirk and a circumstance of Kiama, but it speaks to the importance of coordinating funding and coordinating efforts across LGA borders.

Most of my work history has been in Queensland, where disaster management and recovery—I actually held those roles in really quite significant SEQ councils, and they are actually legislated roles. You do dedicated training and you have sufficient resources when you are stood up to be able to operate effectively. Recovery in our circumstance matters acutely because—and I will give you a really specific example: Jamberoo Mountain Road, which is a core east-west linkage. In the event of a major disaster on the Illawarra, often what happens is that Macquarie Pass is shut, and that will divert traffic down to our road, or Kangaroo Valley will be shut. You will end up with a local road that council routinely spends about $4 million to $5 million on. We only have a $13 million capital program, so that's a good chunk of our yearly expenditure.

When it collapses, which it invariably does—it's a very beautiful drive, but it's not designed to take heavy vehicle traffic, which diverts down there in the event of a disaster, and it will often fall away. For us, with a $13 million capital budget per annum, we actually have to front fund the reconstruction of that work to what it was, not better. If there is a delay between the funding and the agreement of what condition the asset was in to how it was affected, we might wait up to two years for a number of millions of dollars of funding, which we always welcome. But that lag time can push us, given our criticality, into going concern issues. The coordination and the importance of recovery affects not just communities and people, but it is also about waste, roads and infrastructure funding, as well as the mental health and the community cohesion that you need to see rebuilt after disasters.

ANTHONY McMAHON: In our submission we focus quite heavily on the local emergency management officer role, which is a designated role under the SERM Act. Again, Government create a piece of legislation that creates an onus on local government to resource a function that we aren't resourced to do. In our case down here, I've currently written it into the role of our director of assets and operations to be the local emergency management officer, which is a very resource-intense role. During emergencies and pre-emergencies, and in planning for those, there's a lot of work, administration and training requirements that go into that. I'm aware some other councils have made the decision to allocate some of their own internal resources to fund those positions, but it's just another cost burden on local government.

In terms of the recovery function, similar to the experiences that Kiama spoke of before, we've worn significant costs that we weren't able to recover post-disasters in the past, where our council took a risk in doing what was right for our community, on the assumption that the State and Federal governments would fund some of those recovery costs. There have certainly been circumstances where we've been out of pocket—in the case of the Black Summer fires, almost $1 million, and then with the Tathra fires prior to that, several hundreds of thousands of dollars too. As Jane alluded to, managing cashflow where we've got to spend months and months trying to recover reasonable costs in dealing with the response to disasters, and then sometimes getting it and sometimes not, makes it near impossible at times for us to manage our cashflows. Our council, after the Tathra fires, in particular, wore several million dollars of costs that weren't reimbursed for several years. That did significantly affect our financial position for a number of years before we got that recovered. We could go on about this but we are happy to answer any more questions if they come.

The CHAIR: I did have a further two questions for you, Bega, but I'll pass to my colleagues online, noting the time that we've got. Dr Amanda Cohn, did you have questions?

Dr AMANDA COHN: I have a couple of questions for both Bega and Kiama councils. It is a similar question that I asked Shoalhaven earlier today. I am particularly interested in the impact of State forests and Forestry Corporation on council assets and also the impact of visitors to your beautiful coastal areas. Are you currently adequately able to raise the revenue you need to manage those impacts on your assets? What recommendations you do have to better capture revenue to look after those assets?

ANTHONY McMAHON: I'm happy to start with that one. In simple terms, the answer to your question is, no, we definitely don't get adequate revenue to cover the cost impacts associated with traffic that uses our network as a result of national parks and State forests. There are certain situations when forestry operations have happened when we've had some direct negotiations about particular parts of our network where they've needed to upgrade it to cater for load-carrying capacity in their interests. But then there are broader network issues that we don't get any funding for.

We've made several submissions to the New South Wales grants commission on our belief that there should be a review of the disability factors affecting councils and to take that impact into consideration. But, to date, we haven't seen anything like that. We've also indicated in the past that State governments previously have had things like the Royalties for the Regions program, where there has been some direct compensation back to communities affected by freight impacts from the mining sector. But there's never been anything similar for the forestry sector. National parks are the same. We get high tourist numbers and a lot of expectation on the standard of our road networks and the safety of our road networks to cater for those visitors, but no compensation for any of that.

JANE STROUD: I'm happy to answer the second part around visitors and funding models for visitors, because it is part of our submission. Our resident population in a busy summer period will actually balloon and double. We would look at a resident population that is typically around 26 to 27 that could be anywhere up to the 40s and 50s in peak season in a hot summer. It's great for the town—tourism is our biggest employer—but it does place an incredible stress on things like waste services, street sweeping, and water and sewerage, for which we are actually covered under Sydney utility. But what will happen is often at peak occupancy you will experience stress in the existing infrastructure because it's built to service the population capacity, not the tourist capacity. Local roads will also suffer, as will car parking.

But, in particular, short-term rental accommodation and the impacts that that will have on our communities, whether it's visitor parking, noise, and just the use and congestion of our very lovely coastal communities that are not necessarily designed—there might be one road in, one road out, for example. When they're all full and it's peak season, it will be really intense and quite difficult to manage. The other complication, like every tourist town will tell you, is the demand on servicing and the expectation for service levels—so for bins to be cleaned every day, barbecues to be cleaned every day, beaches ready to be used and lifeguards spanning a full summer day. It's expensive to run that level of service, and it exceeds what the resident population, who pay a rate, can pay. In other States, they benefit from differential rating models. In our circumstance, the rate peg doesn't allow for particular or differential charging for tourism, particularly short-term rental accommodation, which Kiama would dearly love to pursue in order to then re-use that income back to servicing at those peak times.

RUSSELL FITZPATRICK: If I could just add on to that, we live with six coastal towns—six tourist towns—right along the coastline of 242 kilometres. Our population goes from about 34,000, 35,000 up to about 100,000 for a six-week period over Christmas. It's basically knocking on that. We are our own water and sewer manager as well and run our own water and sewer, so we have to build for peak times. We build for that six weeks of the year, and that's paid for right across our resident base. The holiday accommodation is great and we welcome them—most of our industry survives off that—but it creates enormous pressure on council to deliver those services, not only for the six weeks. We provide a lifeguard service, I think at eight beaches for the December-January period, at a cost of about $1.2 million to ratepayers, and we have a little special variation to subsidise that in our rates income.

Dr AMANDA COHN: To follow up, firstly to Bega, I'd be interested in those submissions that you made to the grants commission. Is it possible to provide us a copy of those?

RUSSELL FITZPATRICK: It sure is. In the grants commission, we asked for the Financial Assistance Grants to be re-evaluated based on transport. In our area, obviously with the timber industry, but we also have a milk industry that runs a lot of B-doubles on our gravel roads and road network. But under the grants commission they are counted as one vehicle transport, and sometimes they could be as heavy as 60 tonnes. An equivalent of B-doubles should be rated as 20 vehicle movements or things like that under the allocation of Financial Assistance Grants.

Dr AMANDA COHN: I've got a follow-up question for Kiama. You were talking about opportunities for differential ratings for tourism and mentioned other jurisdictions. Do you have a preferred model that we should be looking at from another State or Territory?

JANE STROUD: Yes. If I could, I would pinch precisely what the Sunshine Coast or Gold Coast does. I think they are exemplar models of differential rating, designed specifically to target tourists, secondary property owners and short-term rental accommodation.

Dr AMANDA COHN: I have one last question for Kiama, if I may, before going back to you, Chair. It's about the performance improvement order and you mentioned it in your opening statement. I'm interested in your understanding of perhaps what got Kiama into that position, noting that being a coastal council highly impacted by tourism is not an issue unique to Kiama. Similarly, we've heard of other councils that have stepped in as providers of last resort for services like medical care, aged care or early childhood education. What is your understanding of what happened at Kiama that led to the performance improvement order?

JANE STROUD: Over the three years now that I've been at Kiama I have worked really hard to make sure that the public were informed about precisely how council found itself in this circumstance. I do really genuinely go back to the fact that we put our hands up to say to the State Government, specifically the then Minister and the Office of Local Government, that we had concerns about the finances of Kiama. In 2021 what became apparent was cash flow and the knife-edge budget that we were living on at the time. That prompted me to have a look in a lot more detail about that circumstance.

There is no question that the capital construction of Blue Haven Bonaira, which did use in the order of $20 million of operational funds, had an immediate and acute impact on our operating budget. We really only garner $20 million in rates per annum so, as you can imagine, we don't have very deep coffers. We do have a good solid base of reserves, which is great and good to know, but reserves are for a dedicated purpose. So when in one year we deliver a $110 million capital project—and, as you heard me say earlier, our normal capital budget is $13 million. When in one year we spend that much money on one construction project and we take $20 million out of our operating position, we simply don't have the depth nor the agility to rebound from that. The reclamation of that $20 million put us in a really quite perilous circumstance.

There is no question in my mind that governance played a key role in that circumstance as well. That goes back to the ledger, the understanding of the accounts, the financial system that council was operating and using, and its diligence in ensuring good books and records, and good reporting for the public record. If you are interested, there is very public material on that; there's the state of the organisation report. We wrote our own strategic improvement order until one was issued. We then amended the second iteration of that. And we most recently complied with the performance improvement order requirement for a finance and governance report. So it is the perfect combination of both governance and finance, but it relates primarily to expenditure and overinvestment in one service area.

The Hon. SCOTT FARLOW: Welcome, everybody, today. I might just start off with Bega. I know, Mayor Fitzpatrick, that the Hon. Sam Farraway put some questions to you this morning with your Canberra Region Joint Organisation hat on. I think you invited some of those questions perhaps to be asked this afternoon in a Bega council capacity. I might turn to those to begin with and also afford the good folks at Kiama the same opportunity. I just want to see if either of your councils have been able to secure any funding from the new regional road funding package at all?

ANTHONY McMAHON: I'm happy to start with that. One of the things that is a challenge for local government is trying to compare how much we receive out of State and Federal governments when different programs get introduced and other programs get taken away. What we've experienced recently with the State Government is a continuation of some of the regional funding programs that we've traditionally relied on and then a change to some of the others. To give you an example, the Regional Road Block Grant is something that we've traditionally received from the State Government and we continue to receive that now. In our case, over the last four years you could say it's around $2½ million per year.

One of the challenges we've had with that over consecutive governments, and this is an issue that we continually get hit with in local government, is that the indexation on those allocations each year in our case has only been about 1.9 per cent, and over the corresponding time period, the New South Wales road and bridge construction indexations have been well in excess of 5 per cent, so sort of ranged between 5 per cent and 10 per cent. That has essentially taken us backward, and that's over consecutive governments. Under the current Government, we no longer get the regional road REPAIR Program, which is a funding program that we had previously had. Although it was a competitive program within regions, within the regions the councils had a reasonable idea of what they'd receive each year.

In our case, we were receiving typically around $450,000 to $500,000 per year out of that regional roads REPAIR Program, which was discontinued. We have been able to secure funding over the next four-year program of the Regional and Local Roads Repair Program as well as the Regional Emergency Road Repair Fund to a combined amount of roughly $6.6 million over that four-year program. For us, the way we are splitting that up over the four-year cycle is around $1.12 million per year on regional roads and around $541,000 on local roads. It's handy to have that income and being able to plan on a four-year program, but we are no longer seeing funding opportunities coming through programs like the Fixing Local Roads Program or the Fixing Country Roads program, which was another competitive regional road program.

In terms of trying to compare across timescale, that is very difficult because there are changing pots of money that we need to access in changing ways. Some of it's by road allocation, some of it's completely competitive and often relies on economic cost-benefit analysis, which doesn't always mean that funds go and get distributed in an equitable way. They tend to get skewed to really high grain and stock freight areas over some of the other areas like ours, for example, where forestry is a driver but the volumes are not the same. That is some figures from our perspective. If I was asked are we getting more or less compared to five years ago, it's not an easy question to answer because we were receiving some competitive grants over that previous year, too, which aren't available now. But on the whole at the moment, what I'd call the more four-year known allocations are slightly higher.

The Hon. SCOTT FARLOW: And Kiama's perspective?

JANE STROUD: A little bit similar to Anthony. I might actually need to take that question on notice. We definitely have accessed that funding program. Actually, about two years ago we employed a dedicated grants officer to help us access better grants, specifically for our roads, and that has worked, but I would prefer to get the figures right, if that's alright. I'm happy to take that on notice and provide it to you.

The Hon. SCOTT FARLOW: That's fine. Bega has had a little bit more notice from this morning as well. I think the question was also put to Bega this morning, and I think it was in reference to your pool and the community grants that you could apply for, those small infrastructure grants, and for Kiama as well. On Bega's account, is there anything further you want to add from your answer this morning or are you happy to leave it where you did this morning?

RUSSELL FITZPATRICK: I'll let the CEO actually add to it. I spoke this morning about our Bega swimming pool, which we need substantial funding for. As I said, the rate rises still don't even allow us enough to put money away. It allows us to contribute but not to fund the whole pool.

ANTHONY McMAHON: Just to add, in my personal opinion, one of the best grant programs that the New South Wales Government has had for a long time, which is quite similar to the Federal Government's Local Roads and Community Infrastructure Program, was the Stronger Country Communities Fund, where we roughly knew how much on an annual basis over a four-year program we were likely to get allocated to our community. We could then, through a relatively simple process, identify projects that were going to benefit the broader community that we could apply for through that program. We did a lot of brilliant work in our area, for example, on improving community hall kitchens that were several decades old that were sitting there that we could never fund the improvement of but were able to get through programs like that.

A lot of smaller sporting facilities—and we certainly use that for some relatively minor pool improvements. They're very valuable programs. Those relatively small but roughly known allocations that are relatively simple to access really help us but we do have a number of large-scale community infrastructure projects well beyond our community's capacity to pay for. In our long-term financial plans we've got indicative assumptions around grant income and we just need to hope that State and Federal governments come up with competitive grant programs within the same time frame that we know those assets need to be renewed or, essentially, we may be shutting that critical infrastructure.

JANE STROUD: I'm happy to add to that but it might be a slightly more esoteric statement, Anthony. I reckon you would be hard-pushed not meeting a local government that needs to replace the swimming pool.

Most of us built them probably 30 to 40 years ago. They're well loved, well used, expensive and difficult to maintain. One of most interesting things about sports, when you really look at it from a local government land perspective, is that if you've got kids who play sport, you drive all round the regions and you will compete at different facilities and different sports grounds and some of them are going to be better than others. But one of the things which strikes me is something that we could do quite similar to other States that I've had experience in—when you're faced with the extreme builds and the costs associated, particularly with swimming pools, it actually really helps to think regionally and beyond to your local government boundaries. What would really benefit us is some good regional sport and recreation facilities strategies.

Every community is going to want the Taj Mahal of swimming pools or a really wonderful soccer facility but, at the end of the day, there needs to be a distribution, and an equitable distribution, of access to facilities that can cope with the regional-level play, State-level play and local-level play. That kind of shared decision-making and careful expenditure of ratepayer or taxation money that comes in through grants, I think, would be fantastic for the sector to look more at. As we get into expensive, competitive rebuilds of swimming pools where you might be enabling the next generation of Olympic swimmers or Commonwealth swimmers, you want to make sure that when we apply for Infrastructure Australia funds or scarce Federal and State funds, we're all in agreement about where those facilities should go so that we don't have that experience of moving around anywhere in the State and expecting all of us to have stadium-quality football parks. It's unrealistic in terms of what Australia can afford. I would love to see a little bit more careful collaboration, good planning and regional thinking and funding that actually helped provided for that level of infrastructure.

The Hon. SCOTT FARLOW: Finally from me—and it's specific to the Bega council submission but I'll invite Kiama's perspective on this as well—you invite us to make a recommendation in terms of simplifying the complex planning system and, of course, vent some frustration with the Planning Portal. Firstly, to the easy one, the Planning Portal, are there any improvements that you're currently seeing in terms of the Planning Portal or is it getting more difficult? Also I note that in terms of the AI trial—Bega and Kiama I don't think are on that list of councils that have been successful there—what are your perspectives on that? Then to the large question: What's the silver bullet to simplify the planning system in New South Wales?

ANTHONY McMAHON: I'll start with the Planning Portal bit. In terms of is it getting better—marginally, very slowly. I think it was very well-intentioned and I think the intent is still good but it is causing us a number of challenges locally. We hear of a duplication of work being done and the local community not necessarily understanding how to access it and getting frustrated with customer service experiences they have when they get referred to the portal. They have an issue with the portal, then we've got to try and get the State to fix the portal and that just holds things up as well, so marginal improvement, if any. I think we're too far invested to backtrack out of it. I like the fact that the State has decided to put some emphasis on improving what's there now rather than jumping too far ahead with all of these additional bells and whistles that were talked about for a while.

In terms of AI, I think that in principle it is good. We just need to make sure that we don't run too far down the track with trying to implement it and then realise that it's not delivering the outcomes that we might have originally intended. There's a bit of an overlap there with the complexity of the planning system. It is extremely rare that two developments that come through the door will be exactly the same. There is always something slightly different—even neighbourly impacts can be quite different.

From our perspective, one of the pieces that often gets missed by State Government is a consecutive review of the Environmental Planning and Assessment Act 1979, which has been there a long time. It's not even just that piece of legislation that is the complicating factor in the planning system, it's all the sideways references out to every other State piece of legislation and agency referrals that make things so much more complicated. When we get proponents come to us and say, "Give us some guidance on what you think we're going to need to do with our development," quite often we can't give them that advice until after the fact that it has been referred to five or six or 10 different State agencies that will then come back with their own nuanced feedback. There is no silver bullet. The point is that, if the State is going to look at the planning system, they need to look sideways as well and not just assume they can fix everything through that one piece of legislation.

RUSSELL FITZPATRICK: If I can just add that, from a consumer point of view, it's all the legislation that people are probably unaware of—like your biodiversity legislation, native title legislation and land title claims—when they look at a piece of land or try to build a house. Then you have got your BAL ratings. Those people, even though we've been through a significant bushfire, are totally unaware of BAL ratings and what the rating is on their house and that the cost of development is going to have an impact on the house as they start drawing up plans and so forth. They have no idea about it and then council is held out as being difficult to get on with because of all this legislation when we are just following the rules, but there are just too many rules for all the way through. If we are in an urban area, we shouldn't have a flame zone rating. If we are building in an urban area that we have already designated as being a township, why have we got a flame zone rating? That is a question that I think everyone needs to answer at some time.

The Hon. SCOTT FARLOW: And from Kiama's perspective? Did you want to comment at all?

JANE STROUD: Yes, for sure. You've picked my favourite topic; I'm a town planner. I've spent my life in town planning and, for my sins, have ended up in the world of finances. My comment about the planning portal would be that it's an interesting response. It's a layering of digital technology, which makes an assumption that every local government has the baseline information already digitised. In my circumstance, I actually rent three properties at the moment where we store records. If you come to the front counter and you want to put in a development application on your house—what would seem simple—it may take us six weeks to dig up the documents of the original house plan that are stored offsite somewhere else, often times inappropriately. The interesting component of the planning portal is that it naturally made the assumption that all our records are digitised already, and it wasn't.

When you introduce a customer-facing portal, you need to understand the systems that are in existence at each of the councils. To Anthony's point, good systems, particularly front counter and customer experiences, rely upon consistency and the sameness of the information behind it. The sameness of that information means that, from a statutory perspective, the codes for where to build a house and how close it has to be to the fence or not should and ought to be consistent between every local government, because that would help the customer. When you introduce a portal system over the top of that without understanding that the records might not be sitting there digitised and we might not be able to meet that customer's expectation, that the time frames for different departments are set on different scales, it can take 120 days to get an answer on a heritage item, for example. There are plenty of heritage properties in Kiama, and they are beautiful.

But when you come to front counter and you enter into the planning portal system and you lodge your application, it's not really properly made until it goes through all the different checks and balances, and they vary from State department to State department. If you want a good customer experience out of planning, you need consistency and a highly regulated environment, and that overhaul of the planning system and the planning regulations—because, as Anthony said, it's all of the additional regulations that come out or it's all the notes, the circulars, that will come out and actually change the way an application gets processed.

You need really good consistency, you need really clear codes, and then you need to make sure that the software that you are overlaying actually interacts with the business that's behind it. We are all quite—even though we are in the same line of work, many of us are actually quite different when it comes to your particular LEPs and your LSPs, and how that interacts for the customer at the front desk can drive them completely batty. It's a great system, and it's a really good idea.

In terms of AI and how that integrates with the role of a planner, fundamentally, I would hope that lots of people still stay employed in planning, but the use of AI should really be about getting to the point where you know you've made your properly made application and you're ready to be assessed, quickly, because the better your quality of data, the better the decision you will get out of it. The last point I would make is the time frames need to be consistent, not just for the council but also for the State agencies because we can only be as fast as the referrals that sit behind us.

The CHAIR: I might indulge in the last couple of minutes we've got with a couple of questions for Bega—but, Kiama, please feel free to contribute if there is application here. Bega, in your submission you mention the audit costs for councils and the escalation that you've seen that has occurred there. Are you able to explain this further? Has there been any difference in the services provided? Talk us through a bit more about the delays that you've experienced.

RUSSELL FITZPATRICK: I'll just start from a council's point of view, and then I'll have Anthony talk about the staff point of view. Originally, we were allowed to employ our own auditors, and the costing was around about $70,000 a year. An auditor would come, present to all the councillors, answer any questions from councillors, the whole lot. Councillors were very happy with it. Then going through the Audit Office, audits were often delayed; things were not done in time. Council then has to get an extension of time [inaudible] when all the information has been provided—and Anthony can elaborate on that around staff. The cost then has gone up probably 40 per cent across the board to what we used to pay, going through the Audit Office. We had contracted auditors through the Audit Office, who our staff basically trained, and now we've got a different auditor three years on. But I'll let Anthony elaborate on that.

ANTHONY McMAHON: As the mayor alluded to, I think it was last year we had around a 29 per cent increase in audit costs. Under the legislation now, we don't get a say in who does the audit or how much we pay for it. It's just enshrined in legislation now that we use the Audit Office and we pay what they tell us, despite us objecting and trying to get justification for why their cost has increased so much. The other bit that the mayor has alluded to is we had quite a terrible experience for a few years with the contract auditor that the Audit Office had applied to us. That has since been rectified and we've got a new auditor in, and now our quality of service has improved. Again, whether that continues in the future, we're not sure. We may just be fortunate at the moment that we've got someone experienced working with us rather than having to retrain junior auditors year on year, which is what we did for about two or three years when we shipped it across to the Audit Office. Essentially, we were getting a much lower level of service at a much higher cost with no way whatsoever to recorrect it.

The CHAIR: Are they still using a contract auditor?

ANTHONY McMAHON: In our case, they certainly are. It's a different one to what we previously had, but it is, again, a contract auditor. The way it works is we engage the Audit Office. We then have a contractor assigned to us, and then that auditor works with us, and then it has got to get secondary sign-off by the Audit Office. It's almost like another layer in there without us actually understanding any value for it other than being asked to cover the costs of two entities now instead of one.

The CHAIR: And having delays.

ANTHONY McMAHON: Yes, that's right.

The CHAIR: Has there been any knock-on effect from the delays you've experienced?

ANTHONY McMAHON: In our case, no. We've been fortunate that the OLG have been a little bit accommodating, particularly when we've explained the reasons why, and we've had to submit our audited financial statements late, essentially, because of the auditors. But then the frustrating bit is we then get reported in the public domain as having not met the audited financial statements deadline, and it's actually the Audit Office being the ones that have contributed to us not being able to do that. We have had examples in the past where we thought we'd done everything, then the audit contractor had staff changes, and information our staff had worked on for several months, they were told, was no longer valid and they had to redo it because the new staff didn't agree with the former staff of the same company.

JOE GAUDIOSI: The Kiama experience is similar, but we have been rather special, given our performance improvement audit status and the pressure on financial sustainability that we've endured for the past few years. But I can see here the CEO has noted that pre the financial troubles of Kiama council there was an audit fee of circa $70,000. Our audit fees currently are $300,000 plus. We are told that, because we are on the road to make amends with our books and financial records, we'll be in the $200,000s. That is, apparently, reasonably normal—is what we are told. I guess we'll wait and see. We are with the New South Wales Audit Office. To be fair to the New South Wales Audit Office, given the specialty of Kiama, we have done three sets of financial statements in a 12-month period, so the New South Wales Audit Office removed the contract auditor and worked with us directly. To be fair, again, to the New South Wales Audit Office, we've had continuity of staffing and they're working really closely and collaboratively with us and helping us basically make those amendments necessarily for us. But very expensive, nonetheless.

JANE STROUD: Very expensive but, for the benefit of the public record, we love working with the New South Wales Audit Office, and we're very happy with the service they give us.

The CHAIR: A final question from me: Again, it's related to Bega Valley's submission, but I invite you, particularly with your Queenslander hat on, to make comment. You mentioned the Financial Assistance Grants in your submission with a suggestion that we look at the Queensland methodology and their review. I invite you to make further comments about how theirs differ and what, if anything, we could take from that.

RUSSELL FITZPATRICK: I'll just start with that. We're looking for an inquiry into it—reducing the population factor down from 30 per cent to 10 per cent. Queensland have been through this process and reallocated those. I know there will be winners and losers around this, but in regional New South Wales it will actually give us a lot more allocations towards our roads, which are our major component. From a personal point of view, that's where we are heading. We've asked them to reduce the population factor from 30 per cent down to 10 per cent of the New South Wales grants commission, in line with the Queensland model. Anthony may want to elaborate on it.

ANTHONY McMAHON: Just to add, one of the reasons for that is, from a rural and regional council perspective, population density is often a driver for ability to generate revenue through other sources, whereas rural and regional councils just don't have that density of population relative to the number of assets and number of services that they provide. If you're looking at a way that might more equitably distribute the funding available then, from our perspective, this is a way to do that. The financial assistance grants are set up with this principle of horizontal fiscal equalisation. It doesn't currently do that, though, in our opinion. There is a better way to do it. Queensland has looked at that, and this is our suggestion on how it could be achieved in New South Wales.

JANE STROUD: My own experience of that, having worked in a really large urban population in SEQ and then having moved to a regional council that straddled the New South Wales border at precisely the time we looked at those changes, was about trying to make sure that—as you can imagine, in both Queensland and Western Australia, remote and regional councils can be really small. There are literally 800 people in Quilpie and about 3,600 kilometres of roads. It's sad that I still remember that. But that's a lot. It isn't fair when you're comparing that to an urban population where I had worked that had 360,000 residents. Your available rate base far exceeds anything, in terms of sheer revenue, that those communities can access. It was very, very controversial. It wasn't much loved because it did take out millions from that very large urban council that I was in. It took out about $16 million or $17 million at the time. But in terms of parity and equity across the sector, it is one way of achieving that. I expect the Federal inquiry into local government sustainability will look at this.

The sector, for as long as I can remember it, which is a long time, has been advocating for a full-scale review of the financial assistance grants and subsidies scheme. We have been advocating that through ALGA for as long as I have worked in this industry. It doesn't matter which government is within power. It's a difficult and complex issue to determine what the taxation subsidisation back to the industry needs to be. I look to that Federal inquiry to try to think more globally around whether it is tier structures that might work. Is there regionalisation of services that might enable some of those smaller councils to be more sustainable? Or is it just the reallocation of the population base? That's one answer, and it helped, but it's not the silver bullet for Quilpie, for example. It just assists with their allocation of funds. I think looking more deeply at the structure and system of local government, and its access to taxation and subsidisation, would be slightly more profound. But it's a good model and it did work.

The CHAIR: That's all we have time for in this session. I thank you all for making the time to give evidence to this inquiry. Our Committee secretariat will be in touch with the questions that were taken on notice.

(The witnesses withdrew.)

(Luncheon adjournment)

Ms KATE MONAGHAN, Director, Corporate Services, Queanbeyan-Palerang Regional Council, sworn and examined

The CHAIR: I welcome our next witness. Would you like to make a short opening statement?

KATE MONAGHAN: I'm here to represent the Queanbeyan-Palerang Regional Council ratepayers. Our submission explains the story of our council's financial sustainability journey over the last eight years since we were merged and acknowledges the current special rates variation of 18 per cent per annum for three years that our ratepayers are having to endure. Queanbeyan-Palerang Regional Council is one of 23 councils that have made an operating deficit every year for at least the last five years. Our council is a regional council just outside Canberra. We have 63,000 people, mainly living in our city centre, and we extend 5,300 square kilometres, covering towns and rural areas. We maintain 1,700 kilometres of sealed and unsealed roads, and we manage $2.4 billion worth of infrastructure.

Roads and transport infrastructure are by far the biggest expense that council manages. It works out at around 27 metres of road per ratepayer. We also provide the full range of essential community services that communities enjoy from their councils. We've set out in our submission a diagram that explores the root cause analysis of council's financial sustainability challenges. Some have arisen from government policy changes that happened at the 2016 formation of our council after amalgamation. We're also being challenged by a high pace of development and growth, meaning we increase the public infrastructure we look after much more quickly than our revenue can increase.

Developers hand over around $40 million of new infrastructure to our council over a year to manage. Depending on the type of asset that's handed over to us, we estimate that the cost to ratepayers is around an extra $1 million to $1.5 million every year for each year of new capital infrastructure for the maintenance and depreciation expense of those assets. We also receive capital grants, averaging around $35 million per annum. They are for a combination of asset renewal and new assets. We need our policymakers and grant funding policies to be focused on asset renewal instead of new assets, and we need to get very good at understanding the whole-of-life costs for every decision to build something new.

We think the SRV approach of imposing large and sudden increases on ratepayers is inefficient and unfair, and especially awful during a cost-of-living crisis. The better approach, which our submission sets out, seeks to draw upon the work of the previous inquiries and reports into local government financial sustainability, of which there have been many. I've been in local government for 20 years, so I've only gone back to 2006 to draw out the reports and recommendations that I've found useful. We've listed seven reports in particular in our submission.

The better approach that the combination of the recommendations from those reports outline is grouped into five main areas. Firstly, a new local government revenue framework, with autonomy for councils to work with their local communities to raise the rates revenue required to deliver community services. In order to create that kind of autonomy for local priorities, councils require adequate Federal tax funding to provide an agreed base level of community infrastructure and service. Without financial security, communities can't sustain ongoing rates increases to cover their local priorities. This would require using the structures already in place. Councils already do long-term financial plans and asset management plans, and we have delivery programs and we have community engagement strategies. We should be able to set the rates at the level required by the community that the community's prepared to pay for to support the agreed community priorities.

Two, improved asset management capability, coordinated across all levels of government responsible for funding and managing essential infrastructure so that national, State and local infrastructure funding decisions for council-managed infrastructure are based on strategic asset management plans and asset management capacity continues to improve across Australian local government. Three, cost-shifting from Federal and State governments to be reviewed annually and funded. Four, a review of the financial assistance grants to Australian local government, including to explore options to restore the revenue base to historical levels. Lastly, reduce red tape and improve cooperation between the three levels of government. QPRC is happy to be here, happy to be engaged in this discussion and happy that there's also a Federal Government inquiry at the same time.

Dr AMANDA COHN: My first question is about the impact of the forced amalgamation in 2016. I understand that councils at that time were provided with some temporary financial support to manage the impact of the amalgamation. Was that sufficient? Do you think we need to be looking at or recommending any specific further action for councils that were forcibly amalgamated?

KATE MONAGHAN: For QPRC the funding to support the amalgamation may or may not have been sufficient. It's probably beyond my direct knowledge as I wasn't there at the time of the merger. The bigger policy issues have ongoing impacts on council. At the time of the merger there was a policy around what they referred to as a "rates freeze" which meant that councils—where councils had already been merged because there were two financially unsustainable councils, which was the case for QPRC—were disallowed from being able to increase their revenue through special rates variation for an extended number of years. This then led to an exponential increase to SRV that ultimately was required at the time when it was finally able to be applied for.

The other merger ongoing impacts relate to some provisions in the Act that require councils, including our council, to maintain staff numbers in all of those smaller rural communities. Some good economic reasons behind those—however, it means that councils are unable to rationalise their offices and depots in practice and are unable to benefit from some of the aspects of the merger, efficiency-wise, that they may otherwise have been able to do. Also, there was an infrastructure backlog that was inherited by the council at that time, so some policy decisions around dealing with that.

Dr AMANDA COHN: Just to follow up on that, is the special rate variation of 18 per cent enough to have made up for the rate freeze post amalgamation?

KATE MONAGHAN: We hope so. It was 18 per cent per annum for three years, so it's a cumulative effect of 62.4 per cent on our ratepayers.

Dr AMANDA COHN: I also wanted to ask about something from your written submission. You recommended better targeted eligibility criteria for rates exemptions. Could you provide a bit more detail?

KATE MONAGHAN: I've drawn from the IPART inquiry into the rates methodology, which talked about exemptions from rates for a whole range of government and charitable organisations that lots of councils experience or all councils experience. They are historical and are built into the Act where there are exemptions in our area in things like State forests and things like churches and businesses that religious organisations run that don't pay rates. There's a huge amount of work and research being written about that, most recently in that IPART inquiry.

Dr AMANDA COHN: My last question before I hand back was just about the process of undergoing a special rate variation. We've heard broad feedback at a statewide level that it's unnecessarily resource intensive for councils who need to go through it and it's often politicised. I was hoping you could speak to the experience of the special rate variation and I suppose any recommendations we can make around that.

KATE MONAGHAN: The special rate variation process itself requires a lot of work, as it should, to be able to increase your rates by a substantial amount for the community. Of course it's political. Any time councils make any decision around revenue that affects their local communities, that's a political discussion that the community cares deeply about and gets involved with. The problem with the SRV that I alluded to is you can't as a council apply for a special rate variation until you are already in financial trouble. One of the criterion that you need to be able to demonstrate is that you have a current need for additional revenue, and this means that you need to be able to let the problem get worse before you can plan to collect the right amount of revenue that you need for the growth of your community. It prevents councils from being able to rely on things like their long-term financial plans and their asset management plans and more evidenced-based reasons for planning well ahead so that one group of ratepayers are not suddenly impacted by a change, which is where the SRV approach sits.

The CHAIR: In the absence of being able to see anyone else online, in terms of questions that I might have for you, you mentioned in your opening statement a new local government revenue framework. We have heard a little about the impacts of grants decisions but also the auditing framework that is currently being used for councils. I'd just invite you to talk a little bit more about what Queanbeyan-Palerang would like any such framework to include or consider.

KATE MONAGHAN: Local government in New South Wales has strong mechanisms through the Integrated Planning and Reporting—again another framework—which doesn't allow for councils to be able to make long-term, evidence-based decisions without planning for the future of their infrastructure and also be able to communicate with their communities around community priorities and the sorts of levels of services that communities would like to, and are willing to, pay for. Those mechanisms would be a much more productive use of council and community time to be able to continue to improve and develop to work out long-term revenue strategies for council instead of having to use the rate peg to work out revenue and then spend time being able to justify a special rate variation every five to six to seven years that most councils do need to do. It would be better to continue to work through all of our Integrated Planning and Reporting processes that we have and be able to report on those and set our rates fairly for the long term rather than to be pegged and wait and go through an SRV process.

The CHAIR: If we're using that IP&R framework—and we've heard throughout the inquiry about councils' views around the IP&R framework and the robustness of that framework—how can we be sure that councils, if they can use the pot of funds in any way they want as long as it sort of falls within that IP&R framework, are going to put it in the right place or get the best bang for their buck for communities?

KATE MONAGHAN: I think there's an opportunity to be able to allow councils to prove that they have met the measures that could be put in place, that they have gone through the procedures, that they have communicated with their communities. Councils already do a massive amount of reporting to the State Government. There is no reason that councils couldn't continue to report on whether they're meeting benchmarks or requirements or complying with those types of things. One of the reports that we've referred to in our submission goes back to 2013 and it was the *Local Government Infrastructure Audit*. It was an audit that looked at all New South Wales councils' asset management plans and set out a number of recommendations about ongoing asset management capacity, building programs with State and local government together. Audits like that were able to, and are able to, set out which councils have strong, or otherwise, asset management policies. There are lots of ways to measure how councils are applying the Integrated Planning and Reporting framework guidelines.

The CHAIR: In your submission you talk about the fact that the New South Wales Audit Office doesn't report on the sector's financial results that other State audit offices do. Is that something that you think would be helpful or something the Audit Office should do? What would that achieve?

KATE MONAGHAN: Yes, the Audit Office has been required to audit New South Wales local government for a number of years now. I have provided some stats in my submission about how councils are going financially. I think where we do have one auditor for all councils in New South Wales, it would be helpful if we had some standardised metrics that were reported on annually for our sector to understand how we were performing and whether there were any concerning financial sustainability issues coming up, but I've had to go to one of our local government software providers to be able to get the information that I've used in my report.

The CHAIR: In terms of the standardised metrics—or whatever you want to call them—for local government, what would those be? Would there be a need for differences across the board when looking at metro and regional and other things?

KATE MONAGHAN: I think the important things in regards to asset management, which is one area that we have poor standardised reporting—I think that there needs to be standardised reporting on how evidence based councils' decisions are when they're making asset investment decisions. I think the methodology and the level of evidence that councils use when they make investment decisions on behalf of their community doesn't need to be different between metro and regional councils. I think all councils should have strong asset management approaches.

The CHAIR: In terms of that asset management plan, we have heard a bit in this inquiry about some of the variances that exist between a council that might depreciate an asset over 10 years versus a council that might depreciate it over 30 years, even if it's the same asset. How do you think that set of metrics or things could be arrived at? How would that help councils? Is that something for the State Government to develop guidelines about or is that something that, in a best-practice sense, local government should?

KATE MONAGHAN: To the first part of your question, there should be standardised rules for being able to provide sufficient evidence in all of our financial statements. We have an unaudited note at the back of our financial statements, which is our infrastructure note. I agree with the implication of your question that there are different rules in different local government areas about how the information in that report is put together. It would not be hard technically to create some standards that were auditable and to begin doing that, but I'm not suggesting that every local government area would have the exact same useful life for every asset.

I think what every local government area would have is an ability to demonstrate how long a road in their local government area or how long a building in their local government area would last from a technical perspective, as well as a community perspective in regards to the level of service that's required or in regards to how long that community might need that asset for. That level of evidence is what should be audited, not having the same useful life across New South Wales because that wouldn't be useful. In regards to the second part of your question, a few of the recommendations from the *Local Government Infrastructure Audit* from 2013 were:

1. Ongoing asset management capacity building programs be developed that assist councils in meeting asset management requirements
2. Awareness of the importance of sustainable asset management be raised amongst Elected Representatives and Senior Management …
3. Collaboration within the sector continues to develop specialised infrastructure management training programs for Local Government Practitioners

I think that there would need to be some leadership in the sector that would create some compliance standards rather than waiting for all of the stakeholders to agree on a set of principles. I think that it would be a good investment of industry time and expertise to jointly build asset management capability across New South Wales.

The CHAIR: Would you say, as it currently stands, that that recommendation that has been so expertly crafted in 2013, in practice, has yet to be applied but there is still merit in that recommendation and its need for application?

KATE MONAGHAN: Absolutely. Local government is all about managing public community infrastructure. It's really important that we work together to make sure that we are doing a good job across New South Wales.

The CHAIR: We heard earlier evidence from councils about how frequently they are having to revalue their assets and the frequency with which that is occurring sometimes not being appropriate. Do you have a view around that method and whether that should be either increased or otherwise?

KATE MONAGHAN: Yes. I believe that people may have been making comment about New South Wales Audit Office requirements and whether or not they are useful from an asset management perspective. We spend a lot of time making sure that our financial statements meet certain requirements, but that doesn't always mean that they are helpful from an asset management point of view. What we really need to do is understand our assets. Understanding how much they are worth maybe isn't as important as understanding the condition they are in and what the next road, intervention or activity should be to be able to optimise our asset spend.

The CHAIR: That's a very interesting and useful answer.

The Hon. SCOTT FARLOW: Thank you for joining us today. I am interested in cross-border issues. We have heard from councils in the Tweed and in Albury last week about some of the challenges they have with cross-border issues. I'm interested in how that works for Queanbeyan-Palerang and also, with respect to those issues, how that is assessed in terms of some of your funding arrangements when exclusion of consideration is made when it comes to the use by Canberrans.

KATE MONAGHAN: Good question. Yes, we certainly do have issues where we need to meet two different sets of legislative compliance standards. There are lots of examples of that in different projects that we are involved with. Also, because Queanbeyan city sits right on the border of Canberra, we have a large population flow of Canberrans living in our local government area and working in Canberra. Our development and growth is affected by having Canberra on our doorstep. We don't have any issue with Canberrans using our services and visiting our towns; that's okay. Probably the most obvious specific example that would answer your question is that our Queanbeyan Sewage Treatment Plant is actually on the other side of the border in the ACT, so we need to meet environmental guidelines in the ACT as well as New South Wales. I could give a number of examples, but I would have to take on notice the additional costs that QPRC might bear as a result of having to meet ACT as well as New South Wales requirements. That also could reference water issues because our water is purchased from Icon Water, which comes out of the Googong Dam, which we purchase from Canberra as well. So, yes, there are a number of cross-border issues where we negotiate with the ACT.

The Hon. SCOTT FARLOW: You note in your submission as well about being, effectively, a growth council in many ways. I think that is fed in by being effectively what people are viewing partly as a commuter [inaudible] from Canberra as well. I've got to say I've got family who work in Canberra and have lived in your municipality in the past as well. On that basis, considering that when the State Government has its consideration of the growth centres, it's very much a Newcastle-Sydney-Wollongong-Central Coast perspective. How does that impact Queanbeyan-Palerang where you're experiencing significant levels of growth, largely by being on the doorstep of the country's capital city and a major city? How are you going in terms of being able to secure funding grants and the like which may be more akin to metropolitan councils than regional councils?

KATE MONAGHAN: QPRC has been very successful in securing capital grant funding over a long period of time. We do receive, as I mentioned, approximately $40 million worth of capital grant funding for various things every year in the last several years. I guess that's mostly—a large portion of that would be for our natural disaster repair work that has been ongoing. However, we have been successful with grant funding. We do have assistance from New South Wales and Federal to build some of our—to provide supporting infrastructure to support developers in our region building new suburbs. The major challenge for council is accepting all of the new infrastructure that comes with those new suburbs that are coming online.

The CHAIR: Just to continue on that issue of being a growth council with the volume of development applications and the like, we've heard from other councils about the discrepancy between the cost that you're able to recoup from each DA and what that difference is in terms of actual terms, how much it's costing you as a council. Has Queanbeyan-Palerang done any work to understand what that gap is and if there is a gap for you as well?

KATE MONAGHAN: I would have to take that question on notice, Chair. I haven't got any analysis about the difference in the cost of assessing a DA and the money that we can recoup except for anecdotally that it certainly isn't something that we're getting all of our money back for that area.

The CHAIR: In terms of the developer contributions framework, if you like, we have heard also about potential issues or concerns that some councils may have with that. Are there dead funds, if you like, or developer contribution funds that you haven't been able to use that are either in older or inaccessible accounts?

KATE MONAGHAN: Certainly QPRC is holding close to $200 million of developer contributions. However, we have been able to pool a lot of the developer contributions that we have. Previously, before we amalgamated into QPRC, the rural councils also had had previous amalgamations, which has resulted in our council having somewhere over 20 different developer contributions, plans from multiple historic councils that have been built up. So we do have lots and lots of different pockets of money. We've been going through a process of pooling all of our developer contributions through some legislative amendments that have allowed us to do that, which means that we are able to go through and spend those amounts on capital works. We're also a larger council, so we do have a lot of project work that we do, being a regional council, than some of the smaller rural councils that you may have heard from, which means that council can put in its own funds or funds can be used for projects that are already being funded in council's long-term financial plan if they're being collected for a similar reason.

The CHAIR: What is the length of the lag in the worst-case scenario in terms of when these developer contributions were made and when you're looking at it now, given all of the increases we have seen over time and some of the issues that have come to the surface as a result of this?

KATE MONAGHAN: That's a good question. I would have to take that on notice.

The CHAIR: In terms of the list of works that are currently under the essential works list as well, is it your view that they are adequate or is there a need to prescribe a broader list using some other mechanism, whether it is value capture or otherwise?

KATE MONAGHAN: Sorry, I don't think that's my area of expertise.

The CHAIR: That is absolutely fine. Noting some of the nuances that you are facing as a border council, in terms of the statutory fees and charges that council collects, is it the case that council itemises and identifies those as a separate line item in reports?

KATE MONAGHAN: I'm sorry, can you please clarify the question? Do you mean in regards to developer contributions still?

The CHAIR: All statutory fees and charges—water, sewer fees, stormwater and all of that sort of stuff. Do you identify them separately in your reporting?

KATE MONAGHAN: Yes, we have a fees and charges document that sets out every fee that the council has.

The CHAIR: Wonderful. We have heard from other councils about the challenges with some of those statutory fees and charges not being indexed. Is that an issue that Queanbeyan has also faced, and are you able to give us any examples of that?

KATE MONAGHAN: Yes, it's definitely an issue. I haven't done any analysis on exactly the shortfalls that council has, but you're right to talk about developer contributions being an obvious example where the cost of processing development applications exceeds the level of fees that we collect. I haven't done any analysis on all of the other areas of statutory fees very recently, but I could take the question on notice or refer the inquiry to the cost-shifting report or the IPART review of compliance burdens on local government.

The CHAIR: As a border council, are you aware of any discrepancies between the rates and fees that you charge and the rates and fees across the border?

KATE MONAGHAN: For QPRC's water, yes. In the ACT, water fees and charges are different to what QPRC charges. We also have differences within our council because we maintain different water and sewer infrastructure for our towns and villages and for our city ratepayers. We still have two different business structures for our rural ratepayers' water and sewer infrastructure and our city water and sewer infrastructure. So we collect the level of fees and charges for both water and sewer to be able to meet the long-term requirements of maintaining that infrastructure.

Dr AMANDA COHN: I wanted to ask another question arising from the written submission, which was considering the climate change impact on local government financial sustainability. There was a comment about not having enough funding to both respond to extreme weather events and invest in lowering greenhouse gas emissions and then requesting core funding for this work. Could you speak to that recommendation and about how you could see us implementing that?

KATE MONAGHAN: Thank you for the question. I don't know if I have the answers of how we should be implementing sufficient revenue for local government to be able to deal with climate change. However, we're certainly experiencing a new appetite and policy decisions around local funding for improvements in our assets to do with the build back better approach. We are one of the councils that has been heavily affected by natural disasters over the past five years, and we're wanting to be able to build infrastructure that's going to be resilient and that doesn't get knocked down the next time there are severe weather events, which we expect will be more frequent in the future. We also want to be able to, when we do build new community assets, make sure that they have any energy-efficient measures. We would like, if there are decisions around funding new community infrastructure, that they have sustainability issues considered as part of how much funding is available for being able to build new buildings and infrastructure. That should be part of the costs that are being considered when funding decisions are made.

The CHAIR: In terms of the community infrastructure and the need to demonstrate the ongoing cost of that, is it the case that Queanbeyan-Palerang at the moment looks at that in terms of the accepting of a grant? Or is that not something that you are currently looking at when you're taking grant funding—that ongoing operational maintenance and, indeed, the cost of executing the grant?

KATE MONAGHAN: When we prepare reports for our council to consider accepting new grant funding, we report on the whole-of-life costs of the asset. We consider the ongoing maintenance costs and depreciation costs for accepting any grant. Certainly, we could get better at making sure that that reporting is consistent and always in place, but that's our approach at the moment. We agree with some of the previous evidence that you've heard today around making sure that grant funding bodies, as well as our local policymakers, are considering whole-of-life costs when anything new is constructed.

The CHAIR: In your list of recommendations, it also has a point about councils being able to choose between a capital improved value and unimproved value methods. Is there a preference for QPRC?

KATE MONAGHAN: Our council has previously advocated, in previous submissions that it has made to the IPART rates methodology review, for the capital improved method. However, we note in our submission that there's an impact on ratepayers that needs to be considered and worked through before any changes are made.

The CHAIR: In terms of the natural disaster impact that you spoke of and the specific impacts that has had on Queanbeyan-Palerang, there has been a fairly consistent theme with the councils, unsurprisingly, given where we're located today for the hearing. Have you any feedback around the disaster recovery officers? Is there someone in your council who has been designated with that role as the recovery officer? Has it been tacked onto a role, and is there feedback that you'd give the Government around how that could be better utilised?

KATE MONAGHAN: I think I'd like to take that question on notice to give a more full answer, since it's outside my area of management, Chair.

The CHAIR: That's absolutely fine, and thank you. Apologies, I throw out the questions and if you can answer them, that's great. Was there anything further that you wanted to add or clarify, Ms Monaghan?

KATE MONAGHAN: No. Thank you very much for the hearing.

The CHAIR: Thank you. I note we are ending a bit short on time, but we did originally have another council that was supposed to appear on the panel session. But thank you very much for making the time to appear in person at the inquiry today. We really appreciate the time you've taken to give evidence and also in compiling your submission. Our Committee secretariat will be in touch with you in regard to questions that are taken on notice. That concludes the hearing for today.

(The witness withdrew.)

The Committee adjourned at 14:55.