Statement to General Purpose Standing Committee No 6
Inquiry into Local Government in NSW - Public Hearing - 10 August 2015

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John Wells, Deputy Mayor, Shoalhaven City Council

Context: As a result of the Local Government Independent Review Panel's assessments, SCC:

- Is NOT identified for Merger
- Is part of the Illawarra Pilot Joint Organisation
- Has sufficient scale and capacity in a regional context to stand alone
- Operates one of the largest local Government water authorities in the State which enhances our scale, capacity & financial sustainability. Interestingly, the provision of water and sewer infrastructure and services has not been the subject of rate pegging, so much of the debate, and the FFF Agenda, has been focussed on Council's General Fund operations.

ISSUES: The theory of been financially fit to properly maintain all Council assets, provide the services and facilities the community want and provide new assets and facilities as areas grow is very commendable. However the process to meet the Government timetable:

- Has been on tight time frames
- We haven't had time for extensive or comprehensive community engagement on our final FFF application
- The 7 criteria are essentially financially based which is only one aspect of local government
- Some of the benchmarks & pass/fail measurements are based on unaudited financial data and there is likely to be variations between councils on depreciation rates, asset valuation methodology and what constitutes acceptable levels of service and asset condition.
- FFF applications have been called and prepared before other reform initiatives have progressed such as the Rating Review; the lower interest borrowing option; Review of FAG distribution – all of which could help Council's financial performance.

And whichever way you look at it, there will be an inevitable significant cost impact on ratepayers through Special Rate Variations (SRV) to meet the criteria.

Mr Pigg and I can elaborate on:

- The impact on rating
- Cost shifting
- FAGs freezing
- Joint Organisations, and the
- Efficiency options we are driving,

during the course of the hearing.

Our submission (& I will table a further document) provides evidence that quite large councils (Group 5 councils) have either just applied an approved SRV or plan to in coming years. No wonder with the rate pegging constraints LG has suffered for 30 years and now rises are driven by criteria set by government. The parlous position of some councils general fund operations were therefore somewhat predictable and a succession of State (and to some extent) Federal Governments own making.

Thou must meet the OPR.

Impact on Rates

In 2013/14 Shoalhaven had a General Fund operating deficit of $12.95 Million or -8.93%. Our Action Plan, including a SRV over 2 years in 2017/18 & 2018/19 will achieve a 0% ratio.

Our Infrastructure Backlog Ratio was 3.64% so additional spend of $20 Million required to meet the < 2% criteria on infrastructure valued at $1.232 Billion OR as we have done we have reviewed and justified a reduced community acceptable level of Condition 3 except roads that remain at Condition 2. This action brings the IBR to 0.9%.

An Asset Maintenance Ratio of 75.5% i.e. needing a further $4.3 Million spend. Increasing expenditure is built into our Action Plan.

The Building & Infrastructure Asset Renewal (69.2%) required a further $8.4 Million spend. Increasing expenditure is built into our Action Plan.

These are the challenges of Shoalhaven, and I respectfully suggest most other regional and rural Council's, if the graph and information I have tabled is indicative.

So we have the evidence of why rate increases are needed, evidence that most Group 5 councils have reverted to SRVs and evidence in our submission to this enquiry that the final report of the ILGR Panel 'telegraphed' to councils, communities and the Government that the reform agenda will impact and put upward pressure on rates.

One wonders why the Minister tells the broader community (Media Release 19.5.15) that the reform agenda will put downward pressure on rates? It will in the sense that all councils need to continually improve efficiencies but to reach the heady heights of the FFF benchmarks rate increases will be the norm.

The subject of rate increases however is highly politically and emotionally charged. The final report of the ILGR Panel captured those sentiments too. I believe this is because local government is *"closest to the people"*. Ratepayers know the decision makers in person, they can contact them direct. Councillors can play games in the media too to pressure for lower rates. YES this can be popular but in the long term not in the best interests of council or the broader community.

This is vastly different to the current media speculation that Energy providers wish to increase your power bills by over $500 p.a. - who knows the Board members or CEO of their energy provider? If it was Council proposing a $500 rate increase we would have a picket line and banners on our doorstop.

In our submission to this inquiry we have suggested that levels of rating and proposed increases should undergo an independent assessment to judge reasonableness, affordability and justification.

What are some of the other pressures on LG?

Cost Shifting

Our most recent input into the LGNSW Cost Shifting Survey for the 2013/14 year quantifies cost shifting on Shoalhaven as $14.4 M.

Now that includes our payments to the various Emergency Services, subsidy for Pensioner rate rebates, library operations that have suffered continuously with declining State support, shortfall in cost recovery for State regulation driven functions of on-site sewerage controls, administering Companion Animals legislation, the POEO Act, Noxious Weeds & Food Safety regulations. AND the Waste Levy sting of $7.7 Million that comes out of our ratepayers pockets.

FAGs Freezing for 3 years

By Year 3 (2016/17) Shoalhaven will be about $1.1 Million 'down' - equivalent to over 2% rate increase to 'catch up'. Your Committee has already received evidence how the proportion of taxation revenue distributed to local government is continuously decreasing.

So what can councils do to help themselves?

Joint Organisations: are fully supported and we have been involved in joint initiatives with other Illawarra and South Coast councils for decades. The new JO format is different, gives greater focus on Regional Planning & Coordination and requires far more genuine engagement with & between councils and key government agencies with Premiers & Cabinet taking the lead. I see some positive outcomes for our region will be achievable under the new model.

However one disappointment is the OLG downplaying the opportunities to be gained from exploring & implementing a far boarder range of Shared Services. This is seen of 'secondary' importance and in fact none of the $300,000 that has been provided to the Pilot JO by State Government is allowed to be spent to advance Shared Services. This seems ironic given it is in this operational area that member councils may be able to make tangible financial savings to contribute to their Fit for the Future position.

The Primary purpose of the JO at the moment is Regional Planning & Regional Strategic Capacity together with better alignment with State & Regional priorities.

However as the JO matures I see opportunities that will be advanced to provide financial benefits back to member councils.

Council's "Working Smarter"

"Working Smarter" inevitably leads to productivity improvements & cost savings (achieving more with the same or less resources).

In our current term of Council since late 2012 we have implemented a comprehensive Transformation Program - restructure & staff downsizing - service reviews - smarter procurement - new technology & work practices - budget containment. Since 2013 to the current financial year we have improved our Operating result by $6 million mainly through cost savings and reductions. This is an ongoing initiative. In doing so we have already cut our expenditure per capita so to meet the IPART 'Efficiency' KPI we find that more difficult without actually cutting services or service levels. Our submission to this Inquiry suggest that the efficiency measure is unreliable. There are many other variables that need to be looked at.