

## **INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES**

**Organisation:** Tweed Shire Council

**Name:** Mr Troy Green

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Council Reference: State/Federal Government - General  
(ECM 3694491)  
Your Reference:



23 June 2015

The Director  
General Purpose Standing Committee No. 6  
Parliament House  
Macquarie Street  
SYDNEY NSW 2484

Dear Sir

**Submission - Inquiry into Local Government in New South Wales**

Tweed Shire Council (Council) welcomes the opportunity to make a submission to the General Purpose Standing Committee No. 6 (Committee) on the Inquiry into Local Government in New South Wales.

Council would like to make the following comments in relation to the Committee's terms of reference:

**1. That General Purpose Standing Committee No. 6 inquire into and report on local government in New South Wales and in particular:**

**(a) the New South Wales Government's 'Fit for the Future' reform agenda,**

Tweed Shire Council has welcomed the NSW Government's "Fit for the Future" reform process, as an opportunity to review and assess our existing position as a strong and progressive growth Council.

The reform process offers a great opportunity to look at the services we provide, how and when and to whom we provide them and explore ways we can enhance the ways we work from a "whole of council" perspective.

As a result, Tweed has embarked upon one of the most important future planning projects it has ever undertaken.

This body of work as an extension of the Fit for the Future process is titled: "Tweed the Future is Ours". Estimated to take up to two years, we will review the information on our built and social assets look at the service levels we provide and connect with our communities so they can actively offer feedback on their expectations and aspirations for Council and its services.

- b) the financial sustainability of the local government sector in New South Wales, including the measures used to benchmark local government as against the measures used to benchmark State and Federal Government in Australia,**

*Fit for the Future Benchmarks*

Council supports the use of objective, measurable and verifiable data to make assessments on the multiple measures for the criteria proposed. The objective and composition of ratios are also well intended, however a number of issues are worthy of note:

*Operating Performance Ratio*

- a. Councils are required to meet the 'greater or equal to break-even' benchmark over a 3 year average by 2019-20. This effectively means that surplus operating results need to be implemented by 2017-18 or that the later surplus results (eg. 2018-19 and 2019-20) need to be large enough to compensate for any prior period deficit/s.

The operating deficit result has been entrenched in local government for some time with the only solutions available to meet the required benchmark being an increase in taxation on the community or a reduction in service levels.

Depending on the degree of the deficit results faced by individual Councils and the resultant changes required, the community may benefit from a more staged implementation of any solution with the first year of the surplus being in 2019-20 and applying the 3 year average beginning 2021-22.

- b. The mismatching of grant income to grant expenditure can have a large impact on the operating result for the year. The recent advanced payments of the Financial Assistance Grants (FAGs) and the subsequent withdrawal of the advanced payment contributed to better than normal results in 2011-12 and worse than normal results in 2013-14.

Other mismatched funding can also appear in other programs. Tweed Shire Council received \$8m in funding (operating grant) from the Federal Government for the Building Better Regional Cities program (BBRC). These funds were to be used to create affordable housing opportunities with Council acting in an oversight role to the developer. The \$8m was received in prior years to the funds being transferred to the developer.

Again, Tweed Shire Council recently constructed a \$17m off-ramp to the Pacific Highway at Tweed Heads. At the conclusion of the project \$7m had to be expensed on the Income Statement as certain elements of the off-ramp are under the control of the RMS.

Council is not advocating for a change in the framework for the Financial Statements and also acknowledges that a 3 year average may assist in flattening the effect of these mismatched funding, however further consideration/elimination of entries could be given to help in 'normalising' the operating result for the purposes of the Fit For The Future reporting, perhaps with Auditor approval.

*Building and Asset Renewal Ratio, Infrastructure Backlog Ratio and Asset Maintenance Ratio*

All three of these ratios have a degree of subjectivity (and/or the potential to be manipulated) that requires standardisation over time.

The Building and Asset Renewal ratio will be dependent upon asset capitalisation thresholds, assumptions on what costs can be classified as renewals and the estimated useful lives of assets, which will vary from council to council.

The Infrastructure Backlog Ratio has no established calculation to determine the amount, does not factor in those assets that have been determined to be maintained at a lower standard (when using the Office of Local Government default condition of "good") and the use of the written down value as the denominator overstates the extent of the backlog ratio.

Again, the Asset Maintenance Ratio is based on the subjective view of what is the required maintenance.

Although the above ratios are considered relevant to the assessment process, more objective and defined measures are needed. This may eventuate as the industry's asset management knowledge and practices mature.

*Real Operating Expenditure*

Council acknowledges that the measurement of efficiency is useful but also problematic.

Several factors can influence this result including:

The numerator in this calculation is inclusive of depreciation expense which may range from 20% to 30% of the total operating expense. Increased efficiency of this notional amount, if correct, is not possible.

Indexation of infrastructure values and the subsequent depreciation expense onto the income statement will result in efficiencies having to be greater than the index just to maintain the operating result, if the population remains static.

Council policies on population density (height level restrictions on development) will also increase the cost and maintenance of infrastructure per capita over time.

### State Government Benchmarks

If the Fit for the Future benchmarks were applied to the NSW Government Budget Paper 2 - 2014/15 Budget Statement (Appendix 1) interesting results appear.

- The actual 2012/13 result and the original budgets for 2013/14 and 2014/15 present deficit positions which would fail the operating performance ratio benchmark.
- Over 40% of state revenue, for the years mentioned above, come from Federal Government grants and subsidies resulting in the State Government failing the Own Source Revenue ratio benchmark. If profit on sale of assets were excluded from the own source revenue, as they are for Fit for the Future criteria, the results decrease further.
- The State Government measure their net debt against the Gross State Product rather than operating revenue as required by Local Government.

**(c) the performance criteria and associated benchmark values used to assess local authorities in New South Wales,**

Council believes the assessment of strategic capacity will prove to be the most problematic and hotly debated within the proposed reforms. Unlike the objective, measurable and verifiable components of some of the other criteria, the assessment of strategic capacity is largely subjective.

Without specific threshold measures the State Government could run the risk of being accused of manipulating this criterion to achieve a predetermined outcome. Indeed, some of the elements involved are considered challenging;

- More robust revenue base is hampered by the combination of both rate pegging and regulated fee setting by the State Government.
- Ability to employ wider range of skilled staff is constrained by salary structures and state awards that negate the ability to compete for higher skilled employees from the employment market.
- Knowledge, creativity and innovation can be limited by the requirement and governance structure defined within the existing Local Government Act.

Whilst Tweed Shire Council has been identified as having a low merger potential this criteria would benefit from more objectivity for those Councils proposed to be affected by potential amalgamations.

**(d) the scale of local councils in New South Wales,**

The adequacy of scale is dependent on the criteria used. Whilst Fit for the Future focuses on financial sustainability, it does not seek performance assessments on social, environmental, cultural or local economic indicators that are important factors when measuring community wellbeing.

**(e) the role of the Independent Pricing and Regulatory Tribunal (IPART) in reviewing the future of local government in New South Wales, assisted by a South Australian commercial consultant,**

Council supports the use of an independent authority to assess the submissions made by Councils. It is unfortunate that IPART were not given the opportunity, in the recent Fit for the Future assessment methodology consultation paper, to amend the criteria benchmarks due to their terms of reference. This process is not consistent with the stringent consultation principles that the State Government applies to Local Councils.

**(f) the appropriateness of the deadline for 'Fit for the Future' proposals,**

Although Council will comply to the submission deadline, meaningful changes in the financial outlook of Councils will take time.

The Tweed Shire Council submission outlines a roadmap to progress these reforms:

**Step 1**

*Validating and documenting the current state of play for:-*

**Asset Management**

*What assets do we currently control?*

*What condition are they in?*

*What level of service do they provide?*

*What is the cost of the current service level operations/maintenance/renewal /upgrade?*

**Services**

*What services does Council currently provide?*

*What are the levels (outputs/outcomes) of these services?*

*What is the cost of the current service level?*

*What performance indicators are used to measure the service?*

**Step 2**

*Talking with our communities*

Commencing July 2015 Council will commence a program of informing and educating the community focusing on presenting a clear, simple and

understandable picture of the current state of infrastructure, services and financial position/ratios.

After the informing phase, Council will then commence community engagement on community priorities, consequent costs and financial outcomes to more closely align with the Fit for the Future benchmarks.

### Step 3

#### Integrating the results

Step 2 will conclude around December 2016 shortly after the scheduled 2016 Local Government elections. This will provide the new Council with the community's priorities, services level/ asset condition expectations and the price willing to be paid ready for the mandatory review of Community Strategic Plan and associated Integrated Planning and Reporting documents.

The new Council will then have the opportunity to set the direction for the ensuing years.

- (l) **the role of co-operative models for local government including the 'Fit for the Futures' own Joint Organisations, Strategic Alliances, Regional Organisations of Councils, and other shared service models, such as the Common Service Model,**

Council supports more collaboration between councils within its regions, however Joint Organisations that do not contain as part of their governance framework, equity in representation and voting rights may not meet with the desired success.

Inequitable frameworks that provide a 1 vote for each member council regardless of their constituent size is not supported. Tweed Council sees merit in a model of voting that would work much the same way that the NSW State and Federal Parliaments work, whereby there is a two phase process for approval. This could be achieved by needing both a majority vote of member councils and a majority population vote for a decision to be carried (or the population vote being weighted or to exceed a minimum percentage to be carried).

- (o) **the impact of the 'Fit for the Future' benchmarks and the subsequent IPART performance criteria on councils' current and future rate increases or levels, and**

The Fit for the Future benchmarks will provide, along with community acceptance, significant evidence to support special rate variations. If the goal of the reform proposals is for councils to ensure ongoing financially sustainable services to the community, then IPART should acknowledge the rigour of the process and approve rate variations.

**(p) any other related matter.**

Local Government Cost Index (LGCI):

Whilst councils are expected to reach an operating surplus over time, the impact of asset indexation should be included within the LGCI.

Assume a Council has a current break even operating result and the LGCI for the year is 3% generating additional rate revenue of \$1,500,000.

AASB116 - Code of Accounting Practice and Financial Reporting:

- i. Councils need to assess at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the council determines the asset's fair value and revalues the asset to that amount. It is recommended that full revaluations occur at least every five years, so councils should develop a plan for assessing the need for any revaluations, allowing sufficient time to undertake the revaluation process and meet reporting requirements.*

The Council indexes Transport and Drainage assets in line with the Institute of Public Works Engineering Australasia (IPWEA) Road and Bridge Construction Costs Index with the following results:-

Current fair value Transport & Drainage	\$961,713,000
IPWEA Index	4.5%
Increase in asset values	\$43,277,085
Average network depreciation	1.82%
Increase in depreciation expense	\$787,643

For Council to maintain a break even operating result, and assuming the \$1,500,000 rate increase is used to match increased expenditure (which is the intent of the LGCI), Council will need to generate additional revenue, or a corresponding savings by reduction in service levels, of approximately \$787,643 every year to maintain the break even operating result.

Given that depreciation expense is typically 20% to 30% of the total expenses on the income statement, coupled with the requirement to index/revalue infrastructure at periodic intervals, the indexing of infrastructure resulting in increased depreciation expense, should be a component of the LGCI.

Council has no basis to make comment on the following items:

- (g) costs and benefits of amalgamations for local residents and businesses,**
- (h) evidence of the impact of forced mergers on council rates drawing from the recent Queensland experience and other forced amalgamation episodes,**
- (i) evidence of the impact of forced mergers on local infrastructure investment and maintenance,**



- (j) **evidence of the impact of forced mergers on municipal employment, including aggregate redundancy costs,**
- (k) **the known and or likely costs and benefits of amalgamations for local communities,**
- (m) **how forced amalgamation will affect the specific needs of regional and rural councils and communities, especially in terms of its impact on local economies,**
- (n) **protecting and delivering democratic structures for local government that ensure it remains close to the people it serves,**

Council appreciates the opportunity provided by the NSW Legislative Council to make a submission on the Fit for the Future Proposals and is confident that the issues raised by the industry through the submission process will be given appropriate consideration.

Yours faithfully

Troy Green  
**GENERAL MANAGER**

## Appendix 1 - NSW Government

### Budget Paper 2 - 2014-15 Budget Statement

#### 4.4 Budget and Forward Estimates Projections

Table 4.3: General Government Sector Operating Statement

	2012-13	2013-14		2014-15	2015-16	2016-17	2017-18
	Actual <sup>16</sup>	Budget	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue from Transactions</b>							
Taxation	21,980	23,455	24,129	25,489	26,904	28,078	29,664
Grants and Subsidies							
- Commonwealth General Purpose	14,777	15,588	15,895	16,810	17,624	18,330	18,975
- Commonwealth Specific Purpose Payments	7,153	7,339	7,401	7,829	8,486	9,269	9,760
- Commonwealth National Partnership Payments	2,536	2,903	3,986	2,532	2,673	3,447	2,281
- Other Grants and Subsidies	941	949	975	1,029	1,023	975	724
Sale of Goods and Services	5,434	5,460	5,605	6,094	6,483	6,769	6,862
Interest	406	483	593	543	463	443	469
Dividend and Income Tax Equivalents from Other Sectors	2,648	2,155	2,110	2,336	1,683	1,628	1,571
Other Dividends and Distributions	595	467	690	370	408	440	466
Fines, Regulatory Fees and Other	3,662	3,774	4,054	3,981	4,179	4,352	4,537
<b>Total Revenue from Transactions</b>	<b>60,131</b>	<b>62,573</b>	<b>65,437</b>	<b>67,113</b>	<b>69,925</b>	<b>73,730</b>	<b>75,310</b>
<b>Expenses from Transactions</b>							
Employee	26,195	26,710	27,299	28,351	29,566	30,918	31,919
Superannuation							
- Superannuation Interest Cost	1,378	1,438	1,496	1,487	1,469	1,440	1,401
- Other Superannuation	2,349	2,466	2,583	2,698	2,702	2,767	2,845
Depreciation and Amortisation	3,667	3,855	3,974	4,242	4,443	4,603	4,781
Interest	2,220	2,246	2,256	2,298	2,338	2,389	2,466
Other Property							
Other Operating <sup>18</sup>	14,245	15,044	14,237	14,620	15,261	15,444	16,106
Grants and Subsidies							
- Current Grants and Subsidies	9,071	9,496	9,563	10,426	10,466	10,780	10,642
- Capital Grants	2,336	3,207	3,041	3,274	3,019	3,233	3,483
<b>Total Expenses from Transactions</b>	<b>61,462</b>	<b>64,462</b>	<b>64,449</b>	<b>67,396</b>	<b>69,265</b>	<b>71,575</b>	<b>73,644</b>
Transactions from Discontinuing Operations	30						
<b>BUDGET RESULT - SURPLUS/(DEFICIT)</b>							
<b>(Net Operating Balance)</b>	<b>(1,300)</b>	<b>(1,890)</b>	<b>988</b>	<b>(283)</b>	<b>660</b>	<b>2,155</b>	<b>1,666</b>

