Submission
No 14

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Always Thinking Advisory

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Review of Local Government Ability to Fund Infrastructure and Services

NSW Legislative Council Standing Committee on State Development

Submission

Always Thinking Advisory

Contents

1 Background

The Terms of Reference for a report on the ability of local governments to fund infrastructure and services was published on 14 March 2024, focussed in particular on:

a. the level of income NSW local councils require to adequately meet the needs of their communities,
b. if past rate pegs have matched increases in costs borne by local governments,
c. current levels of service delivery and financial sustainability in local government, including the impact of cost shifting on service delivery and financial sustainability, and whether this has changed over time,
d. the social and economic impacts of the rate peg in New South Wales for ratepayers, councils, and council staff over the last 20 years and compare with other jurisdictions,
e. the rate peg as it currently exists, compared to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff,
f. the operation of the special rate variation process and its effectiveness in providing the level of income Councils require to adequately meet the needs of their communities,
g. any other related matters

This submission has been prepared to illustrate issues pertaining to the above terms of reference, and more broadly on the financial sustainability of local government in NSW.

While the financial sustainability and revenue raising of local government has been the subject of many reports to Government in recent years, few of those recommendations have been actioned by Government or the sector, partly as Ministers are briefed by advisors not necessarily well versed in local government, and local councils will tend not to take up initiatives from those reports, unless instructed (and funded) to do so by Government. Should further reforms ensue from this Review, the Committee is also urged to take account of the cost and impact on local councils of other reforms (Fit for Future, mergers) and recent natural disasters.

The Standing Committee is urged to refer key findings and proposals from this and other submissions to an expert local government panel (supported by IPART) for final recommendations and passage to Government policy, legislation and funding packages.

2 Response to Terms

While more detail is provided in Sections later in this submission, the summarised responses to the Terms of Reference are listed below.

a. Level of Income Required (Refer Section 10,12)

i. Property taxes (general rates, utility annual charges) should be adequate to operate, maintain and depreciate existing infrastructure, facility and utility assets (assets), supported by annually allocated indexed grants for those assets. The value of assets and associated depreciation (ie the notional value for annual asset renewal), should be the subject of audited financial statements, informed by asset management plans revalued and refreshed each council term.

ii. Supplementary property taxes should be calculated to recover the nett present value cost of new and upgraded assets to be managed by councils, consequent to subdivision development and grants.

iii. Potentially, rate structures may be reframed to migrate ad valorem general rates (based on unimproved property value) to recover nett costs of general assets (see a(i) above); and the base rate or minimum rate levied to recover the nett cost of nominated 'essential' public good (community service obligation) services.

iv. Utility usage charges should cover the cost of delivering those services (water, waste, wastewater), and generate a surplus to build reserves to smooth the impact of seasonality and augmentation of assets to accommodate population growth, climate or change to standards.

v. Stormwater annual charges should at least recover the cost of annual depreciation, as those assets impact environmental health and flood management. The charges should at least be on parity to the combined charges borne by metro ratepayers through combined council and Sydney Water stormwater related charges.

vi. Annual appropriations from State Government GST revenues should offset the nett cost of delivery of Government (non-essential) regulation, such as environment, safety, health, emergency, with values differentiated by council cohort (metro, coastal, regional, rural). This particularly applies to where councils are assigned as 'appropriate regulatory authority' and fees are fixed by regulation, at less than cost recovery.

vii. Pricing principles should be established to clarify the type of fee (eg public good, shared good, private good, regulatory, market), the basis of a fee or charge being levied, and set the target range for recovery of costs.

viii. The 'best practice water pricing' model of DPE (Water) be revised to differentiate asset from service costs and improve the certainty of funding for utility services.

ix. Services disclosed as 'important' that are not funded by taxes (per a(iii)) and are nominated as 'important' by community in respective Community Strategic Plan, may be funded through 'special purpose' annual charges (eg environment, climate, transport, emergency) established through the Delivery Program and ringfenced for planning, accounting and reporting to community. Reference is made to the Queensland approach to categories, rating and charging.

x. Capital expenditure on assets may be capped to the value of allocated annual grants (renewals) or competitive grants (upgrades or new assets), development contributions and accumulated cash-backed restricted funds (reserves).

b. Rate Peg Matched Costs (Refer Section 4)

i. Local government is fundamentally in the business of development and construction. The skills, materials and contractors required by councils are scarce in the market and subject to significant escalation and supply chain risk – including cost of freight to regional and rural areas

ii. The submission provides commentary and charts illustrating the lag of the LGCI (which formerly informed the rate peg) and other cost indices including Award and construction. Copies of submissions to previous IPART reviews of the rate peg is available.

iii. Former assumptions the rate peg should maintain the same value of revenue per capita is misguided. Many NSW councils have had rate yields capped as 'fishing and farming' LGAs in the 1970s, only now to be burgeoning regional city or coastal centres. Had special rates variations (the subject of local political contest) not been pursued and approved, the per capita revenue levels have not been raised to contemporary levels. If not for the attempts of LGGC to moderate FAG funding through 'disadvantage' factors, many council's per capita revenues would be worse.

iv. Costs differ by council cohorts. The revised rate peg methodology accommodates metro, regional and rural cohorts. It is suggested 'coastal' be differentiated as a cohort.

v. The decision to deduct the value of supplementary rate levies (generated by subdivision activity) from the population factor in the rate peg, is inappropriate. Generally, revenues raised through supplementary rate levies contribute to the cost of asset OMRD within and connecting that subdivision to transport and utility networks. The population peg should genuinely contribute to the additional costs of services generated by population change.

c. Levels of Service Delivery and Financial Sustainability (Refer Sections 8, 9,16)

i. Much of this submission focusses on financial sustainability. Reference is made to other States 'financial sustainability frameworks', and assistance from their Audit Office.

ii. Sections of this submission are dedicated to Service and Assets.

iii. Government should work with the sector to establish a 'service catalogue' contemporary with multipurpose local government, from which local councils can select the mix of services and programs (and activities if desired) mapped to their respective general ledger costing system and technology platform.

iv. Ideally each council term, the service offer should be revisited to inform any consideration of changes to levels of service and asset standards. That process may involve councillors considering several parameters. That exercise should enable a council to discern what is genuinely a 'public good' service or asset, to which taxes (rates, annual charges, grants) are fundamental to support their delivery.

v. Once confirmed, that should guide the rating and pricing policies (including rates of return) for private and market-based services provided by a council. It would also illustrate the under-recovery of regulatory service costs, as a consequence of charging caps and (cost-shifting) protocols imposed by Government.

vi. Other commentary on cost shifting is best addressed through reports by LGNSW.

vii. Regional road and emergency service assets (and associated costs) should be returned to State

viii. The findings of the concurrent Commonwealth Inquiry in financial sustainability of local government should be observed.

ix. This Standing Committee Review should draw on common findings, themes and recommendations from previous sustainability reports (including IPART and Productivity Commission).

x. Lead (rather than just lag) and risk indicators of financial sustainability should be fashioned through the lens of the financial sustainability risk table, and reporting against the provisions of the Act (s8). Ranges for key indicators should be established and differentiated between council cohorts.

xi. Government expectations of councils to cash fund operations, assets and build reserves is clear.

xii. The NSW Government and the local government sector should collaborate to transition high risk local councils to 'moderate' settings within the next term of council, then to 'sound' rating by the second term.

xiii. The process and cost of application for competitive grants is a factor in local council sustainability. Some certainty around regular, reliable and indexed allocated grants – even tied to particular sector wide programs - would assist the sustainability of many local councils.

xiv. Assets (and the essential 'public good' services they support) should remain the principal focus of local government. Assets should be documented, monitored, maintained and renewed through an adopted asset management framework (ISO 55000), and a measured approach to financing assets. A consistent and audited system to asset management is encouraged, with guidance on standards through IPWEA. This submission proposes alternate means to finance and report on assets.

xv. Government should consider 'resilience' in its thinking of sustainability of local councils and their ability to fund infrastructure and services – particularly consequent to disasters, rather than relying on Government grants.

xvi. Several sustainability principles are suggested for a council to explore, including: priority setting; managing expectations; budget discipline; improving liquidity and cashflow; improving resilience and assets; setting policies to manage donations, grants and gifted assets; and better alignment of finances with other councils plans.

d. Social and Economic Impacts of Rate Peg (Refer Section 11)

i. The rate peg, while politically motivated, has provided some tax certainty to ratepayers.

ii. However, the perception that rates provides no value to community and economy, and exceeds the cost of other utilities (energy, fuels) for ratepayers to live and work – is ill informed. Often ratepayers have no choice in the cost of those other utilities they consume.

iii. Bill shock should be mitigated through management of expectations and engagement.

iv. There is little commonality with the standards of assets and levels of service between communities, largely due to different revenue raising capacity, access to resources, and ability to fund organisation maturity in skills and technology. Often, with lower standards of assets and services, essential public service workers are difficult to attract and retain in some LGAs.

v. Should Government genuinely consider population planning for the State, the growing shift of residents and workers intra-state (and with them expectation of metro standards) calls for setting a standard revenue per capita per council cohort, in turn guiding rate yield capacity and grant allocations.

e. Alternative Approaches to Rate Peg (Refer Section 10-11)
  - Commentary has been provided throughout this submission on alternate ways to set the foundation of a rate yield by LGA or council cohort, including:
    - establishing a standard revenue per capita by council cohort
    - migrating property taxes (ad valorem rates and utility annual charges) to a model to recover the nett cost of asset (infrastructure, facility and utility) operations, maintenance, repair and depreciation (OMRD)
    - base/minimum rates to recover the nett cost of nominated 'essential' public services
    - utility usage charges to recovery the service cost of utilities, and
    - phased uplift of rate yields to include value of depreciation
  - Remove the reduction of supplementary rates from the value of the annual population change factor of the rate peg, as supplementary rate levies are generated by subdivision requiring expanded connection (and servicing costs) to assets.
  - Include nett cost of regulating Government policy in the rate peg, by cohort.
  - Expand options for categorisation of rates and potential alignment to land use zones.
  - Refer to previous reports by IPART on potential application of a CIV model for property rates.
  - Improve local councils approach to pricing – each council term revise the drivers, elasticity and rates of return for a sample set of services (eg regulatory, property incl venues, commercial).
  - Facilitate special infrastructure levies to enable councils to match grants or contributions to invest in assets – particularly to advance infrastructure for housing.
  - Decouple development contributions to enable an annual tax, rather than large upfront contributions.
  - Partner with state agencies to administer property titling, rating and debt recovery.

f. Effectiveness of Special Rate Variation (SRV) (refer Section 11)
  - It is acknowledged an SRV no longer requires community approval by as prerequisite.
  - Refer to suggestions to establish appropriate base for rate yield per (e) above.
  - Suggest two-part SRV system:

    1 Uplift rate yield
    - appraise the average annual asset operation, maintenance and depreciation expenses disclosed by LGAs in financial statements (per council term or Delivery Program).
    - note the average and reliable value of grants and other fees received towards assets.
    - assess the base level of general rates required to maintain and renew assets, nett of grants and fees.
    - approve SRV to that level, phased over relevant term of council.
    - rate peg continues to apply.

    2 Special Purpose
    - align proposal to vary yield to IPR (ie via community engagement, direction, priorities).
    - establish value of annual uplift mapped to proposed annual increase (or recovery) of special purpose services or projects.
    - funds raised are ringfenced (planned, accounted, reported).
    - may include special infrastructure levies to match grants and contributions.
  - Amend Act to enable 'special purpose' annual charges.

g. Any related matters (refer Section 15-16)

1. Improve liquidity, through:
   - building unrestricted cash (working capital).
   - targeted asset or property sales, converting fixed assets to cash.
   - building external and internal reserves for future capital projects.
   - building buffers for the utilities (water, sewer, waste, stormwater).
   - smoothing capex through infrastructure reserves and debt.

2. Improve cashflow, through:
   - generating a budget surplus, in turn releasing the value of depreciation for capital renewals.
   - growing council-controlled revenues.
   - deferring projects, including incomplete works (carryovers) from previous years.
   - recycling appropriate assets, to generate recurrent lease returns.
   - deriving dividends from eligible utilities.

3. Improve resilience, through:
   - designing capacity (build back better) into renewals (in readiness for natural disasters).
   - enabling special levies to support grants and contributions for new housing infrastructure.
   - maintaining working capital as a buffer for natural disasters (and underwriting of works).
   - building organisation maturity, including specialist skills and technology difficult to procure.
   - building councillor skills in local government finance and decision-making.
   - introducing ratios to indicate financial, asset, organisation risk and health.

4. Improve assets, through:
   - refreshing asset and contribution plans 5 yearly, with asset revaluations based on useful life.
   - inserting contemporary replacement costs into those plans.
   - applying construction indices (PPI) between reviews.
   - aligning (or moderating) asset plans with contribution works schedules.
   - utilising IPWEA condition, maintenance, renewal and resilience technical standards.
   - integrating IPPE Notes and infrastructure reports in financial statements.

5. Align financials, through:
   - integrating asset, digital, development and workforce plans with financial plan.
   - moderating capex to external funding (grants, contributions, sales).
   - monitoring renewal forecasts to depreciation values.
   - moderating renewal capex to nett depreciation less deficit.
   - monitoring financial and asset ratios.

6. Improve budget discipline, through:
   - establishing policies to guide decisions (grants, gifted assets, donations, risk, pricing etc).
   - cataloguing and scoping service and asset offer, and related hierarchies.
   - priority setting for programs and projects.
   - appraising and ranking current strategy findings and actions for funding.
   - managing expectations of councils' assets, services and capacity.

7. Improve transparency, through:
   - cataloguing services, levels of service and cost recovery (pricing) principles.
   - migrating to alternate rate model, illustrating asset and servicing gaps.
   - ringfencing Funds, and SRV and special purpose annual charges (plan, account, report).
   - rationalise existing strategic actions and projects to current CSP priorities.
   - budgeting in an Operating and Capital Account (input/output) format.

8. Improve sustainability through:
    - prepare a financial sustainability plan each term, to inform the financial plan, incorporating:
        - broad analysis of the capacity and capability of the organisation.
        - review of strategic settings and priorities (actions, programs, projects), per previous terms.
        - review of policy settings for acceptance and management of grants and gifted assets.
        - review of rating settings (category, share of burden, recovery of asset-CSO cost, and affordability).
        - establishing rates of cost recovery settings for services.
        - review of criticalities and risks to key assets and services.
        - assessment of downstream impacts if those critical assets are not renewed or replaced within AMP schedules, or gifted assets are commissioned earlier than scheduled.
        - broader suite of financial, asset, workforce and risk ratios to monitor sustainability.
        - those ratios be moderated to reflect the risks identified for each council or cohort.
        - sustainability principles guide the 10 year financial plan.
        - regular uplift each term (above rate peg) to smooth out bill shock that occurs when large SRV interventions are required to attend to structural deficits and sustainability risk.

9. Improve accountability, through:
    - review of sustainability status and progress against Plan, through ARIC, each term
    - review of performance against published Delivery Program outcomes, through ARIC
    - review of compliance with, and nett cost of, statutory obligations, each council term
    - review of sample low score services (per survey) and cost recovery, through ARIC, each term
    - attestation by ARIC regarding financial health and performance, with end of term report.
    - publishing end-of term State of Environment and Infrastructure Reports.

10. Improve Government and council partnerships through:
    - Government considering ‘resilience’ in its thinking of sustainability of local councils and their ability to fund infrastructure and services. Some initiatives or principles to explore include:
        - disaster risk: vulnerability mapping (across regions), assessment of asset criticality (emergency access and accommodation), and regional escalation to expand or operate (eg water, waste cells).
        - cyber risk: vulnerability of councils to cyber (data), terrorist (critical asset) and artificial intelligence (communications)
        - grant timing: reinstate ‘pay and do’ funding, to minimise council exposure to underwrite repair or restoration works and mistiming of reimbursement through DRFA.
        - resilience: flexible opt in/out in options for councils in declared disasters, to enable deployment of council resources for repair or restoration.
        - Build Back Better (BBB): enable uplift in capacity (say a bridge from 1:20 to 1:50 flood access), to optimise disaster funding. This may include shared cost arrangements, such as special infrastructure levies by councils to match grants or contributions sponsored projects.
        - sector maturity: sponsor investment in asset, project, contract, development, risk and finance skills.
        - incentivise borrowing: to meet project funding gaps through continued access to TCorp borrowing and investment products, partition LIRS to support ‘at risk’ councils (eg poor asset ratios), and enable special infrastructure levies to accommodate loan payments.

3 Financial Obligations for Local Government

The NSW *Local Government Act 1993* (Act) at s8B, records the following principles of sound financial management applicable to councils:

(a) Council spending should be responsible and sustainable, aligning general revenue and expenses.
(b) Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.
(c) Councils should have effective financial and asset management, including sound policies and processes for the following:

- (i) performance management and reporting
- (ii) asset maintenance and enhancement
- (iii) funding decisions
- (iv) risk management practices

(d) Councils should have regard to achieving intergenerational equity, including ensuring the following:

- (i) policy decisions are made after considering their financial effects on future generations,
- (ii) the current generation funds the cost of its services

It is understood the following key elements should be used to illustrate financial sustainability:

i. Council must achieve a fully funded operating position reflecting that it collects enough revenue to fund operational expenditure, repayment of debt and depreciation.
ii. Council must maintain sufficient cash reserves to ensure it can meet its short-term working capital requirements.
iii. Council must have a fully funded capital program, where the source of funding is identified and secured for both capital renewal and new capital works.
iv. Council must maintain its asset base by renewing identified ageing infrastructure and ensuring cash reserves are set aside for those works yet to be identified.

Government monitors the performance of local councils applying a suite of financial and asset indicators against its benchmarks following annual audit – the suggested ratios include:

Liquidity

a. Unrestricted current ratio (current cash and debtors exceed creditors and loan payments by 50%)
b. Outstanding taxes ratio (council collects >95% of its property taxes each year)

Cashflow

a. Operating performance ratio (operating expenses =/< operating revenues)
b. Own source revenues ratio (rates and utility charges =/> 60% of total operating revenues)
c. Cash expense ratio (unrestricted cash funds > operational cash expense, indicating how many months council can meet expenses without an inflow of property taxes and FAG, for example)

Assets

a. Asset maintenance ratio (actual expenditure =/> that required in asset management plan)
b. Asset renewal ratio (collective renewal expenditure =/> nominal depreciation expense)

The NSW Government commissioned financial sustainability assessments through Treasury Corp during the 'Fit for Future' program in 2012-15. A sustainability rating was established (Attachment 1) that nominated the performance and resilience expectations of a very strong to a distressed council.

It is suggested the OLG indicators be revised to accord with these statements of sustainability risk.

Strong	strong capacity to meet its financial commitments in the short, medium and long-term. record of operating surpluses and may occasionally report minor operating deficits. It is able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes likely to result in only minor changes to the range of and/or quality of services offered
Sound	adequate capacity to meet its financial commitments in the short, medium and long-term record of minor to moderate operating deficits expected to regularly report operating surpluses able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes some changes to the range of and/or quality of services offered
Moderate	adequate capacity to meet its financial commitments in the short to medium-term acceptable capacity in the long-term record of reporting minor to moderate operating deficits likely able to address its operating deficits, manage unforeseen financial shocks and any adverse changes number of changes to the range of and/or quality of services offered
Weak	acceptable capacity to meet its financial commitments in the short to medium-term limited capacity in the long term. reporting moderate to significant operating deficits with a recent operating deficit being significant. unlikely to be able to address its operating deficits, manage unforeseen financial shocks, and any adverse changes will need significant revenue and/or expense adjustments significant changes to the range of and/or quality of services offered.

Generally, most NSW councils function within the 'weak' to 'strong' bandwidth. Ideally, the indicators mentioned earlier should signal if a council is displaying the risks illustrated above to enable appropriate interventions – rather than rely on a sequence of financial statements to disclose the risk, albeit too late.

The NSW Government and local government should collaborate to transition high risk local councils to 'moderate' settings within the next term of council, then to a 'sound' rating by the second term.

This submission also suggests the current financial and asset benchmarks be broadened and include workforce and risk indicators – with all then being differentiated for council cohorts (metro, coastal, regional, rural). It is noted Queensland councils are now audited against council cohort indicators.

4 Why is Local Government Unsustainable

Many factors have contributed to making NSW local councils' financial position more unsustainable:

- Local government is fundamentally in the business of 'construction' and development' – both sectors have historically endured significant cost movement, supply chain disruption and scarcity of skills. In recent times, those costs have grown around three times CPI.
- The impacts of consecutive natural disasters and the COVID pandemic during the last five years has significantly depleted revenue and increased operational costs. Had councils not 'opted-in' to disaster repair and recovery arrangements with (then) Resilience NSW, many of the repairs and restoration of damaged infrastructure would have been undertaken by contractors and underwritten by council, awaiting reimbursement for approved works through the respective NSW agencies – and often across financial years (which in turn distorts financial results).
- Thankfully, in most cases, the infrastructure restored was funded through Commonwealth and NSW disaster grants, rather than renewed through council funding at a later date. A reader of many councils' financial statements would note several years of above-benchmark expenditure on renewals, and an elevation in the condition ratings of several road and bridge assets – largely due to those grants.
- However, the grants stimulus prompted by the disasters and pandemic generated several 'after shocks' for local councils – the future costs of operations, maintenance, repair (OMR) and depreciation of new, upgraded or renewed assets funded by grants, may not have been adequately accounted in future budgets.
- A similar picture plays out in local government areas that have experienced significant population or development growth. Infrastructure and facilities constructed through new developments and 'gifted' to councils, also may not have adequately accounted for those OMR costs in budget forecasts, nor raise adequate revenues through subdivision and associated supplementary rates.
- Both the above circumstances created market pressure for scarce skills (planning, engineering, finance, environment), contractors and resources (energy, fuel, steel, concrete, bitumen).
- Estimates (and timing delays) for infrastructure projects (the subject of competitive grant applications) were often 'under-cooked', requiring councils to source funding to meet the cost gap, or de-scope the project – or even return the grant.
- Several councils unfortunately deferred borrowing, and now face higher interest charges to fund those projects or gaps in estimates.
- Many councils are debt-averse, ironically ignoring opportunities to raise capital at fixed rates with TCorp for asset renewals, or forgoing higher returns from investments in better times.
- In addition, many councils reduced or removed development charges, deferred debt recovery, or received lower revenues as business activity quietened during Covid.
- If local councils were fortunate enough to hold suitable levels of working capital, they were able to partly absorb some of these recent shocks.
- Unfortunately, many councils saw a rapid decline in their reserves and working capital over recent years, with some 'overdrawn' (eg negative cash reserves).
- OLG time series data indicates around two-thirds of councils regularly report annual operating deficits, and the portion of property taxes (rates, annual charges) to all revenues is declining.

- Cost shifting through legislation and policy settings of state and federal government forces councils to assume responsibility for infrastructure, services and regulatory functions without providing appropriations or permitting suitable fees to enable cost recovery.
- These, together with the flatlining of the financial assistance grants below 1% of Commonwealth taxation revenues, rounds out the general sustainability stressors in local government.

As outlined later, and not for want of prompting by the Independent Pricing and Regulatory Tribunal (IPART) or the Productivity Commission (PC), the Government has not carried the bulk or focus of those various Report recommendations into legislation, more often exacerbating the challenges to local government by:

- underfunding Government programs or projects to be delivered by councils, underscored at times by councils underestimating the costs for those programs and projects; councils excluding appropriate elements of project management and cost escalations; or delays in grant applications, execution of grant deeds and receipt of funding before commencement of the activity – at times leaving a gap for councils to fund to complete the project, or abandon.
- overregulation of fee settings, discounting the ability of councils to fully recover the private benefit of programs and services.
- introducing new programs to be delivered by local councils to meet Government policy objectives, with grant funding shrinking or removed over 1-3 years, generating a community expectation the councils will continue those programs at their own cost.
- exposing capacity, capability and consistency gaps between councils, in terms of appropriately estimating, recording and attributing costs; capturing service and asset data; and monitoring and reporting performance.
- diverting council focus from servicing, maintaining and renewing existing infrastructure, to expend effort on applying for grants made available to support new or upgraded assets, then diverting resources to deliver the funded projects within electoral cycles.
- councils underestimating or excluding the recurrent cost of maintenance and depreciation (ie renewal) for new or upgraded assets generated by grant funding.

Former assumptions the rate peg should maintain the same value of revenue per capita is misguided. Many NSW councils have had rate yields capped as ‘fishing and farming’ LGAs in the 1970s, only now to be burgeoning regional city or coastal centres. Had special rates variations (the subject of local political contest) not been pursued and approved, the per capita revenue levels have not been raised to contemporary levels. If not for the attempts of LGGC to moderate FAG funding through ‘disadvantage’ factors, many councils’ per capita revenues would be worse.

Certainly, State and federal government expenditure increased while managing the health response to and the economic recovery following COVID-19, which increased fiscal pressure. A constricting of government spending to reduce the fiscal imbalance is coming and this will impact councils’ access to grants and other funding opportunities, as well as potentially increase cost shifting to councils.

NSW is not alone – other States are enduring and responding to the financial sustainability of their local councils. This submission will refer to examples of other state approaches, including:

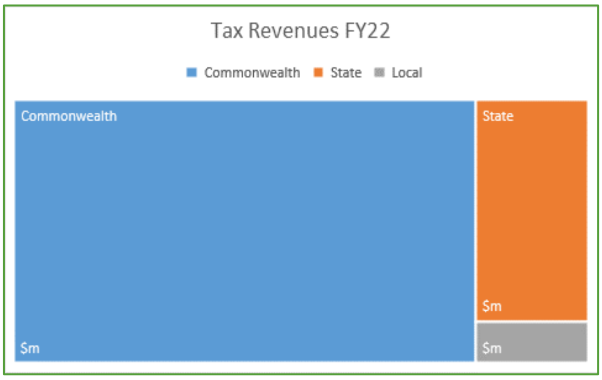
- local government sustainability framework
- infrastructure resilience funding – ‘build back better’
- short term rental property taxation
- specific purpose annual charges

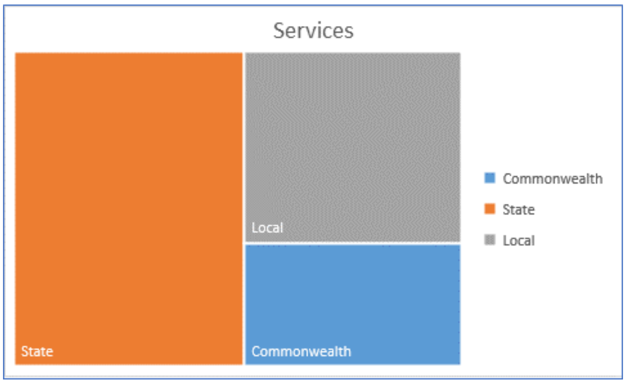
5 Revenue and Responsibility Mix

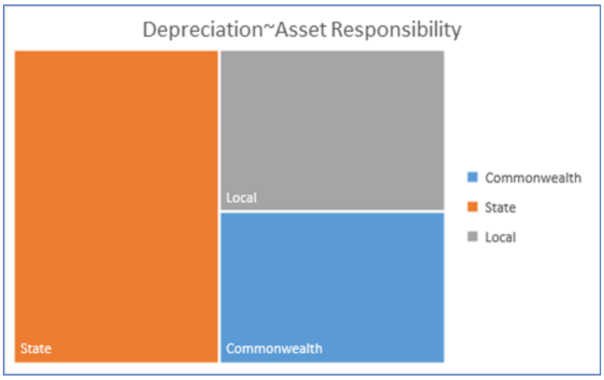
The Commonwealth House of Representatives Standing Committee on Regional Development, Infrastructure and Transport is also conducting an inquiry into local government sustainability. Its terms of reference include:

- the financial sustainability and funding of local government.
- the changing infrastructure and service delivery obligations of local government
- any structural impediments to security for local government workers and infrastructure and service delivery.
- trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices.
- the role of the Australian Government in addressing issues raised in relation to the above.

No doubt both Governments will corroborate their findings and align recommendations. It's worth initially noting the notional portions of funding and responsibility between the levels of Government drawn from Government Finance Statistics, Australia, 2021-22.







Charts 1-3

These charts illustrate the disproportionate service and asset responsibilities of local government, to the tax take between governments. Indeed, up until the year 2000, both States and local government received a Financial Assistance Grant (FAG) which was indexed on the same basis, but the introduction of the Goods and Services Tax (GST) in that year saw the States receiving a GST grant, linked to the (progressive) GST tax revenue. Until then, FAGs were equal to 1% of Commonwealth Tax Revenues (CTR). In contrast, local property taxes are not progressive, but indexed.

While GST revenue continues to increase at a higher rate than Financial Assistance Grants, the grants as a proportion of CTR have been steadily declining.
Unfortunately, although councils received advance grant funding in the form of Financial Assistance Grants, many in the sector still made operating losses. In the event of lower or no advance funding in 2024, the financial performance of many councils is expected to further deteriorate.

To bolster the economy, enhance quality of life, and support growing communities, the State and local communities require efficient and well-maintained infrastructure that is readily available when and where it's needed. Even though a share of FAG is dedicated to road assets, the halving of historical untied FAG receipts to councils has often induced councils to reduce expenditure in assets (a convenient large pot of funds), rather than cut services. That action conflicts with s8 (b) of the Act – ‘councils should *invest* in responsible and sustainable infrastructure for the benefit of the local community’.

In reality, local councils in NSW are legally no more than state statutory corporations and as such they are not an autonomous tier of government (even though elected by citizens). State legislation (*Local Government Act 1993 – the Act)* describes a council’s charter but does not define a council’s role with regard to other governments.

It is in that context that local councils may be considered an arm of the State and therefore may be considered subject to annual ‘appropriations’ or ‘allocated grants’ by Government (like other agencies) – as suggested later in this submission. Indeed, appropriations from State GST may be allocated also by the Grants Commission – at least to offset the (lack of) revenue raising capacity of many councils while they administer the regulatory obligations set by Government.

Indeed, the process and cost of application for competitive grants is a factor in local council sustainability – many do not have the capacity or capability to eloquently and accurately define a project, nor have the time to prepare applications, nor have robust project management systems to minimise scope or cost blowouts. In other circumstances, the applications are not appropriately costed, often exposing councils to unexpectedly funding the gaps.

Some certainty around regular, reliable and indexed allocated grants – even tied to particular sector wide programs - would assist the sustainability of many local councils.

The charts in Section 6 illustrate the differing combinations of taxes (council rates and annual charges, and government grants) between council cohorts.

Information and advocacy regarding the value and distribution of FAG is best left to the National and State local government associations.

6 Historical Context

Broadly, much of the infrastructure, utility and facility assets held by local councils were funded (or constructed) by Government, or more recently, by developers. Property taxes were then intended to maintain those assets and operate services supported by those assets. Governments continue to supplement those property taxes with grants to maintain, renew or upgrade those assets. What is apparent though, is the value of funding required (compared to that provided) has grown – placing stress on the State and local government budgets.

Why – councils have been unable to maintain or renew infrastructure and facilities to appropriate standards of asset management while rates are capped; while regulatory responsibilities are devolved to councils without suitable Government appropriation or delegated revenue raising capacity; and while politics at both levels of Government during electoral cycles are reluctant to enable revenues to raise at least to cover the costs of operating, maintaining or renewing assets.

In the 1970's, when contemplating measures to equitably distribute the new (then) Commonwealth Financial Assistance Grant, Alan Morse (chair NSW Grants Commission) noted most road, utility and other assets were constructed or funded historically by Government, with an expectation that local council property taxes would maintain those assets. However, it was acknowledged then that property taxes (local rates) were barely enough to cover the cost of maintenance of infrastructure and facilities.

Rate capping was introduced by the Labor Government in the late 1970's and remained at the whim of politics until an independent body (IPART) assumed responsibility for an evidenced-based approach to setting the annual rate cap. Unfortunately, the initial cap was set on a very low rate yield for many regional LGAs – once farming or fishing villages, and now burgeoning centres of significant population and economic movement – and required a special rate variation (SRV) to lift that yield.

The schematic below illustrates a potted history of the political and circumstantial events endured by NSW local councils:

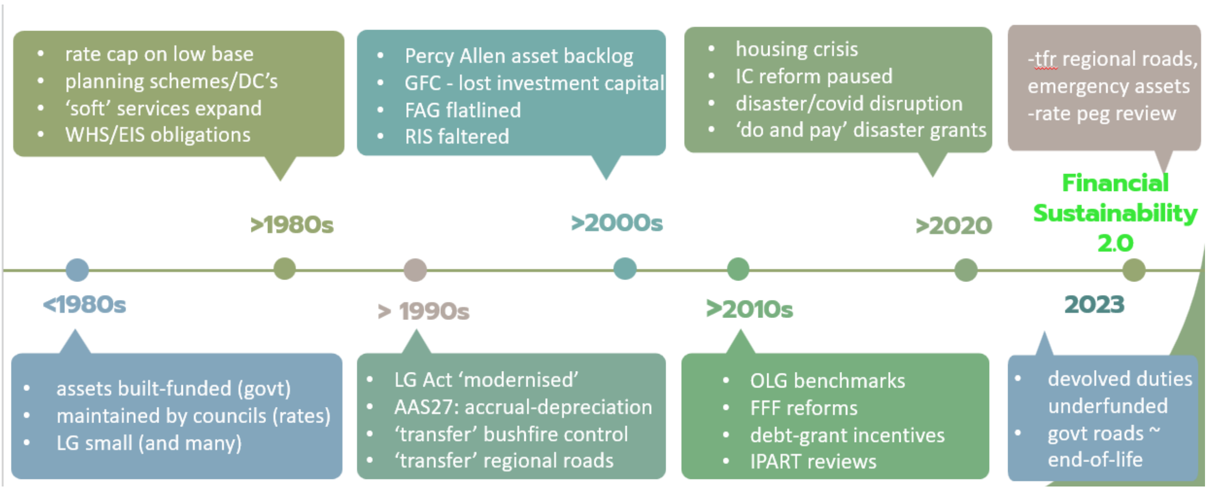


Figure 1

Several mergers since the 1970's to 2016 reduced the number of local councils to 128, with little change to the rate base for most regional and rural councils, in turn relying on grants to maintain assets.

While well intended, the introduction of AAS27 and accrual accounting 'confused' the management of assets and focussed councils on meeting depreciation benchmarks, rather than a robust approach to condition and lifecycle management of assets.

However, the more significant shift in local government spending patterns occurred since the 1990's:

- regional road assets were transferred from State to local councils, with limited funding.
- bushfire management reverted to State, but some assets remained with councils. A complicated cocktail of council contribution, capital and Government subsidies ensued.
- metro councils began spending in non-traditional local government (environment, community, economic) services.
- regional and rural councils began to follow suit, diverting funding from assets to services.
- Government enabled that shift in spend through amendments to the Act, often assigning councils as the 'appropriate regulatory authority' to administer several environmental Acts and policies of Government.
- Government continued to 'devolve' responsibilities to local councils, without appropriate compensation or revenue raising to offset those costs – most fees are set by regulation, without differentiation between metro and rural councils.
- Commonwealth taxation reforms introduced the GST, and together with a pause in indexation for several years, has effectively halved local government's share of national taxation revenues.
- Some councils lost invested capital through the Global Financial Crisis.
- Fit for Future reforms followed the Independent Panel Review (Section 7), narrowing focus on financial and asset indicators as measures of sustainability – leading to 'unrealistic' spending on assets by manipulating asset useful lives by some, and subsequent depreciation expense.
- IPART assumed responsibility for setting the rate peg, established the Local Government Cost Index (LGCI), and published several reports into the capacity and sustainability of councils (Section 7). The recent rate peg reviews have introduced a population component to the peg, and differentiated cost profiles for metro, regional and rural councils.
- each side of the recent natural disasters and the pandemic was a period of low interest rates and high appetite for grant stimulus by Governments, inducing local councils to take up grant opportunities, matched often with borrowings, for new or upgraded infrastructure, utility, and facility assets. Unfortunately, that expenditure was often outside local councils' asset forecasts and future financial capacity to operate, maintain and depreciate.
- Many of the assets constructed or funded by Government over the past 50 years are approaching end of life (such as pools). Significant renewal funding will be required – or decisions to decommission some assets and facilities.

Drawing on published OLG time-series data, the charts below illustrate the average result from metro, regional and rural groups of councils. Two decades were selected to display the shift in spend between 1999 and 2019, with 2019 chosen as expenditure and grants were pre disaster and Covid stimulus. Councils have been broadly grouped per OLG classifications, include the average spend per group (metro, regional, rural), and 1999 expenditures are inflated to \$2019 values from Reserve Bank data (n=168.25) for comparison.

While acknowledging the likely inconsistencies in data provided by councils, and changing metrics used by OLG, the charts do highlight the shift from asset expenditure to services, and the change in relationship between taxes and asset expenditure.

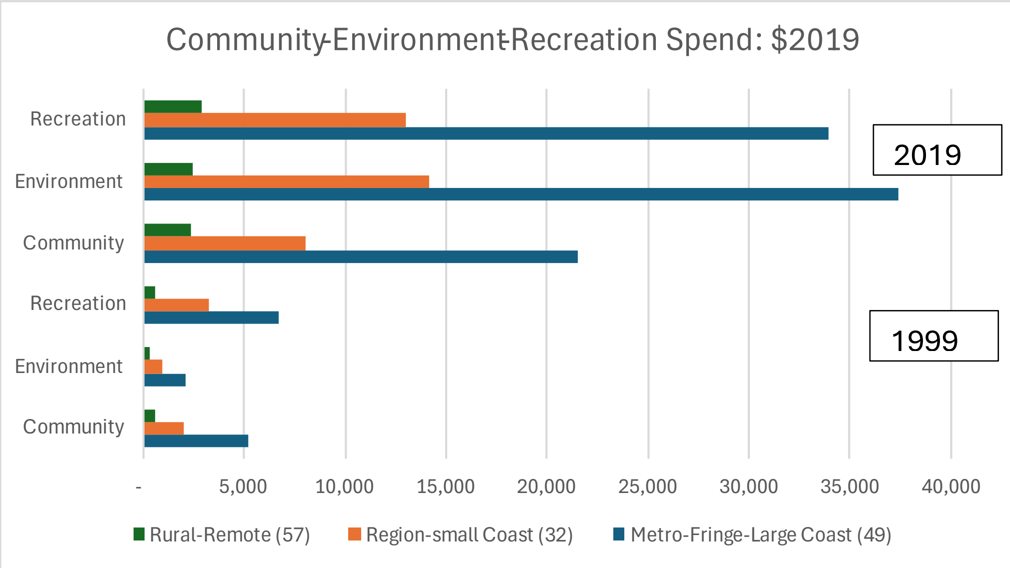


Chart 4

The chart below illustrates the growing reliance on rural and regional councils on grants to support asset maintenance, repair and depreciation (MRD), in contrast to the metro cohort.

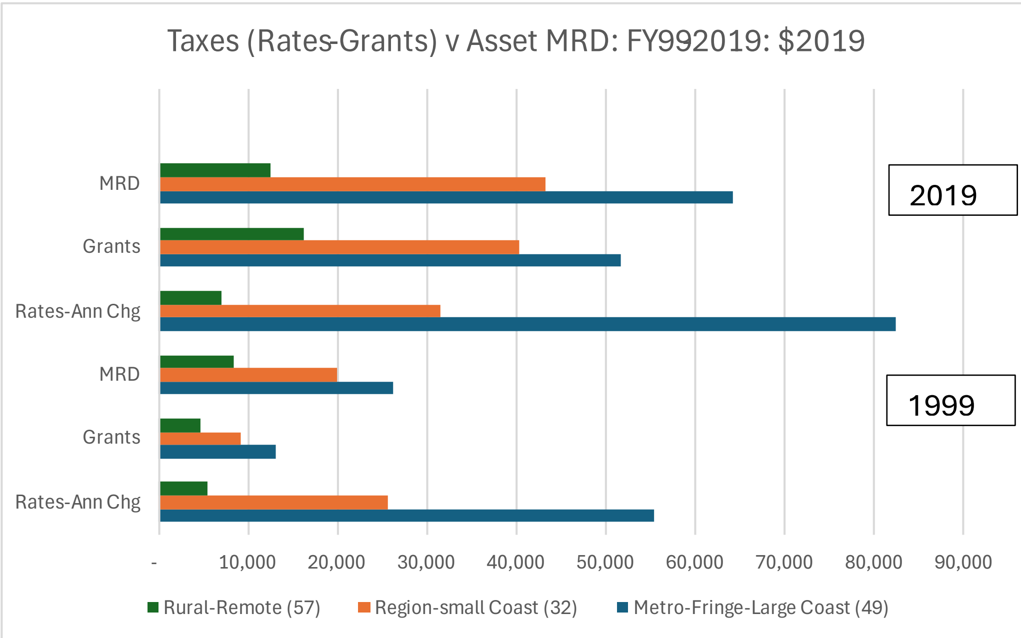


Chart 5

The chart also illustrates metro cohort councils are subject to property (and population) growth, and have a higher propensity to seek special rate variations – compared to regional and rural councils.

The chart below converts Chart 5 into the relationship between rates funding and asset MRD expenditures. It illustrates metro taxes (rates and annual charges) have fallen to 1.25 times the value required to maintain and renew assets, while regional (0.73) and rural (0.55) councils have declined to the point that rates and charges raises a less than 1:1 of required asset MRD.

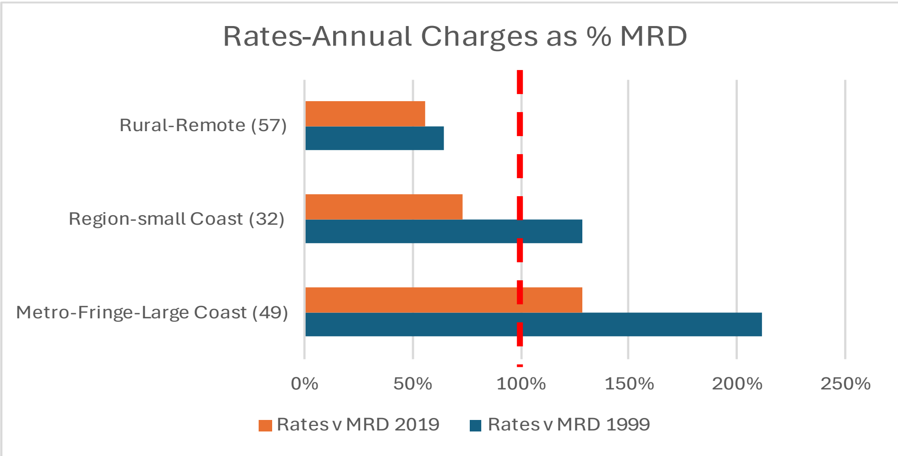
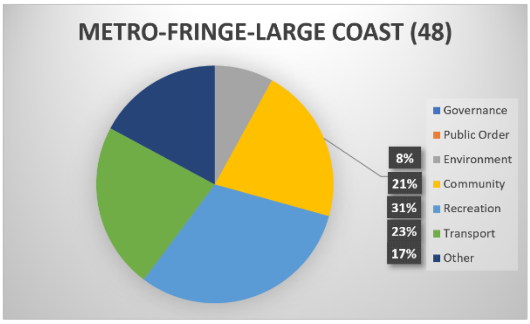


Chart 6

Looking at the three council cohorts separately, the following charts highlight the shift in focus of spend from assets to community, environment and recreation services across the twenty years:

1999

2019



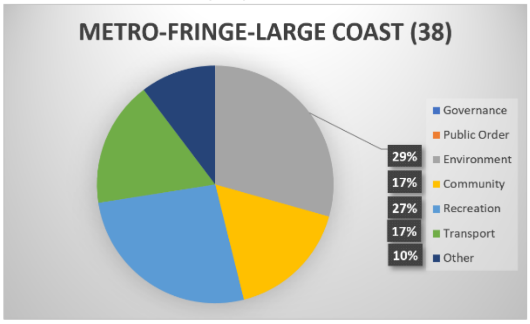
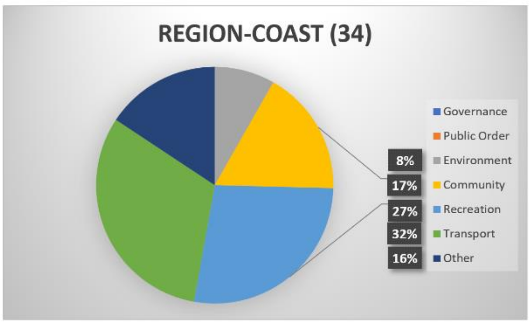


Chart 7



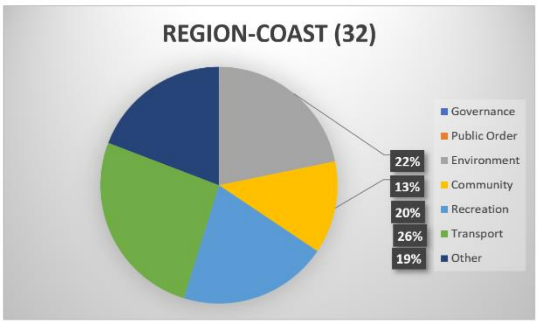
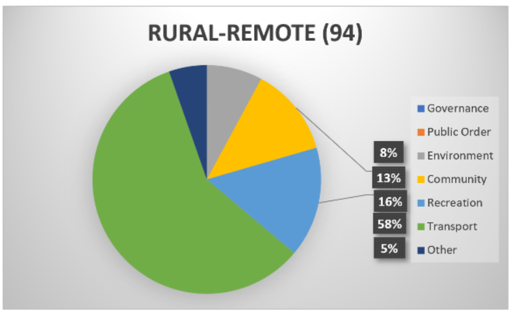


Chart 8



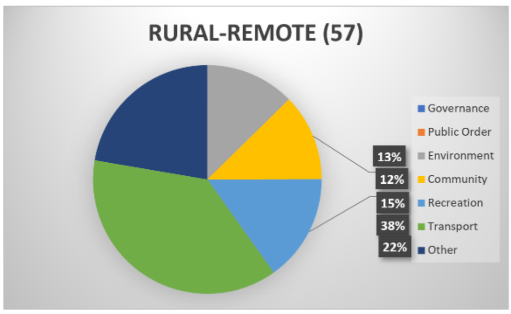


Chart 9

7 Previous Reports on Local Government Finances

In the last two decades, several reports have been commissioned by Government or advocated by LGNSW, warning of the looming financial sustainability crisis facing local government. Key findings and recommendations are outlined below:

I. Independent Inquiry into the Financial Sustainability of NSW Local Government (2006)

The Percy Allan report highlighted the ‘asset backlog’, estimating a spend required by councils of (then) $6bn in infrastructure renewal, and growing at ~ $0.5bn each year. The Inquiry urged councils to raise debt averaging $400m per year (in turn requiring rates to rise to cover loan payments) - supported by an additional $200m general purpose grants each year from the Commonwealth and State Governments.

The report acknowledged population growth (and higher service standards expected of migrating intrastate populations), the compounding effects of climate change on assets, and an assessment of utility assets were not included in those estimates.

It recommended local government’s revenue raising capacity should be commensurate with its agreed roles and responsibilities. External grants should either be to help local councils meet minimum responsibilities that cannot be fully funded by normal rates and charges or to fully fund activities on behalf of another tier of government. Specific taxes, regulatory fees and fines should be economically efficient, socially equitable and relatively simple and inexpensive to administer. Commercial services should fully recover their economic costs, including cost of capital.

The Percy Allan Report recommended the following measures be explored to mitigate the infrastructure backlog and financial sustainability crisis:

- Boosting supply
  - Removing rate pegging in whole or in part, broadening or increasing the tax base, removing tax exemptions, accruing all unpaid rates to estates with an interest charge, increasing statutory fees and fines, securing increased grants, selling surplus assets, getting better returns on investments, and/or increasing borrowings and debt.
- Reducing demand
  - Charging for services, and/or imposing or tightening eligibility rules.
- Shedding responsibilities
  - Abandoning certain functions, and/or transferring these to other organisations.
- Revising obligations
  - Resetting council’s own standards, and/or renegotiating with other tiers of government the nature or application of their statutory obligations.
- Reordering priorities
  - Saying no to future cost and responsibility shifting where legally possible; embracing a ‘back to basics’ agenda until the infrastructure crisis is fixed; adopting ‘zero-base’ budgeting; developing and implementing credible strategic and financial plans.
- Pursuing efficiencies
  - Benchmarking operational practices, adopting flexible work practices, reengineering work processes, setting productivity savings targets, sharing limited staffing resources,
  - changing procurement practices, accessing bulk discounts under state supply contracts), outsourcing services (e.g. internal audit).
- Improving capacity
  - Raising the management and governance capacity of both elected councillors and professional staff.

In pursuing the above, the Report noted the Act freed up councils to embrace a 'maximalist' (people servicing) role, yet by restricting taxes to property rates and retaining rate pegging and regulated fees and charges, local government's capacity has remained constrained to a 'minimalist' (property servicing) role. In the absence of a wider tax base and constraints on other sources of revenue, councils will need to curb their recurrent spending ambitions until they have overcome the shortfall in their capital spending on infrastructure renewals (especially roads, pavements, kerbing, public places, etc).

The recommendations of the Report, and the understood status of same, are at Attachment 2.

II. Assessing Local Government Revenue Raising Capacity (Productivity Commission 2008)

The PC Report reviewed the capacity of all councils in Australia to raise sufficient revenue to provide assets and services to community – ideally perhaps, by reducing the draw on grants.

The Commission found (and was subsequently noted by the Grants Commission):

- A number of councils, particularly in capital city and urban developed areas, have the means to recover additional revenue from their communities sufficient to cover their expenditures without relying on grants.
- However, a significant number of councils, particularly in rural (87%) and remote (95%) areas would remain dependent on grants from other spheres of government to meet their current expenditure. Given the differences in the scope to raise additional revenue across different classes of councils, there is a case to review the provision of Australian Government general purpose grants to local governments.
- State governments impose legislative and regulatory constraints on the raising of revenue by local governments that affect the ways in which councils raise revenue

III. Revenue Framework for Local Government (IPART 2009)

The 2009 IPART report found there was a need to:

- Improve the transparency of the regulatory framework, and provide for greater rigour and independence in calculating the basis of regulated rate increases.
- Encourage councils to take a longer term approach to planning their revenue and expenditure,
- Provide incentives for councils to improve their accountability to their community.
- Encourage councils to improve their efficiency and effectiveness.
- Encourage councils to improve their financial management and financial sustainability.
- Take better account of the diversity among NSW councils.

The Recommendations is at Attachment 3.

The Report presented five alternative regulatory frameworks that could replace the current rate-pegging system, but was not taken up by Government:

- Option 1 would retain existing rate-pegging arrangements, but publish the economic basis for the peg, modify the special variations process, and leave all other charges unregulated.
- Option 2 would develop a more 'disaggregated form of ratepegging' using specific pegs for specific categories of council.
- Option 3 would 'reduce the scope of rate-pegging to cover only local government revenue needed to fund operating expenditure', thereby excluding capital expenditure and all other charges unregulated.

- Option 4 would retain rate-pegging but exempt individual councils, provided they could demonstrate financial prudence and operational efficiency in various stipulated ways.
- Finally, Option 5 would remove mandatory rate-pegging and simultaneously 'enhance accountability to the local community' using several criteria and the threat of a 'default rate cap'.

IV. Independent Local Government Panel Review Panel (2012)

Local government legislation under s7 was modified following the subsequent Independent Panel Review in 2012 to (properly) require councils to (inter alia):

- carry out functions in a way that provides the best possible value for residents and ratepayers.
- be responsible and sustainable, aligning general revenue and expenses.
- invest in responsible and sustainable infrastructure for the benefit of the local community.
- have regard to achieving intergenerational equity, and
- work co-operatively with other councils and the State government to achieve desired outcomes for the local community.

In its response to the Independent Local Government Review Panel, IPART noted in part:

- LGAs vary widely in size, demographics, topography and economic base. This variety creates a diverse range of challenges for councils when it comes to providing infrastructure and ensuring their financial sustainability.
- Local governments are ideally placed to stay focused on local issues and to both understand and meet the needs of their communities. Understanding community preferences requires a significant amount of community engagement by councils.
- The level of efficiency is likely to vary considerably across councils but found that most are aware of their need to be as efficient as possible.
- Collaborative arrangements can lead to efficiency gains and savings for councils and should be further supported where possible.
- The rate pegging regime is more flexible than many realise. Special variations are an integral part of it, and they allow a council to apply to increase revenue by more than the rate peg. In addition, part of council revenue is not pegged eg, waste and other user charges.
- More flexibility can be injected into the rate pegging system in such a way that it would reduce compliance costs and potentially improve council accountability to communities.
- There is often a fundamental mismatch between small, usually rural, councils' expenditure responsibilities and their revenue bases. Applying for a special variation will not usually resolve the mismatch because of the council's limited rates base. Alternative solutions are needed if such councils are to be financially sustainable.
- The current grants system appears to be inadequate to address the long-term financial sustainability of many small rural councils heavily dependent on grant income.
- In addition, there can be significant costs and complexity for councils in seeking other State and Federal Government funding because of the range of grants that are available.
- Many councils have the capacity to borrow more for their infrastructure needs. Further encouraging councils with the capacity to borrow more to do so to address backlogs can help improve performance in the longer term.
- Funding infrastructure for new developments in rapidly growing LGAs can be a challenging dilemma for some councils.

V. Review of Reporting and Compliance Burdens on Local Government (IPART 2016)

In this Review of burdens on local government, IPART aimed to identify inefficient, unnecessary or excessive burdens placed on local government by the State in the form of planning, reporting and compliance obligations, and to then improve the efficiency of local government in NSW and enhance the ability of councils to focus on delivering services to their communities.

It was acknowledged the State devolves regulatory responsibilities to local government and the cumulative impact of these responsibilities, regulated fees, and multiple reporting requirements, as systemic burdens. The Report made recommendations to reduce cost shifting, enabling better cost recovery, managing the growth of regulatory requirements on councils and avoiding duplicative reporting requirements.

VI. Productivity Reform (NSW Productivity Commission 2021)

The 2021 NSW Productivity Commission's (PC) Paper on Productivity Reform recognised a flexible rating system was the most efficient way of helping councils meet the risings costs of serving their communities. NSW's rate peg is being blamed for councils not having enough money to provide their rapidly growing communities with new infrastructure.

The Report signalled NSW councils have foregone about $15 billion in rates compared with Victoria since 2000, and the NSW Productivity Commission says that except for raising user charges or extracting developer contributions, councils don't have alternative funding sources needed to service higher populations or maintain and operate a larger capital stock.

VII. Review of Rate Peg Methodology (IPART 2023)

This Report prompted this Inquiry by the Legislative Council Standing Committee on State Development into local government funding. Preliminary reviews found:

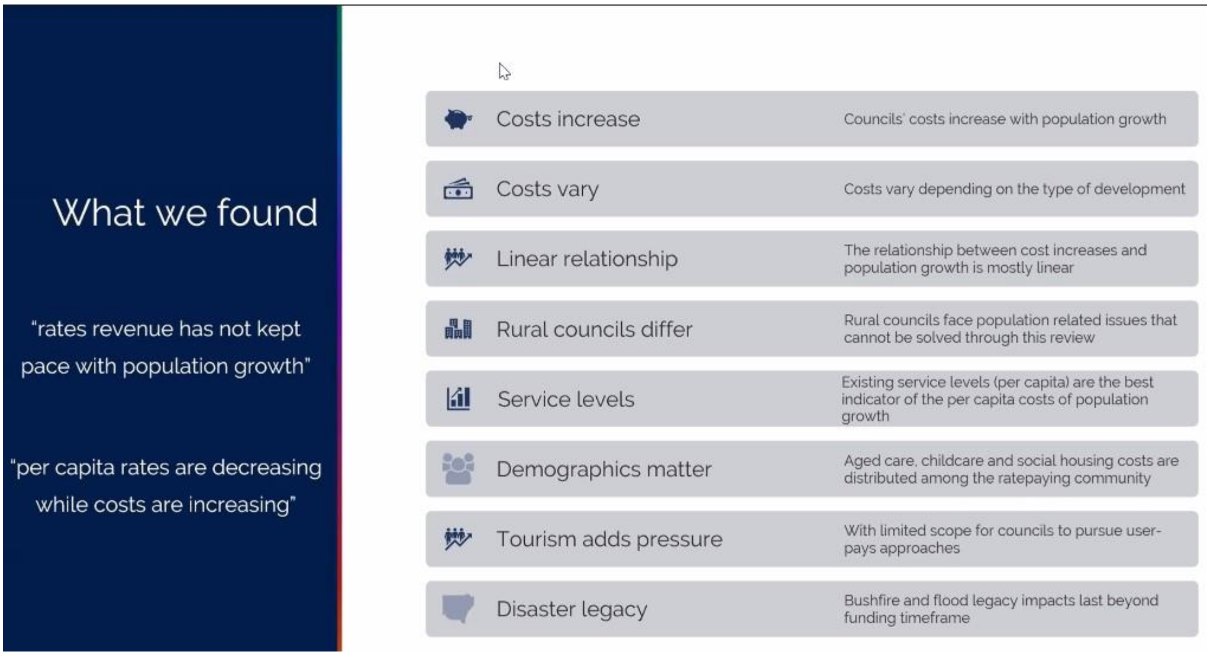


Table 1 – source IPART

IPART, with the Government's backing, introduced new metrics to ascribe the rate peg across three cohorts of councils (metro, regional, rural). The metrics include:

- Base Cost Change (BCC), comprises three components (employment costs, asset costs, other operating costs), referring to PPI rather than CPI as a form of indexation.
- separate council-specific emergency service levy (ESL) factor, lagged by one year.
- continue to add a population factor.
- retain the productivity factor in the rate peg methodology.

Importantly, IPART balanced its findings and recommendations including:

- decisions should improve the cost-reflectivity and timeliness of the rate peg.
- climate change, cyber security and providing community facilities are external costs.
- ensure ratepayers pay no more than necessary while enabling councils' rates income to keep pace with changes in their costs.

Ideally those cohorts would follow into other Government metrics for monitoring council performance.

VIII. Cost Shifting 2023 (LGNSW)

The 2016 IPART called for reporting on cost shifting, which LGNSW has regularly published. The 2023 Report highlighted:

- a dramatic increase of 78 per cent in cost shifting from $820m (2016) to $1.36bn in 2023.
- proportion of council rates subsumed by cost-shifted obligations ranged from $420.90 for ratepayers on the metropolitan fringes to $590.80 for rural ratepayer.
- largest direct cost shift to councils is from emergency service contributions and other emergency service obligations, totalling $165.4 million.
- $273.1 million of potential rates are exempted (under State laws)
- libraries remain underfunded due to lowest (compared to other States) subsidy from NSW Government
- pension rebates remain under-subsidised by around 45%, compared to other States

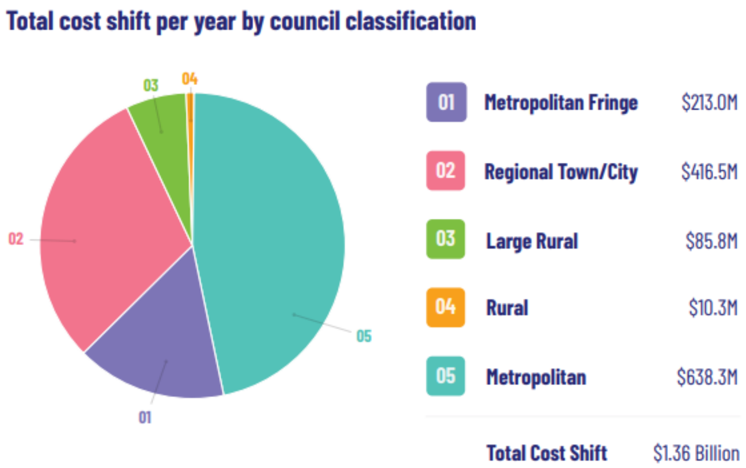


Chart 10 – source LGNSW

While previous Reports recognised the financial failings of pegged rating and contributions systems, it remains the Government's imperative to take up any of the recommendations. IPART has acknowledged the local government sectors claims of cost shifting. This submission (in part) suggests the nett cost of administering State legislation should be a feature of setting the rate peg.

8 Infrastructure

The provision, maintenance and renewal of public infrastructure is a public good. As the services supported by the provision of infrastructure is generally not capable of competition or sale, those become a 'community service obligation'. It may then be said the purpose of publicly funded infrastructure is to:

- connect (economy)
- accommodate (community)
- protect (environment)
- mitigate (risk), and
- stimulate (growth)

Local communities rely on the level of government closest to their place of residence and work to provide the services supported by public infrastructure. Often, a community's perception of a local council is influenced by the presentation and performance of local assets. Often too, a community is agnostic to the funder or provider of infrastructure.

Communities are unaware of the legislative requirements (environment, safety, reporting), governance obligations (risk, probity, transparency) and lead times (concept, business case, design, estimate, funding, approvals, procurement) to bring a development (subdivision, housing) or an infrastructure project (road bypass, treatment plant) to fruition.

Similarly, communities (and councillors) would be unaware of contemporary standards required for asset management (lifecycle, design, risk, monitor, fail) – and the gap in a local council's capacity and capability to retain resources (skills, systems, technology) to deliver to those standards.

The Percy Allan Report (2006) called for councils to retreat (initially) from non-asset services, to manage the asset backlog and reset community expectations.

With such a reliance by community on fit-for-purpose assets (infrastructure and facilities), perhaps there is an obligation to reinstate the expectations of the 1970s:

- taxes (rates, annual charges and grants) should fund the operation, maintenance and renewal of assets (and any associated debt servicing).
- development contributions, debt and accumulated operational surpluses (reserves) should fund the upgrade and expansion of assets.
- Government should continue to sponsor new assets to stimulate growth or resilience.

In this way, State taxes (including GST) generated from State economic activity underpin infrastructure that supports Government housing, climate resilience and social policy ambitions, and may target LGAs of significant growth or subject to significant climate (and disaster) risk. Soon, the Australian Sustainability Reporting Standards (ASRS) will finalise 'general requirements for disclosure of Climate-related Financial Information' to be embedded into financial reporting.

Local councils' taxes (ie recoverable as a charge on property) may be designed to recover the cost (nett of grants) of the operation, maintenance and renewal of assets (and any associated debt servicing).

However, as the independent Reports in Section 7 identified, there is uneven capacity and capability across local councils in NSW to manage infrastructure, facility and utility assets. Many councils (particularly smaller, and rural and regional councils) have low asset management maturity (skills, systems, technology).

As noted through the Fit for Future campaign in 2012, many councils appeared to 'manage' asset condition, useful life (and consequently the annual depreciation expense) to illustrate financial sustainability and ward off potential merger.

Unfortunately, a consistent approach (such as the IIMM-IPWEA asset and financial management guidance) is not commonplace across all councils.

Ideally, and in line with the Integrated Planning and Reporting (IPR) framework, assets should be documented, monitored, maintained and renewed through an adopted asset management framework (ISO 55000), and a measured approach to financing assets:

a. Asset Management Strategy
    - outlines approach to lifecycle management of assets.
    - identifies assets that are critical to the council's operations.
    - outlines risk management strategies for these assets.
    - outlines position or ambitions to alter asset standards or levels of service.
    - improve the council's asset management capability or maturity.
b. Asset Management Plans (AMP)
    - for all assets under a council's control.
    - aligned to crown lands (under council control) plans of management.
    - identifies asset service standards.
    - contains at least 10 years projections of asset maintenance, rehabilitation and replacement costs.
c. Asset Register
    - record of all assets, and related sub-assets.
    - record of inspections, condition and valuations.
    - record of asset failures, disaster interventions.
d. Asset Works
    - schedules of planned rehabilitation, renewal works aligned to financial plan.
    - schedules of planned upgrade, expansion and new works aligned to developer contributions and financial plans.
    - design, scale and renew assets to adapt to population change.
e. Asset Resilience
    - review assets to be fit for purpose and potential obsolescence.
    - schedule of assets subject to climate and disaster risk.
    - design, scale and renew assets to adapt to and mitigate climate and disaster risk.
f. Asset Monitoring
    - differentiate asset operations (eg cleaning) from maintenance (eg patching).
    - monitor renewal scheduling against accounting loss of asset functionality (straight line depreciation).
    - establish range (or bandwidth) within which assets will be permitted to deteriorate or reach obsolescence.
    - monitor and attain asset performance ratios (maintenance, renewal, backlog)
    - record change in asset values on 5 yearly cycles (and associated effect on ongoing depreciation expense).
g. Asset Reporting
    - record and publish asset maintenance, renewal, new and depreciation expense in relevant Notes to financial statements.

This submission proposes alternate means to finance and report on assets:

a. Asset Accounting
   i. apply lifecycle management approach: appropriately differentiate and account for assets (infrastructure, facility and utility) per below. Attachment 4 illustrates some sample definitions:
      - operations
      - maintenance
      - renewal
      - resilience/disaster restoration
      - expansion/upgrade
      - new
      - residual/disposal/run to fail
   ii. estimate and align future expenditure in financial plan (10 year) and Delivery Program (4 year council term) to respective AMP or strategic business plan (utilities):
      - incorporate suitable contingency/cost escalators (say P90 for Operational Plan, P80 for Delivery Program, P50 for financial plan).
      - include debt servicing (principal and interest) payments.
      - align to development contribution plan works and estimates (EWL).
   iii. cap expansion/upgrade/new capital works to annualised estimates for capital grants and contributions.
   iv. estimate the value of reserves or debt required to support asset renewals or upgrades.
   v. monitor annual carryover of capital works and projects, as a signal of council capacity to deliver, the availability of contractors and suppliers - and potential scaling of capex.
   vi. conduct 'back of envelope' test for expenditure estimates:
      - 1% WDV assets may be spent of maintenance and repair.
      - 2% WDV assets indicates potential spend on renewal, or depreciation.

b. Asset Financing (refer also Section 10)
   i. as a rule of thumb, the 'taxes' available to a local council (general rates, utility annual charges and FAG) should cover cost of:
      - asset operations, maintenance and renewal (OMR), nett of specific grants and contributions for assets, including:
         - regular and reliable (annually allocated) grants and contributions, such as roads to recovery and road component of FAG.
         - contestable (at risk) grants and contributions.
      - unimproved rateable land value may be the differentiator between standard of assets and servicing expectations, by rate category and locality.
   ii. align content, value, indexation and frequency of review (eg council term) of AMP work schedules to relevant schedules of development contribution and servicing plans
      - embed those values into financial plan
   iii. generally, 'smoothed' renewal expense is represented best as depreciation:
      - cash reserves, capital grants and borrowings may be used to smooth capex.

c. Asset Resourcing
   i. councils may be sponsored through Government or professional associations (such as IPWEA, PIA, CPA) to migrate to contemporary asset management systems and technology:
      - ensures sector-wide consistency in asset conditioning, financing and reporting
   ii. Government should mandate (like Victoria) the portion of recycled product to be included in materials and construction contracts.

- may generate regional markets to collect, process and freight crushed concrete, glass, rubber and other recycled product for road surfacing, base and utility bedding – rather than use virgin materials for those works.

d. Asset Reporting
   i. consolidate IPPE Note C1-7 with Report on Infrastructure Assets (special schedule 7) into an auditable financial statement to illustrate, by class of asset:
      - movement in value of infrastructure and other fixed assets
      - movement in depreciation expense
      - actual maintenance, renewal, upgrade, new and resilience expenditure
      - required maintenance renewal, upgrade, new and resilience expenditure, nominated by respective AMPs
      - forecast maintenance renewal, upgrade, new and resilience expenditure from adopted financial plan or utility strategic business plan
      - condition rating (1-5) of assets, informed by most recent (and dated) revaluation, calculated as percentage of remaining life of total useful life
      - based on most recent valuation, the gross replacement cost of assets to new (condition 1), which then align to IPPE value in Balance Sheet
      - based on condition 3 (satisfactory), estimate to maintain those assets at that condition and functionality
      - based on condition 5 (very poor or backlog) assets, estimate to replace those assets as new (condition 1)
      - based on condition 4 (poor) assets, estimate to renew those assets to good (condition 2)
      - based on remaining poor and very poor assets (condition 4 and 5), estimate to dispose, decommission, rehabilitate
   ii. chart the asset budgeted renewal expense against AMP forecasts and depreciation, per class of asset.
   iii. above figures may then be used to test provisions and forecasts in the financial plan
   iv. publish a 'State of Infrastructure Report (SoIR) at end of each council term.
      - utilise the auditable Note, annual work schedules and summaries of activity.

e. Asset Resilience
   i. apply lifecycle metrics, accounting and funding tools to asset decision making
   ii. mimic approaches taken by other States for collaborative funding towards replacing or building assets resilient to future disasters (ie build back better - BBB). Betterment allows local governments and state agencies to rebuild essential public assets to a more resilient standard to help them withstand the impacts of future natural disasters.
   iii. in addition, assets identified as significantly at risk from natural disaster, terrorism and climate change may also be subject to a disclosure in the asset strategy and financial statements:
      - mapping vulnerability of key transport, accommodation and utility assets
      - scope and provisional sums to uplift the assets to higher levels of resistance to effects of disaster etc, in readiness to submit BBB proposals to Government.

The suggestions above are consistent with guidance from IPWEA's International Infrastructure Management Manual (IIMM), and condition reporting within IPR.
International Infrastructure Management Manual (IIMM) - Institute of Public Works Engineering Australasia (ipwea.org)

9 Service

What began as a fundamental obligation of local government to maintain and operate infrastructure, utility and facility assets, and the public services supported by those assets, has become a mantlepiece for Government devolvement and heightened community expectation. Modern councils may now have responsibility for:

- children, youth, aged, multicultural, indigenous programs and facilities.
- biodiversity, catchment, vegetation, native title regulations.
- development and planning consultation, agency referrals and concurrences.
- assets adaptable to population and climate change.

The Australian Bureau of Statistics (ABS) and Local Government Grants Commission (LGGC) both rely on councils aggregating financial data into functional classifications for reporting and benchmarking (Attachment 5). In essence, those classifications may be considered a default service framework, but in reality, most multipurpose councils provide over 20 services, underpinned by over 100 programs and (pending the scale of the organisation), several hundred activities. Those services are also supported by the administrative and governance functions of a council.

In NSW, councils are urged under IPR to aggregate their services, projects and policies under quadruple bottom line pillars, broadly illustrated below:

SERVICES			SUPPORT
SOCIAL	ENVIRONMENT	ECONOMY*	CIVIC
community	environment	economy	asset management
culture	waste	tourism	councillors
education	sewer	development	executive
facilities	stormwater	transport	digital
housing		facilities	engagement
recreation			finance
health			governance
safety			risk
water			workforce

Table 2

Councils are encouraged by Government to review services – often a precedent to an application for special rate variations. However, while their broad service outlines are published on council websites, full cataloguing of a council's services and associated programs and assets are generally not articulated – much less, used to frame service levels. Without that documentation, it may be difficult to review services.

Service cataloguing or planning should focus Council on defining deliverable and measurable service outputs and outcomes to its community, appreciating the customer perspective, to:

- clarify the scope (of assets) and deliverables (of services).
- outline the standards and useful lives (of assets) and levels (of service).
- define the performance and targets for those services.

If a council needs to reduce expenditure or reallocate resources across its budget areas, it should understand the consequential impacts on the services it provides to its community.

It is suggested Government work with the sector to establish a 'service catalogue' contemporary with multipurpose local government, from which local councils can select the mix of services and programs (and activities if desired), then map to their respective general ledger costing system and technology platform. Similarly, a standard guide to activity based costing (attributions) should apply.

That approach may enable benchmarking of services and their unit costs for the Grants Commission and IPART, to assist future FAG and rate peg assessments.

Ideally each council term, the service offer should be revisited to inform any consideration of changes to levels of service and asset standards. That process may involve councillors considering several parameters, including:

- council role in providing services or assets (provider-funder-facilitator-regulator-advocate).
- criticality (essential-important-discretionary) of the service-program (to community) or the asset (to economy-environment), as a relative priority to operate or maintain.
- relevant risk the council is prepared to take, and the extent council may permit a service or an asset to be non-operational (maximum allowable outage-MAO).
- trends and forecast changes to service/asset use and patronage.
- asset class and condition (road, building etc) the service-program relies upon for delivery.
- level of service currently funded by council per program (quality, frequency, location).
- performance benchmark or target for completion of that level of service or activity.
- surveyed levels of community satisfaction by service or asset.
- pricing principle for the activities upon which the current policy and budget is based.

That exercise should enable a council to discern what is genuinely a 'public good' service or asset, to which taxes (rates, annual charges, grants) are fundamental to support their delivery.

Once confirmed, that should guide the rating and pricing policies (including rates of return) for private good and market-based services provided by a council. It would also illustrate the under-recovery of regulatory service costs, as a consequence of charging caps and (cost-shifting) protocols imposed by Government.

The process may also assist councils define and calculate the real costs (ie including attributions) of their levels of service (using current budgets/last year financial results), in turn enabling:

- assessment of additional costs (or savings) by altering levels of service or standards of assets.
- effect of changes to FTE resourcing (pending decisions on mode of delivery).
- community engagement and submissions to IPART/LGGC.

That service cataloguing information should differentiate the cost profile and capacity of regional and rural councils to the metro cohort, and may improve transparency in rate peg and FAG settings for those cohorts.

The discipline in documenting service and associated cost and pricing profiles provides an opportunity for a council to redesign their rating settings to any differential in asset standard and service levels by rate category and locality. While referenced in Section 8, more detail is provided in Section 10.

It is also suggested the OLG Code of Accounting Practice be reviewed or confirm definitions of:

- assets (operations, maintenance, renewal, rehabilitation, replacement, upgrade, expansion, new).
- chargeable activities (eg road/park litter collection to waste; street cleansing to stormwater; catchment controls to water supply; recycled water irrigation to sewer etc)

10 Revenue

The following charts have been extracted from IPART and OLG reports, illustrating the portion of general-purpose (taxation) revenues (GPR) to overall local government revenue sources is in decline, with a majority of councils producing annual operating deficits and average taxes falling below 40% compared to the Office of Local Government (OLG) benchmark of 60%. It is acknowledged that ratio has recently been influenced by the surge in grants associated with natural disaster and pandemic recovery.

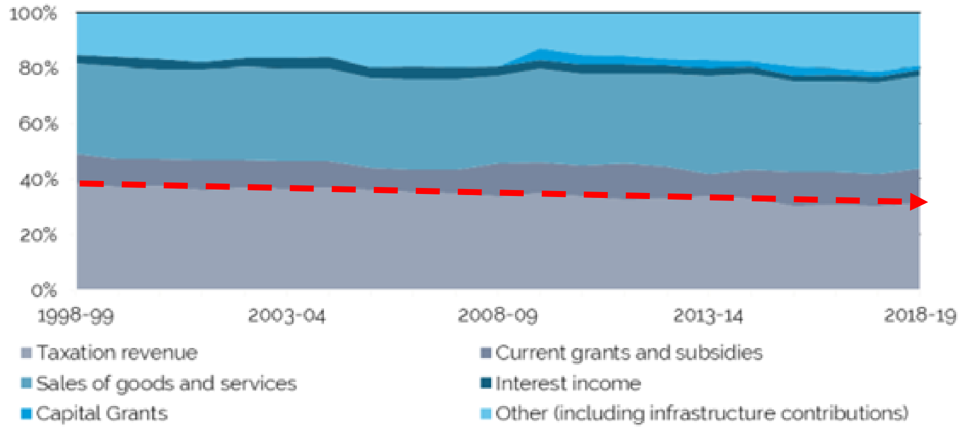


Chart 11 – source IPART

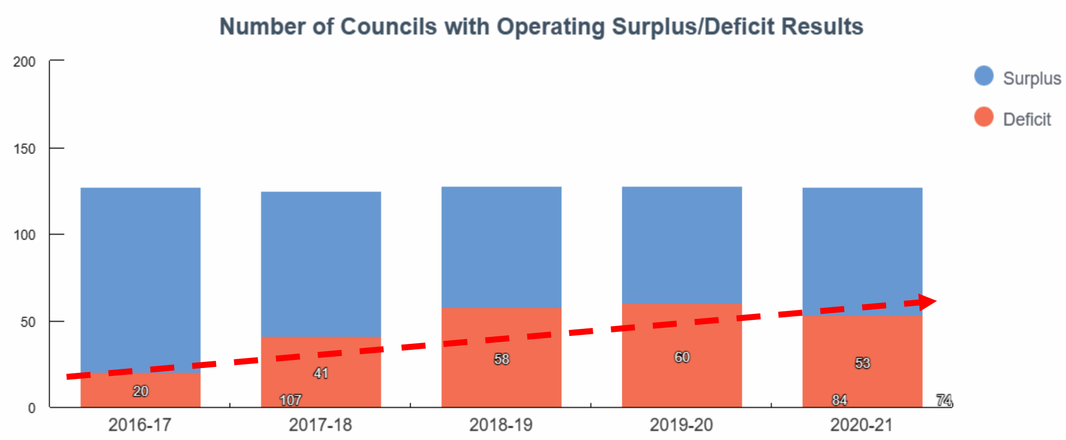


Chart 12 – source OLG

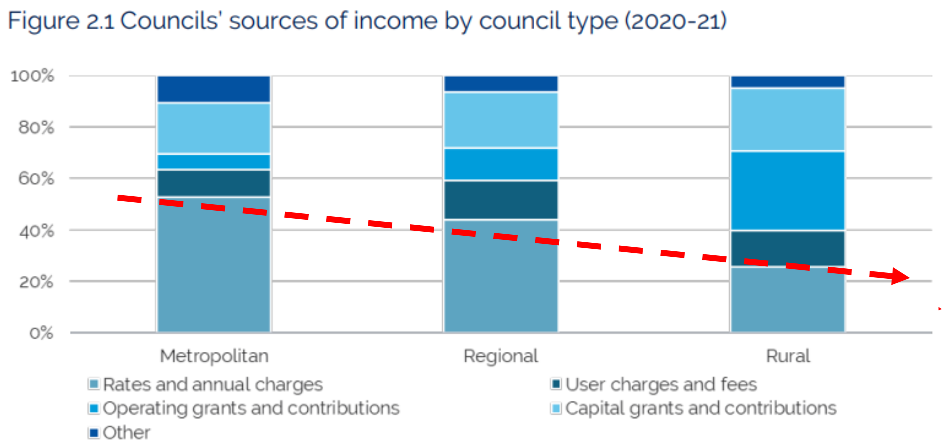


Chart 13 – source IPART

Ideally, all future reports and charts produced by IPART, LGGC and OLG should differentiate metro from regional and rural council cohorts – or better, add a coastal cohort (as that group has particularly environmental, population and tourism cost pressures). FAG allocations may also then differ.

Unfortunately, many councils do not adequately interrogate the drivers and elasticity of their fees and charges, choosing to rely on indexation to increase revenues. A review of service levels should accompany a review of pricing policy, and scope targets for recovery of costs. This Inquiry into local government funding should:

a. aim to enhance definition and flexibility of pricing principles to:

- enable councils to transparently differentiate public good services (community service obligation) from shared and private good service, regulatory and market services.
- clarify expectations of funding from taxes (rates, annual charges, grants).
- enable disclosure of proposed rates of recovery (aligned to financial plan).
- explore other States approaches on full cost recovery (example Attachment 6).

The table below is an example of a simplified pricing policy.

Principle (ATI)*	Purpose	Target % Recovery
Public (CSO)+	Tax-funded public service, infrastructure, facility or function not provided by, nor viable to be undertaken by, private sector or NGO. Often supported by government grants. Minor fee recovery expected.	10%
Shared	Service, facility or function available to public, but often exclusively used by individuals or groups such as sporting clubs. Modest fee recovery expected, to encourage community or recreational activity.	25%
Regulatory	Fees charged to recover actual costs of assessment, inspection, compliance and enforcement functions. Those functions are required by government legislation. Most fees set (and limited) by government regulation. Moderate fee recovery expected.	50%
Private	Fees set to recover full costs of nominated service, facility or function, mostly available or used exclusively by private individuals, clubs or groups. Often referred as user beneficiary. Most costs expected to be recovered.	75%
Utility (RoR#)	Annual charges and user fees set to recover operating, maintenance, depreciation and debt servicing costs for water, sewer, waste and stormwater utilities. Charges should accommodate a rate of return (as permitted) and be set to also buffer future seasonality impact and infrastructure augmentation.	100%
Market	Fees set to recover full costs of nominated service, facility or function, with a margin for profit. Market fees may account for competitor pricing and may be subject to quotation.	>100%
ABC^	Corporate, plant and other overhead costs are distributed across all external services and facilities to identify real cost of provision and appropriate levels of fee recovery.	

Table 14

In turn, a council may frame its services within that pricing policy and % returns as suggested below:

Public	Shared	Regulatory	Private	Utility	Market
transport	facilities	environment	economic	water	saleyards
community	sporting	development	tourism	waste	aerodrome
culture	events	animals	performance	sewer	caravan park
library	housing	parking	property	stormwater	private works
parks	aquatic	health	indoor sport		childcare
amenities	venues		cemetery		agedcare
emergency					
health					
safety					
heritage					

Table 15

The following summarises other opportunities to improve revenue raising and value:

b. value of local council revenues would improve with the removal of intergovernmental transfers and rating exemptions:
- emergency services levy (up to 4% of smaller councils total rate revenue).
- pension rebate (up to 5% of smaller councils total rate revenue).
- rate exemptions (preferring postponement of rates, recoverable should ownership or use change).

c. rescope existing annual charges and extend accounting into Fund accounting format:
- stormwater (should at least enable annual recovery of depreciation).
- waste (annual charge should recover cost of maintenance and depreciation of its infrastructure).
- wastewater (operating charge should recover cost of recycling and reusing non-potable water).
- water (annual charge should recover cost of maintenance and depreciation of its infrastructure).

d. broaden the scope for calculation of dividends from utilities (water, sewer, waste):
- utility pricing should be calculated to build suitable reserves to smooth out bill shock, and prepare for seasonality changes, effects of climate change, and plan for population growth and augmentation of utility infrastructure.
- allowing for above, as a categorised business, the utilities may provide a dividend up to 50% of the audited surplus to the multipurpose local council or local water utility (LWU).

e. contemplate annual appropriations, to offset nett costs of delivery of Government policy and legislative initiatives, by council cohort, to recognise differing costs by distance from capital city.

f. enable allocated (rather than competitive) annual grants for renewal of critical infrastructure:
  - assign LGGC to apportion allocated grants for assets and CSO services, from GST revenues.
  - Government reduces value and scope (and processing cost) of competitive grants.

g. critically review process and timeframe for competitive grants:
- timing gap between announcement of grant program, to lodgement of application by council, to assessment by agency, to confirmation by Ministry, to execution of grant deed and receipt of funds – can take may months, in which time costs may have escalated, financial years have crossed, key staff may have left, and tender pricing may have created a funding gap for a council.
- permit inclusion of project management and escalation contingency in applications.

h. enable reversion between opt in and opt out arrangements for disaster recovery works by councils:
- the shift from ‘pay and do’ to ‘do and pay’ funding has caused councils to underwrite disaster repair and restoration works, relying on approval of claims and receipt of funds – often crossing financial years, impacting financial results and eroding councils working capital.

i. facilitate review of Financial Assistance Grant (FAG):
- explore options to share portion of GST revenues (state) in addition to FAG (commonwealth).
- differentiate factors and standard unit costs into metro, coastal, regional and rural cohorts.
- reconsider bias (or % value) of population factor.
- rescope disaster vulnerability and population decline factor.

j. re-prosecute the case to introduce a State property tax in place of stamp duty:
- in so doing, administer emergency service levies, land tax and annual stamp duty equivalent as an annual property tax notice issued by RevenueNSW (see also discussion on Rate Notices below).
- in so doing, relieve local government of emergency service levies.

k. re-commence review of development contribution system:
- appropriately differentiate metro from regional contribution pricing calculation and caps.
- map and value land to be acquired (by LEP), or through development; allocate in financial plan.
- record and fix pre-development land acquisition values (for compulsory acquisition or transfer).
- clarify s7.11 apportionment and contributions as funding mechanism for upgraded or expanded infrastructure and facilities.
- differentiate torrens from strata subdivision with regard to linear (for property) and capacity (for population) upgrade to networks or facilities, respectively.
- apply simple-to-administer and transparent s7.12 development levies (say 3%), based on quantity surveyor (QS) certified construction costs.
- enable internal borrowing (between Funds) or special infrastructure levies, as means to match development contributions or meet funding gaps for expanded assets.

l. incentivise development:
- in line with the above proposed transformation of stamp duty to an annual tax, convert development contribution charges to an annual property tax levied on the developer's primary holding, until all lots are registered and sold, construction works completed and commissioned, and any public lands or facilities transferred to council.
- annual indexation (and interest if unpaid) will apply to the development property tax.
- enable internal borrowing (between Funds) or special infrastructure levies, as means to match grants and development contributions for infrastructure to accelerate housing.
- return planning and consent accountabilities to local government, for developments endorsed by State (eg LEP, DCP, masterplan), removing need for agency referral and concurrence delays and costs.
- refer to Section 11 regarding differential rates for new estate developments.

m. enable a broader range of annual charges (similar to other States and NZ), to which IPR planning, accounting and reporting requirements apply (refer Section 11), such as:
- climate
- environment
- emergency
- heritage
- transport
- tourism

Should Government genuinely consider population planning for the State, the growing shift of residents and workers intra-state (and with them expectation of metro standards) calls for setting a standard revenue per capita per council cohort (refer Attachment 5), in turn guiding rate yield capacity and grant allocations.

11 Rates and Annual Charges

Rates

As outlined in Section 7, IPART and the PC have conducted reviews into rating and revenue raising for local councils. All have exposed issues with the rate cap and rising costs, however politically it is unlikely the rate cap will be removed. A Capital Improved Valuation (CIV) approach (eg Victoria) had been proposed to replace the Unimproved Land Value (ULV) but was dismissed as too complex to implement and more likely apply to metro councils only. IPART can provide information to this Review.

Ratepayers tend to believe property revaluations conducted by the NSW Valuer-General lead to a similar hike in rates – rather than the cap on a council's rate yield simply being the market re-sorting the distribution of the rate burden across rate categories and between properties. What if a portion of that total LGA valuation uplift was available as a three-yearly uplift in rate yield?

Similarly, ratepayers are frequently confused with landuse zoning and rate categories. What if rate categories were recodified to align with land use, requiring applications for exemption or postponement or change in category commensurate with change in land zone or approved development use? An example of other States approach to rate categorisation is at Attachment 7.

Or could an alternate rate model apply? Across (say) two terms, local councils could modify their rate model and recovery of the nett cost of asset expenditures through their respective ad valorem rate yield; and nominated 'essential' public good expenditure through the base rate or minimum rate; and harmonise those yields to published asset standards and levels of service.

Alternate Rate Model

An 'alternate rating model' is suggested below, so that a council's budget may be displayed to illustrate the gaps between costs and revenues separately for assets and services, prompting discussion, decisions and priority setting for the application of rates and fees, or changes to services or levels.

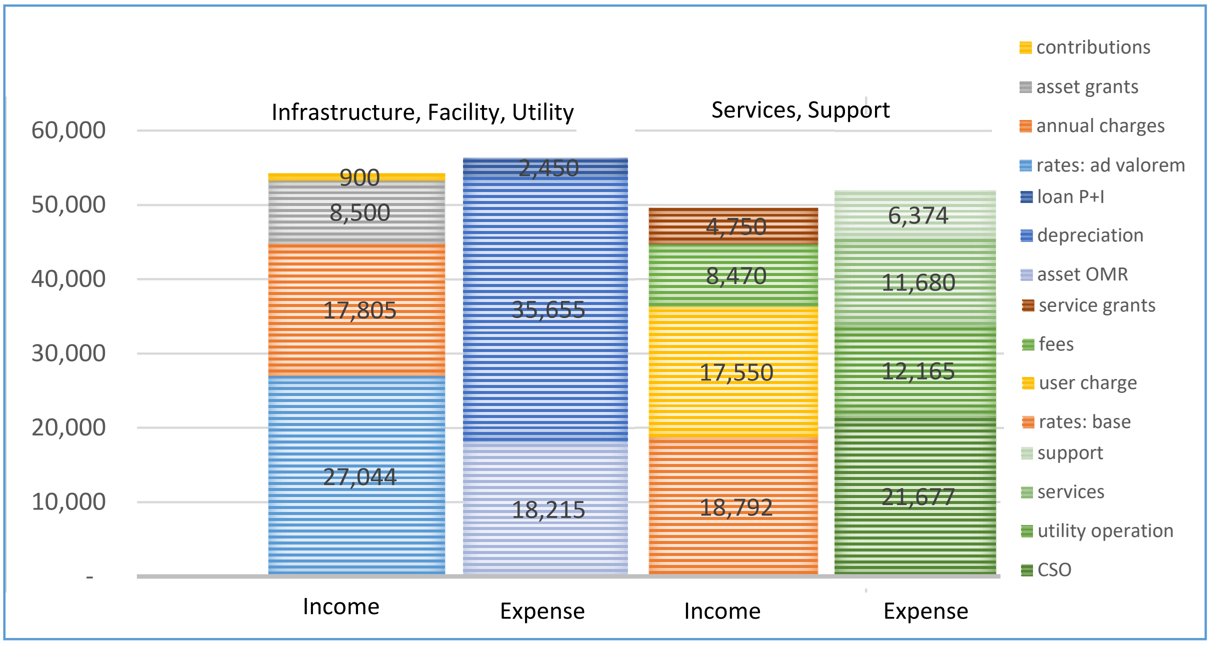


Chart 15

The principles underpinning that model are:

- maintenance, renewal, upgrade and debt servicing costs of infrastructure are funded by ad valorem rates, utility annual charges, development contributions and asset specific grants.
- 'essential' public good services (or community service obligations) are funded by the fixed component of the general rate (base amount or minimum rate), general purpose grants (FAG) and allocated grants (eg library).
- additional general services (above the CSO) are met by fees, charges and specific purpose grants.
- utility (water, sewer and waste) services are funded by user charges and fees.
- governance and corporate support costs are attributed across the asset and service areas.

In this way:

- the ad valorem and base rates may be set to differ by category or subcategory.
- the unimproved land value may differentiate the standard of infrastructure by category/locality.
- the Base-Minimum Rate differentiates the public good (CSO) level of service by category/locality.

Growth Areas and Gifted Assets

In many growth areas, ratepayers often believe subdivisions to be a rates windfall for councils – the reality is, without appropriate design of rate structures, the higher annual costs (operation, maintenance, depreciation) of higher-order subdivision infrastructure and facilities, may exceed the additional rate yield through supplementary rates – without any contribution to other LGA services.

It is suggested councils be empowered to obtain a quantity surveyor estimate of the (nett present value) construction cost of the infrastructure and facilities of the fully developed estate to be handed to council for future maintenance. With that value, a council may calculate the indicative costs of annual maintenance (at say 1% of asset value) and depreciation (at say 2% of asset value), divided by the approved estate lot yield, to determine the minimum annual tax (rates, annual charges) yield required to cover those costs over the development life (say 10 years) levied as supplementary rates – in addition to a suitable contribution to other assets and services in the LGA in the rate bill (say 10%).

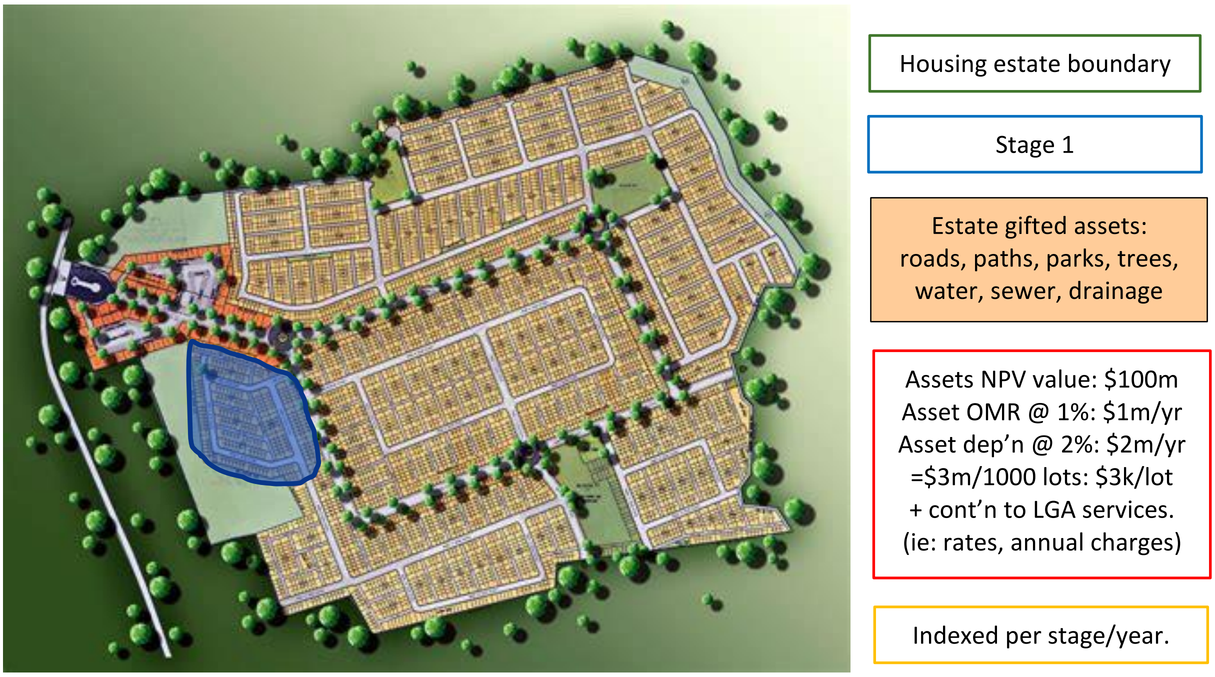


Figure 2

Once that (say) 10 year period concludes or the development is fully occupied, council may consider harmonising the rates to the broader applicable rate category.

This may require a separate rate subcategory/ies and differential rates to apply – but significantly, is rate income above the notional rate yield established through the IPART rate peg.

Importantly though, it is suggested IPART *not* reduce the population peg component assessed for that LGA by the value of supplementary rates. It is considered supplementary rates essentially covers the cost of expanded infrastructure to support the estate/development, while the population peg is designed to support growing demand for services.

Rate Categories

There has been regular discussion on mechanisms to regulate or capture appropriate returns from short term rental accommodation (STRA) or incentivise long term rentals. Similarly, mechanisms to extend rating to energy and tourism landholders has been vexed – particularly as those rates and charges on STRA, energy and tourism facilities are tax deductible to the property owners.

While it may be argued the current system of rate categories are flexible enough to differentiate by dominant use and locality - regardless of landuse zoning – perhaps an alignment between both systems may be appropriate. Multiuse or split valuations could be used to assign different rate categories across different footprints on properties – much as land use zones do – and could apply to a wind or solar farm operating on farmland, for example, so that annual rates apply to those developed uses in that footprint, rather than a one-off development contribution for those developments.

The landuse zoning template (below) applied by NSW Department Planning and Environment, could guide the descriptor and footprint of alternate rate categories or subcategories, based on dominant/potential use. The 'potential' use may then be a factor in 'postponement' of rates referenced earlier.

RU1	Primary Production	Rural
RU2	Rural Landscape	
RU3	Forestry	
RU4	Primary Production Small Lots	
RU5	Village	
RU6	Transition	
R1	General Residential	Residential
R2	Low Density Residential	
R3	Medium Density Residential	
R4	High Density Residential	
R5	Large Lot Residential	
E1	Local Centre	Employment
E2	Commercial Centre	
E3	Productivity Support	
E4	General Industrial	
E5	Heavy Industrial	
MU1	Mixed Use	MU
SP1	Special Activities	Special Purpose
SP2	Infrastructure	
SP3	Tourist	
SP4	Enterprise	
SP5	Metropolitan Centre	
RE1	Public Recreation	Rec
RE2	Private Recreation	
C2	Environmental Conservation	Environment Protection
C3	Environmental Management	
C4	Environmental Living	

Table 16

Should an alternate approach to rate categories be considered (refer examples in Attachment 7-8), and broader rate categories be accepted, then it is suggested the yield of those new rates be above the notional yield in the year those rates were established, as one-off uplift for new subcategories (eg STRA, tourism, energy). In that way, the additional costs of catering to tourism/seasonality, may be offset. For example, Queensland articulates and differentially rates permanent place of residence (PPR) from transitory or tourism places of residence, and intense agricultural and mining landuse in its rate categorisations.

Annual Charges

While ss501-503 of the Act outline the broad applications for annual charges, s501 (1) does permit a charge for 'any services prescribed by the regulations'. That section in particular may be a vehicle to link the Act to the Fire and Emergency Services Levy (the subject of a separate Inquiry).

With reference to Attachment 9, local councils in other States are enabled to levy annual charges for a range of asset and service purposes – in addition to general rates. In that way through IPR engagement, citizens are aware of the purpose, outcomes, timeframes and reporting arrangements.

These represent additional or 'special purpose' services beyond the normal 'essential public services' brief of a local council, but nonetheless sought by the community. Importantly, by annually publishing the scope and value of the service (program or project), ratepayers have transparency.

Moreover, utility charges could be differentiated to recover asset maintenance, depreciation, cleansing and catchment expenditure (via annual or availability charge) separately from the operating expenditure (recovered through usage charge) - and perhaps subject to IPART assessment or annual audit by the Audit Office. A multipurpose council should set its pricing structure to build cash reserves to accommodate seasonality (climate change) risk; to fund future growth and infrastructure augmentation, and by smoothing, minimise bill shock.

It is suggested therefore, the 'best practice water pricing' model of DPE (Water) be revised to improve the certainty of funding for utility services in line with above.

Some parity charging for regional and rural councils may be appropriate, where the current $25 urban property charge for stormwater does not even cover depreciation. For example, the stormwater charge for local councils is $25 per eligible urban property. However in Sydney, metro ratepayers also pay annual stormwater service charges to Sydney Water for houses ($88) or units ($28), in addition to a land charge to assist environmental and flood management in catchments in urban expansion areas (Attachment 10).

Rate Peg

As outlined in Section 4, the impact of capping of general rate income was exacerbated through 'cost shifting' by later governments, by introducing legislation to meet the government's social or environmental policy agenda, then imposing the delivery of those ideals through underfunded or unfunded regulatory and other services mandated for delivery by local councils. Indeed, the portion of general rates applied between infrastructure and community/environmental services also shifted in the decades following, as (mostly) metropolitan councils moved to fill the community or environmental voids left by Government, or to meet local (populist) ambitions.

While acknowledging the improvement to the rate peg factors through the 2023 Rate Peg Review, the IPART 2021 Population Peg papers identified the per capita gap between own source reviews and expenditures by councils, as well as the rate yield growth margins of capped local councils to non-capped in other State jurisdictions over the decades. Indeed, that Final Report acknowledged:

- councils' costs increase with population growth.
- costs vary depending on the type of development.
- rural councils face population related issues that cannot be solved through (this) review.
- existing service levels (per capita) are the best indicator of costs with population growth.
- aged care, childcare and social housing costs are distributed among the ratepayers.
- tourism adds pressure to cost of council, with limited scope to recover costs through user pay.
- bushfire and flood legacy impacts last beyond funding timeframes.

That Report concluded:

- rates revenue has not kept pace with population growth.
- per capita rates are decreasing, while costs are increasing.

Figure 3 - source IPART

The Report recommended then that '*each council's general (rates) income on a per capita basis should be maintained as its population grows*'. Unfortunately, the determination to deduct the value of supplementary rate growth from subdivision development negated any gains generated by the population peg for many councils.

The chart below illustrates the lag of the former rate peg to other cost indices.

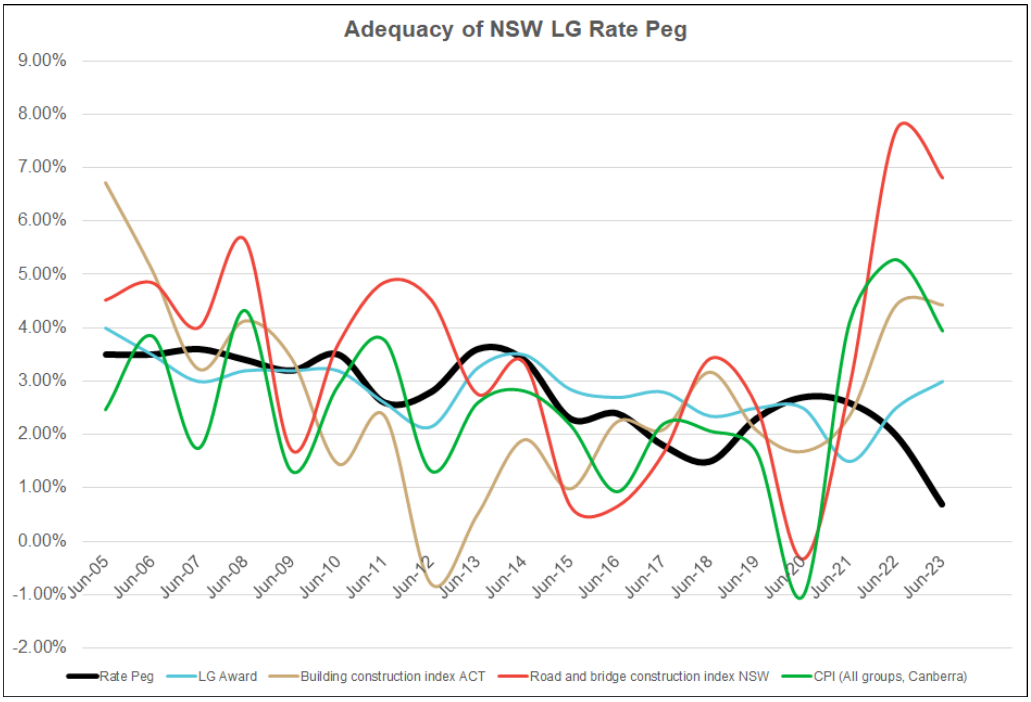


Chart 16 – source CRJO

While it assumed the rate peg will continue as Government policy – and the new rate peg factors are an improvement on the LGCI – it is suggested the 'starting point' for notional rate yields for many councils should be reset (refer Section 4 commentary on commencement of rate peg in 1970's).

A Phased Uplift

Some options to strengthen the tax base of council over a term of council is proposed below:

a. introduce an 'alternate rate model', assigning the recovery of nett cost of asset operations, maintenance and depreciation to ad valorem property rates and annual charges; and the recovery of nett cost of 'essential' public services from the base rate (refer Chart 15).
b. from a pre-determined financial year statement (eg FY24, as it concludes the current series of asset revaluations), an assessment of the value of infrastructure, facility and utility assets in condition 4 and 5, and the associated cost to renew or replace those assets to condition 2 (good) by council cohort, is suggested. Decisions on asset obsolescence will be required by councils (eg pools, halls).

   From there, the annualised principal and interest cost of borrowings (say 10-20 year term, pending affordability tests) to fund those asset renewals is added to the council's notional yield.

c. enable 'new' subcategories (energy, STRA) as revenues above the notional rate yield.
d. contemplate a portion of LV uplift (per 3 year revaluation cycle) above previous year yield, as indicator of LGA wealth/capacity to pay.
e. reset the base yield for councils, through derivation of standard rate revenue per capita, by cohort
f. refer earlier options regarding 'growth and gifted assets'.

Affordability

Of course, the important matter of affordability requires attention. Previous Sections have discussed improving transparency, alignment of revenues to expenses, and services cataloguing.

Recent media reports indicate a growing portion of householders (ie ratepayers) have purchased dwellings without a mortgage – however many of those may be self-funded retirees or future pensioners. Several of those may live in a residence with high-value zoning that may prompt postponement of rates – in that case, is may be suggested the value of potential rates foregone may become a claim by a council on the estate or on sale of the property - as a one-off uplift to yield.

It may be also suggested that many owners of dwellings choosing to purchase in cities, towns, villages or rural areas, do so knowing the capital investment they've made and the standard of infrastructure around them, and the rates they should expect to pay – however tree and seachangers often bring with them metro asset and service expectations, with an assumed lower rate profile in regional and rural areas.

Perhaps the metrics for 'affordability' should be differentiated between 'capacity to pay' and 'willingness to pay'. Using SEIFA or full employment data may elicit the capacity to pay within a region or LGA. However, willingness may differ across the LGA by rate category, location or demographic.

In some circumstances, it may be appropriate to enable a council to levy base rates up to half the total rate yield, rather than capped at 50% of each rate category, to assist distribution of the rate burden.

As outlined earlier, statistically reliable community surveys should be conducted twice in each council term, testing the community satisfaction with a standard basket of services and assets (eg quality, access), and the respective levels of importance of those services and assets. The quadrant analysis of the survey results should guide which services or assets require review or attention (ie score less than satisfaction level of 3).

Those surveys may also test the appetite of the community for rescoping the services and assets, including changes to standard and location – with associated differing cost profiles and rating. This approach aligns with the suggestion of 'special purpose' annual charges discussed previously. Examples of that approach are available in Queensland and New Zealand local government.

Similarly, this submission has urged the importance for local councils to manage expectations. Indeed, most councils should focus on renewing existing assets and making decisions on obsolescence, generally narrowing any new or upgraded capital expenditure to the value of capital grants, contributions, special levies or cash reserves held for that purpose. Surveys and other engagement may be used to provide certainty to the community around service offer, and the downstream impacts of new or upgraded assets funded by development or grants (refer also to Sections on Services and Gifted Assets).

The lack of conscious comparison by ratepayers of the certainty and value of rates to the relative uncertainty of other charges (such as energy and fuel) does not assist the acceptance of this form of property tax (ie rates).

Assuming average general rates of $1500, each new pensioner may access $250 in rebate, meaning around 10% of the value of the rate revenue to a council is eroded by a subsidised pension rebate. Government fully subsidising the rebate (like other States) – as the Government should - would ease that pressure on councils.

Similarly, councils not proactively recovering outstanding property tax (rates, annual charges) to the level of OLG benchmarks (~10%), suggests that value of rate revenue is notionally unavailable to spend each year.

As referenced above, SEIFA (measuring variables of socioeconomic disadvantage/advantage) - or the 'Financial Resilience Barometer' based on ABS SA2 areas, which deploys a multidimensional framework across four axis to assess community resilience: https://www.fullemployment.net – also may be used to guide levels of affordability in the community. Those parameters include:

- economic (ability to save, meet costs, raise money in emergency).
- financial (access to banking and insurance).
- knowledge (financial services, proactive actions, use of financial products).
- social (social connections, access to support, access to government.

It is suggested a bandwidth be established per council cohort or region based on the above socioeconomic metrics, within which councils may annually phase any increases to the rate yield above the rate peg.

That would also signal the level of assistance or support required through Government allocated grants for those councils – a matter perhaps for consideration by LGGC.

Property Tax (Rate) Notices

All NSW councils maintain a rate register, property register, name and address register, and create new properties and supplementary rates upon registration of property titles following subdivision or change in category or valuation. All adopt rate structures, publish revenue statements and issue annual rate notices. Councils often contract to third parties the recovery of those rates and charges. Council staff respond to requests and complaints regarding rating and annual charges.

So too does Service NSW, Revenue NSW and NSW Land Registry in administering property and other taxes. Service NSW has invested in a significant digital and customer backbone that potentially may be leveraged by NSW councils.

It is suggested the opportunity to progressively migrate the management of property creation, titling, addressing and valuation; and customer service, administration, levy and recovery of rates and annual charges (with rate yield metrics set by local councils through IPR), and property mapping - from local councils to those State agencies - should be explored. Naturally an annual fee (or negative cost-shift!) may apply.

The base data property layers and GIS licencing for spatial analysis and recording public infrastructure should be prepared (by State) and shared to local councils (reciprocal value-added data layers) – rather than duplicate.

By centralising property and address data, then legitimate owner-occupied, and investor data across LGAs may assist appropriate categorisation of property and rates.

Further, it may also be appropriate to consider billing twice yearly (ie 50% annual rates and charges), allowing for subdivision, category or crisis adjustments to the annual levy.

12 Expenditure

As referenced in Section 4, the sequence of natural disasters, pandemic and inflation has escalated most councils cost profiles, scoured their skilled resource base and eroded any working capital reserves.

Most of the Reports in Section 7 acknowledged local councils have generally managed operations within their limited available revenues, however the Reports recognised costs are rising; they differ between council cohorts; revenues per capita have not remained constant and also differ between council cohorts – often related to population size, rateable properties, non-rateable properties (eg state forest, national parks), distance to capital markets and access to skills.

Many regional and rural councils provide community (aged care, childcare) services and facilities, including essential worker accommodation, to fill the service void of other Government.

A broad appraisal of recent financial statements of council cohorts may illustrate many revenues have flatlined or declined (eg facility hires, carparking) during Covid, debt recoveries eased, employee costs have levelled, but in contrast, council energy, fuels, insurance and construction costs have soared.

The sponsorship of Government through funding disaster recovery works and Covid grant stimulus, has perhaps masked the widening of the revenue-expenditure gap. Undoubtedly, while assets have been renewed through disaster grant funding and councils happily accepted stimulus grants for upgraded or new facilities, the downstream effect of increased operations, maintenance and depreciation expense from those elevated asset values, has inadvertently deepened many councils operating deficits. An indication of increased unit rates to renew road assets is at Attachment 11.

The combination of receipt of gifted infrastructure and facilities (development boom) and grant funded infrastructure and facilities (disaster recovery and stimulus) has opened gaping funding holes in many councils' financial plans.

With the relative 'glut' of outstanding disaster and stimulus grant-funded capital expenditures yet to be delivered, it may be appropriate for councils and Government to take stock. Many councils continue to place significant capital projects into 'carry over' reserves each year, as they struggle to engage resources to complete the grant funded works. That is an indicator of capacity of the organisation (and civil construction sector) to deliver. The market for those resources is tight. It is suggested some councils may be better placed to defer scheduled capital projects for several years until those grant funded projects are complete. While that may place pressure on future estimates for those postponed projects, it should ease the pressure on their financial operating results and under-funded reserves.

In 2021, an Independent Regional Roads Review Panel was formed by Government to make recommendations to reclassify roads between motorway, highway, regional and local roads; and of those, to nominate which regional roads should be transferred back to State for its management and funding. That Panel is understood to have identified many $100's of thousands of dollars in savings in nett expenditure and depreciation charges that would be lifted from regional and rural councils accounts, should those road assets be transferred back to State. Ironically, many of those regional roads and bridges damaged through natural disasters have now been renewed through DRFA funding.

Without doubt, the greatest shift in local government expenditure has been the growth in depreciation, through the combination of acquisition of new assets (grants-gifted assets) and asset revaluations, to the point the annual value of that growth exceeds the growth in taxes for many LGAs.

13 Accounting

Fund Accounting

Local government is required to nominate which of its services trigger categorisation as 'business' within the National Competition Policy (NCP) framework. Typically, water and sewer activity falls into those thresholds, while in other circumstances, so too could waste, aged care and child care centres operated by councils – pending the proximity and plausibility of competition. Then, under the National Water Initiative (NWI), the 'owner' of local water utilities (LWU) such as multipurpose councils, have an opportunity to derive dividends from the surplus results of eligible water and sewer business.

In those circumstances, councils are required under accounting codes to establish 'Funds' and plan, account and report separately on their results in financial statements.

It is suggested that other activities of local councils could be required to plan, account and report as Funds, those that may be a utility (eg Waste, Stormwater) or have current or proposed legal capacity to levy special purpose annual charges on property (eg environment, emergency).

That approach removes the obligation of consolidating waste and stormwater in general operations, and differentiates their nett operational cost from general operations to the point they could (or should) be self-funding.

It also opens the opportunity for annual charges (outside the rate peg) to be levied transparently for non-traditional local government programs or projects the community seeks (refer Section 11).

The full cost, including attributed organisation support costs, should be appropriately assigned to those programs and projects. It is suggested OLG develop guidance for councils to follow regarding cost attribution or activity based costing (ABC), for consistency across the sector.

All utility and special purpose annual charges may be planned, scheduled, accounted and reported in a ringfenced 'Fund', published in a council's Operational Plan, financial statements and annual report. The pricing principles relevant to those utility and special purpose annual charges may be distinguished in the Revenue Policy.

Asset Accounting

OLG issues a 'Code of Accounting Practice' to augment the Australian Accounting Standards (ie AAS27) as they apply to local councils. The Code also outlines definitions and approaches to accounting for assets (refer Section 8). The Infrastructure Property Plant and Equipment (IPPE) Note of the Financial Statements records capital expenditure in renewed and upgraded/new assets, operational expenditure in depreciation, capital revenues from disposal or sale of assets (usually plant), changes through asset revaluation, what value of asset are 'works in progress' and yet to be commissioned, and the written down value of IPPE. That Note is audited.

However, as suggested in Section 8, the Report on Infrastructure Assets (or special schedule 7) is not audited and could be merged into a consolidated statement of the condition, risk, value and expenditures on assets. Four years of the audited Note may then inform an end-of-term 'State of Infrastructure Report'.

However, part of the imbalance of asset and financial accounting rests with the focus of asset management on the OLG indicators of maintenance, renewal and backlog ratios. In many circumstances, through appropriate and consistent asset management, expenditure on renewal of assets may not be required to be as high as the annual depreciation charge may suggest. This is in part due to the long term planning horizon required for asset renewal (~10years); the 'lumpiness' of actual renewal expenditure compared to the 'smoothed' line of depreciation; the recency of disaster or grant funded renewals; and decisions of council to permit some assets to fail or be sold.

Again, it is suggested IPWEA be engaged through OLG to mandate standard lifecycle management, condition assessment, revaluation and accounting practice, together with sponsored training for council practitioners, guidance on the application of asset management technologies and a framework for a State of Infrastructure Report.

Similarly, it is suggested the IPWEA NAM definitions be used to modify the Code of Asset Accounting classification for operations, maintenance, renewal, rehabilitation, upgrade and expansion.

Ratios

Other States have modified their approach to asset and financial indicators of local government sustainability – ostensibly by assigning ranges or bandwidth to several of those measures and differentiating those measures - by council cohort.

With reference to Attachment 12, the sustainability of councils could be monitored through the lens of lower and upper thresholds (for example, the operating performance ratio may be -10% to +10%) to signal a council in distress, or a council raising more revenues than required; or that asset renewal performance is acceptable within a 90-110% range, with annotation in the financial statements which may reference disaster grant funding for example. Those ratios should inform the financial sustainability ratings (Attachment 1). Auditors may be empowered to use risk ranges as a pre-emptor to focus the attention of councils. An example is below:

Sustainability measure	Purpose	How is it measured?	Target
Operating surplus ratio	The operating surplus ratio indicates the extent to which operating revenues raised cover operating expenses.	*Net operating result/Total operating revenue (excluding capital items)*	Between 0% and 10% per annum
Net financial liabilities ratio	The net financial liabilities ratio indicates the extent to which operating revenues (including grants and subsidies) can cover net financial liabilities (usually loans and leases).	*(Total Liabilities–current assets)/Total operating revenue*	< 60% per annum
Asset sustainability	The asset sustainability ratio indicates the extent to which assets are being replaced as	*Capital Expenditure on replacement of assets*	> 90% per annum

Table 17 – source QAO

It is suggested a broader suite of measures be established for local councils, to draw attention to financial health, including:

- change in annual nett cash (unrestricted cash and reserves).
- difference in annual growth in general rates compared to depreciation.
- difference in forecast annual asset OMRD (through annual gifted and grant-funded assets) to value of supplementary rates and charges received.
- working capital, equivalent to 25% or 3 months of cash opex (backed by internal reserves and unrestricted cash), rather than inappropriately accessing restricted funds to prop up cashflow.

Budget Format

While OLG permits the presentation of the annual Operational Plan (budgets) in either Income Statement (per financial statements) or Functional Classification (per ABS/LGGC) formats, most councils publish their budget summaries in the Income Statement format, as it then aligns with Financial Statement coding.

Income Statements disclose the source of income (rates, charges, fees, grants, contributions, interest), and the resources used (wages, materials, loan payments) and the smoothed deterioration of assets (depreciation). The inclusion of capital grants on that Statement masks the real operating result and excludes a significant portion of council activity – capital works.

The budgeted value of capital IPPE renewals and upgrades, together with loan payments or the use of debt or reserves to fund those asset investments is not disclosed. A better comparison of budget to annual results is probably revealed in the Statement of Cashflows, rather than the Income Statement. The Statement of Cashflows also records movement in cash, represented by annual changes to reserves and investment balances – and is perhaps a reasonable barometer of financial performance over a council term.

As a rule of thumb, operational revenues should equal or exceed the operational expenses (including depreciation), so that the notional value of depreciation represents the cash surplus that should ideally then be expended on renewal of assets.

It is suggested the Code of Accounting Practice enable alternate formats, such as constructing budgets into an Operating Account and Capital Account format, to convey operational and capital results, nett of their respective sources of revenues, or financing from reserves or loans for example. This format is essentially an input/output model, rather than the Income Statement input/input resources model.

Attachment 13 illustrates such an approach. In this way, in the Operating Account:

- property taxes (general rates, utility annual charges) are articulated.
- usage charges (typically for utilities) are disclosed.
- operating grants (allocated and competitive) are differentiated.
- regulatory, market and property revenues are highlighted.
- assets OMR (general and utility) operational expenses is published.
- asset depreciation is retained.
- utility servicing costs are separated from asset operations.
- relevant regulatory, market and property expenses are separated.
- other non-asset service expenditure (eg environment, community, economic) and organisation support costs (the latter the subject of attribution).

The Capital Account then:

- records the sources of revenue (capital grants, property and asset sales, use of reserves or loans).
- displays the type of asset, property and loan expenditure by type (renewal, new, upgrade).

The effect of this approach is councillors, community and Government can easily identify:

- whether property taxes adequately cover asset OMR and depreciation.
- whether utility usage charges recover respective service costs.
- what is level of cost recovery proposed for regulatory, market and property services.
- what is the expected operating result (balanced, deficit, surplus), after allowing for depreciation (to expend on renewal of assets in the Capital Account).

Alternatively, the Code may enable budgeting or reporting of local government operations in an Asset, Service and Transfers Account format, wherein the:

- Asset Account records the revenues (general ad valorem rate, utility annual charges, asset sales, property sales, plant disposals); and the expenditures (asset operations, maintenance, loan payments).
- Service Account records the revenues (general base rate, special purpose annual charges, utility usage fees, property and facility hires, fees, penalties, commercial charges, regulatory charges); and the expenditures (community, environment and economic services, regulatory and property services, utility services, commercial services).
- Inter-government Transfers Account records the revenues (FAG, allocated operating grants, competitive operating grants, emergency grants, pension and loan subsidies); and the expenditures (emergency service levy, other government contributions, rebates to government and NGO instrumentalities).

The effect of this approach, by excluding depreciation and capital, is councillors, community and Government can easily identify:

- gaps in expected cash revenues and expenditures.
- reliance of councils on Government sponsorship (grants).
- extent of council sponsorship of Government activity.
- nett funds available for capital expenditure.

14 Risk

Notwithstanding the input and available expertise from mutual insurance providers to local councils, the definition and management of risk is varied across the council cohorts. Councils are required from the next council term (2024) to establish an Audit Risk and Improvement Committee (ARIC) and revise its risk management framework; determine and publish it appetite for risk, and with the independent ARIC, set about a program to assure councillors and community of its observations and proposed interventions regarding risk.

While financial risks (liquidity, credit, interest) are disclosed in financial statements, some States require councils to publish their financial risk profiles regarding expenditure, revenue, cashflow, investments, debt and assets (refer Attachment 14).

JLT Top 12 Risks	2018	2019	2020	2021	2022	2024
	2018-2022 AP	*2019-2020 AP*	*2020-2021 AP*	*2021-2022 AP*	*2022-2023 AP*	*2023-2024 AP*
1	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Financial Sustainability	Data Available April 2024
2	Theft / Fraud and/or Crime	Cyber Security	Assets & Infrastructure ✓	Cyber Security ✓	Cyber Security ✓	✓ 2023-10;2024-01 Cyber Security
3	✓ Reputation	Reputation ✓	Disaster or Catastrophe	Assets & Infrastructure ✓	Assets & Infrastructure	✓ 2023-06 Assets-Buildings
4	Statutory & Regulatory Requirements ✓	Natural Catastrophes	Cyber Security ✓	Disaster or Catastrophe ✓	Business Continuity [Advisory] ✓	✓ RRWR-Create BCP
5	Environmental Management ✓	Climate Change / Adaptation	Reputation ✓	Reputation ✓	Disaster or Catastrophe ✓	✓ 2023-10;2024;01 [As Above]
6	Assets & Infrastructure	Assets & Infrastructure ✓	Business Continuity	Business Continuity	Climate Change / Adaptation	
7	Natural Catastrophes	Statutory & Regulatory Requirements ✓	Waste Management	Climate Change / Adaptation	Statutory & Regulatory Requirements ✓	✓ 2023-08 Audit Committee
8	Cyber Security	Ineffective Governance ✓	Statutory & Regulatory Requirements	Impact of Pandemic	HR Management	
9	Business Continuity ✓	Business Continuity	Climate Change / Adaptation	Statutory & Regulatory Requirements ✓	Waste Management [Advisory] ✓	✓ [Advisory-As above]
10	Ineffective Governance ✓	HR /WHS Management ✓	HR /WHS Management ✓	Ineffective Governance ✓	Ineffective Governance ✓	✓ 2023-10; 2024-01 2023-08

Table 18 – source JLT

Table 18 is an extract from the JLT Public Sector Risk Report 2023 and illustrates the views of CEOs of local councils across Australia, nominating the key risks facing local government. The coloured cells indicate the typical areas of internal or external audit or review undertaken by the sector in the respective years.

Unfortunately, it also indicates 'financial sustainability' remains the highest concern in the sector but has not attracted investment in audit or review by Governments.

It is suggested Government assist local councils prepare a 'financial sustainability plan' comprising:

- broad analysis of the capacity and capability of the organisation.
- review of strategic settings and priorities (actions, programs, projects), from previous terms.
- review of policy settings for acceptance and management of grants and gifted assets.
- review of rating settings (category, share of burden, recovery of asset-CSO cost, and affordability).
- rates of cost recovery settings for services.
- review of criticalities and risks to key assets and services.
- assessment of downstream impacts if those critical assets are not renewed or replaced within AMP schedules, or gifted assets are commissioned earlier than scheduled.
- broader suite of financial, asset, workforce and risk ratios to monitor sustainability.
- those ratios be moderated to reflect the risks identified for each council or cohort.
- sustainability principles to guide the 10 year financial plan.

15 Resilience

The recent series of natural disasters and the pandemic has shifted thinking in business continuity for many councils.

While damage or destruction to infrastructure, utility, technology or amenities (including through terrorism or cyberattack) was formerly considered the foremost risks upon which business continuity or disaster recovery plans to restore service were based – the unavailability of staff or other contract resources to attend to the operation of those assets (evidenced through Covid), and the impact on the wellbeing of staff managing those assets and services during disasters and the pandemic – has expanded expectations of 'resilience' in local government.

It is suggested Government consider 'resilience' in the sustainability of local councils and their ability to fund infrastructure and services – particularly consequent to disasters, rather than relying on Government grants – and manage change. Some initiatives or principles Government should explore:

- disaster risk: vulnerability mapping (across regions), assessment of asset criticality (emergency access and accommodation), and regional escalation to expand or operate (eg water, waste cells).
- cyber risk: vulnerability of councils to cyber (data), terrorist (critical asset) and artificial intelligence (communications)
- grant timing: reinstate 'pay and do' funding, to minimise council exposure to underwrite repair or restoration works and mistiming of reimbursement through DRFA.
- resilience: flexible opt in/out in options for councils in declared disasters, to enable deployment of council resources for repair or restoration.
- Build Back Better (BBB): enable uplift in capacity (say a bridge from 1:20 to 1:50 flood access), to optimise disaster funding. This may include shared cost arrangements, such as special infrastructure levies by councils to match grants or contributions sponsored projects.
- sector maturity: sponsor investment in asset, project, contract, development, finance skills.
- incentivise borrowing: to meet project funding gaps through continued access to TCorp borrowing and investment products, and partition LIRS to support 'at risk' councils (eg poor asset ratios).

With reference also to Section 8, BBB or 'betterment' allows local governments and state agencies to rebuild essential public assets to a more resilient standard to help them withstand the impacts of future natural disasters.

Examples include improvements to vital infrastructure such as roads, bridges and floodways. These can vary from stabilisation of low-lying roads to reduce erosion and scouring, upgrades to drainage structures to increase capacity or replacing gravel with reinforced concrete to improve resilience.

Betterment can:

- increase the resilience of our communities to natural disasters.
- reduce future costs of natural disasters on asset restoration.
- reduce incidents, injuries and fatalities during and after natural disasters.
- improve asset utility and connectivity during and after natural disasters.

It is noted Queensland Betterment Funds are jointly funded (50:50) by the Australian and Queensland Governments.
[Queensland Betterment Funds | Queensland Reconstruction Authority (qra.qld.gov.au)]

There has been some discussion in the sector following the spate of natural disasters, regarding the ongoing role of local government – as a response or recovery agency. With reference to the diagram below, local councils may become expected to increase responsibility in the left hemisphere (prevention and recovery) – and potentially without commensurate funding. This may be through land use planning and acquisition of bushfire, landslip, coastal inundation or flood prone land to prevent future response and repair to private property; or leading local community recovery efforts following an emergency event.

Figure 4

Indeed, while making absolute sense to rethink the resistance and reliability of key infrastructure to disaster events, the NSW Critical Infrastructure Resilience Strategy nominates roles and accountability for local government. That includes:

- building resilience (not just CIR) within the local government area.
- participating in regional resilience building, through shared arrangement with other local governments such as Joint Organisations and Regional Organisations of Council.
- landuse planning for and advising on hazards and threats within LGA.
- manage the natural environment impacting critical infrastructure.

While local councils can generally insure property and buildings from damage or destruction form disaster (eg halls, playgrounds), they rely on State and Commonwealth funding to repair or restore infrastructure and utilities.

Again, the above functions or staffing to support disaster recovery are not capable of funding within local councils.

16 Sustainability

Several suggestions have been made throughout this submission to improve the *stability* of local government and its *ability* to fund infrastructure and services. With the expectations of community and the obligations of legislation out of step with the financial capacity of the sector, decision making and priority setting by the leaders in local government remain central to deliver optimal value.

Next Council Term

Over the years, many councils have developed various strategies and plans (in addition to those required by legislation and IPR). They may cover climate change, transport, water security, open space, tourism and cultural development for example. Most incorporate findings and recommendations – some of which may have been embedded in IPR or cross several years to complete. It's likely however, many of the initiatives, actions or projects listed in those strategies and plans have not stood the test of time, nor found favour with funding.

It would be appropriate then for next term councillors to revisit the status and enduring relevance of the actions from former strategies and plans, before commencing new bodies of work. Equally, ranking their respective priorities for funding alongside other matters identified in IPR, would also be appropriate, and retest the community appetite to continue those priorities through IPR engagement.

Alignment of those priorities to others emerging from normal community engagement with IPR (ie community strategic plans), may guide where councillors place resources to support the catalogue of services (Section 9) proposed in their term.

Similarly, through a refresh of a council's asset strategy and asset plans (bolstered by contemporary useful life condition assessments and revaluations), decisions can be made on renewing or upgrading assets critical to the delivery of essential services and required to stand up during emergency.

Then, with the benefit of ARIC assisting the audit of the council's risk assurance framework (see Section 14), councils may publish their appetite for risk with the knowledge of the organisation's capacity and capability to undertake prioritised actions, deliver services and maintain assets.

Preparing a 'financial sustainability plan' each council term and adopting appropriate principles and settings to inform the financial planning process, may then become a guide to tax settings (rates, annual charges) required for the term, to deliver the assets, services and projects identified (and agreed through IPR.

In that way, a regular uplift each term (above rate peg) smooths out bill shock that occurs when large SRV interventions are required to attend to structural deficits and sustainability risk.

Capacity-Capability

Many councils face a capacity and capability dilemma. As noted earlier, local government is fundamentally in the business of development and construction, yet those costs have escalated beyond CPI and the skills remain scarce (or snapped up by Government or private sector). High risk and large expenditure programs and projects delivered by local councils require particular skillsets (asset management, project and contract management, development assessment, financial and risk management) that are difficult to attract and retain inhouse – otherwise consultant or contractor margins apply. Ironically, several of those specialist skills may become available through innovative hybrid work offers of employment.

There is evidence amongst local councils that, following Covid, the turnover of staff in several organisations nears 20%, while recruitment delays for key positions exceeds three months.

Much of the risk in time and cost hovers around the scale of many councils' capital programs. A robust project management framework (PMF), with 'gates' aligned to business case, decision and funding milestones required by Infrastructure NSW or Treasury, are not prevalent in all councils. A standard online PMF template (accompanied with supporting training), may provide assurance to councils (phases, milestones and timelines) and Government (estimates and delivery). A sample PMF is at Attachment 15.

A sponsored program to rebuild skills through cadetships and traineeships in local councils – in keeping with the NSW Government 'Infrastructure Skills Legacy Program' - is suggested. Options for establishment of a central project management office between councils to retain the above skills may be useful. In some circumstances, an employment pool may be established within Joint Organisations to distribute training and overhead across member councils. Ideally, access to a broader spread of Commonwealth and State contract arrangements should become available to local government to improve probity and reduce cost of procurement administration.

Technology capability and investment for local councils will become the equivalent escalation threat as healthcare for Government. While the Audit Office is monitoring cyber risk, the reliance of local councils on several key technology providers under a IaaS, SaaS or PMaaS environments has not gone unnoticed. The spectre of artificial intelligence (AI) playing with privacy, property and financial data of local (digitally immature) councils, is concerning. However, the prospect of local councils investing in AI to relieve scripting and transacting pressure on employees, should also not be ignored.

The capacity of local councils is often then evident by timeliness of reporting (financial statements, statutory reports), which may be impacted by turnover of key staff (including through general manager churn following council elections), and general access to specialist staff or consultants. Corporate knowledge, and leadership and delivery momentum may be stalled.

It is suggested that the Resourcing Strategy required under IPR, be expanded to include digital and risk plans, in addition to asset, workforce and financial plans, to more appropriate illustrate the capacity of the organisation to achieve the Delivery Program projects and programs, and the consequences of under resourcing.

Focus

Councillors will naturally bring their constituents' views or election promises to the table when they debate and consider their next Delivery Program. However, difficult decisions will be required to frame the above actions, services and asset activity into the rating and other resources available.

With reference to Attachment 16, the following sustainability principles are suggested for a council:

1. Improve liquidity, through:
   - building unrestricted cash (working capital).
   - targeted asset or property sales, converting fixed assets to cash.
   - building external and internal reserves.
   - building buffers for the utilities (water, sewer, waste, stormwater).
   - smoothing capex through infrastructure reserves and debt.

2. Improve cashflow, through:
   - generating a budget surplus, in turn releasing the value of depreciation for capital renewals.

- growing council-controlled revenues.
- deferring projects, including incomplete works (carryovers) from previous years.
- recycling appropriate assets, to generate recurrent lease returns.
- deriving dividends from eligible utilities.

3. Improve resilience, through:
    - designing capacity (build back better) into renewals (in readiness for natural disasters).
    - enabling special levies to support grants and contributions for new housing infrastructure.
    - maintaining working capital as a buffer for natural disasters (and underwriting of works).
    - building organisation maturity, including specialist skills and technology difficult to procure.
    - building councillor skills with local government finance, risk and decision-making.
    - introducing ratios to indicate financial, asset, organisation risk and health.
4. Improve assets, through:
    - refreshing asset and contribution plans 5 yearly, with asset revaluations based on useful life.
    - inserting contemporary replacement costs into those plans.
    - applying construction indices (PPI) between reviews.
    - aligning (or moderating) asset plans with contribution works schedules.
    - utilising IPWEA condition, maintenance, renewal and resilience technical standards.
    - integrating IPPE and infrastructure Notes in financial statements

5. Align financials, through:
    - integrating asset, digital, development and workforce plans with financial plan.
    - moderating capex to external funding (grants, contributions, sales).
    - monitoring renewal forecasts to depreciation values.
    - moderating renewal capex to nett depreciation less deficit.
    - monitoring financial and asset ratios.

6. Improve budget discipline, through:
    - establishing policies to guide decisions (grants, gifted assets, donations, risk, pricing etc).
    - cataloguing and scoping service and asset offer, and related hierarchies.
    - priority setting for programs and projects.
    - appraising and ranking current strategy findings and actions for funding.
    - managing expectations of councils assets, services and capacity.

7. Improve transparency, through:
    - cataloguing services, levels of service and cost recovery (pricing) principles.
    - migrating to alternate rate model, illustrating asset and servicing gaps.
    - ringfencing Funds, and SRV and special purpose annual charges (plan, account, report).
    - rationalise existing strategic actions and projects to current CSP priorities.
    - budgeting in an Operating and Capital Account (input/output) format.
    - publishing end-of term State of Environment and Infrastructure Reports.

8. Improve accountability, through:
    - review of sustainability status and progress against Plan, through ARIC, each term
    - review of performance against published Delivery Program outcomes, through ARIC
    - review of compliance with, and nett cost of, statutory obligations, each council term
    - review of sample low score services (per survey) and cost recovery, through ARIC, each term
    - attestation by ARIC regarding financial health and performance, with end of term report

17 Glossary and Abbreviations

Ad Valorem	general rate levied as cents in $ of unimproved land value
ABC	activity base costing
ABS	Australian Bureau of Statistics
AMP	asset management plan
ARIC	audit risk and improvement committee
Base Rate	fixed amount applied per rate category/subcategory; up to 50% total yield
Council Cohort	groups of similar councils: Metro (all LGAs along coast between and including Newcastle and Wollongong LGAs, and Sydney basin) Coastal (all other regional LGAs along NSW coast) Regional (all LGAs outside above cohorts, with population above 20k) Rural (all other LGAs, including remote)
Criticality of Service	Essential (mandated by legislation, regulation, often sponsored by Govt) Important (embedded in council strategy or policy; > moderate risk) Discretionary (local initiative, or 'effort-neutral' activity)
CSO	community service obligation (public good)
CSP	community strategic plan
DP	delivery program
DRFA	disaster recovery funding arrangements
EWL	essential works list
FAG	financial assistance grant
IPPE	infrastructure, property, plant and equipment
IPR	integrated planning and reporting
LGCI	local government cost index
LGGC	local government grants commission
MRD	maintenance repair and depreciation
OLG	Office of Local Government
OMR	operations maintenance and repair
OMRD	operations maintenance repair and depreciation (ie renewal)
SRV	special rate variation
Utility	water, waste, wastewater

References

International Infrastructure Management Manual (IIMM) - Institute of Public Works Engineering Australasia (ipwea.org)

Sustainability Framework (statedevelopment.qld.gov.au)

Financial Management (Sustainability) Guideline 2024 (statedevelopment.qld.gov.au)

Cost_Shifting_flyer.pdf (lgnsw.org.au)

Attachment 1 – Financial Sustainability Risk Rating

Very Strong	A local government with a very strong capacity to meet its financial commitments in the short, medium and long-term. It has a record of reporting operating surpluses and is highly likely to be able to manage major unforeseen financial shocks and any adverse changes in its business without revenue and/or expense adjustments. Its capacity to manage core business risks is very strong
Strong	A local government with a strong capacity to meet its financial commitments in the short, medium and long-term. It generally has a record of operating surpluses and may occasionally report minor operating deficits. It is able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business, with minor revenue and/or expense adjustments. The expense adjustments are likely to result in only minor changes to the range of and/or quality of services offered. Its capacity to manage core business risks is strong
Sound	A local government with an adequate capacity to meet its financial commitments in the short, medium and long-term. While it is likely that it may have a record of minor to moderate operating deficits, the local government is expected to regularly report operating surpluses. It is likely able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business, with minor or moderate revenue and/or expense adjustments. The expense adjustments are likely to result in some changes to the range of and/or quality of services offered. Its capacity to manage core business risks is sound.
Moderate	A local government with an adequate capacity to meet its financial commitments in the short to medium-term and an acceptable capacity in the long-term. While it has some record of reporting minor to moderate operating deficits, the local government may also have recently reported a significant operating deficit. It is likely able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business, with moderate revenue and/or expense adjustments. The expense adjustments are likely to result in a number of changes to the range of and/or quality of services offered. Its capacity to manage core business risks is moderate
Weak	A local government with an acceptable capacity to meet its financial commitments in the short to medium-term and a limited capacity in the long term. It has a record of reporting moderate to significant operating deficits with a recent operating deficit being significant. It is unlikely to be able to address its operating deficits, manage unforeseen financial shocks, and any adverse changes in its business, without the need for significant revenue and/or expense adjustments. The expense adjustments would result in significant changes to the range of and/or quality of services offered. It may experience difficulty in managing core business risks
Very Weak	A local government with a limited capacity to meet its financial commitments in the short and medium-term, and a very limited capacity long-term. It has a record of reporting significant operating deficits. It is highly unlikely to be able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business without the need for structural reform and major revenue and/or expense adjustments. The expense adjustments are likely to result in significant changes to the range and/or quality of services offered and it may need the assistance from higher levels of government. It will have difficulty in managing its core business risks
Distressed	A local government with a very limited capacity to meet its short-term financial commitments and no capacity to meet its medium to long-term financial commitments. It has a record of reporting significant operating deficits. To be able to address its operating deficits, meet its medium and long-term obligations, manage unforeseen financial shocks and any adverse changes in its business, major revenue and expense adjustments and structural reform will be required. The local government is unlikely to have the capacity to manage core business risks and may need assistance from higher levels of government

Assessment of financial sustainability – risk rating

Risk Measure	Operating Surplus	Net Financial Liability	Asset Sustainability
Higher	Less than negative 10% (i.e. losses) • *Insufficient revenue is being generated to fund operations and asset renewal*	More than 80% • *Potential long-term concern over ability to repay debt levels from operating revenue*	Less than 50% • *Insufficient spending on asset replacement or renewal resulting in reduced service levels and increased burden on future ratepayers*
Moderate	Negative 10% to zero • *A risk of long-term reduction in cash reserves and inability to fund asset renewals*	60% to 80% • *Some concerns over the ability to repay debt from operating revenue*	50% to 90% • *Irregular spending or insufficient asset management practices creating a backlog of maintenance and renewal work*
Lower	More than zero (i.e. surpluses) • *Well positioned to fund operations and asset renewals*	Less than 60% • *No concern over the ability to repay debt from operating revenue*	More than 90% • *Likely to be sufficiently replacing or renewing assets as they reach the end of their useful lives*

Risk Level	Detail of Risk
High	Higher risk of sustainability issues arising in the short to medium term if current operating income and expenditure policies continue, as indicated by average operating deficits (losses) of more than 10 per cent of operating revenue
Moderate	Moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by: • current net financial liabilities more than 80 per cent of operating revenue or • average asset sustainability ratio over the last 5 years is less than 50 per cent or • average operating deficits (losses) over the last 5 years of between 2 and 10 per cent of operating revenue or • realising 2 or more of the individual ratios for moderate risk assessments
Low	Lower risk of financial sustainability concerns based on current income, expenditure, asset investment and debt financing policies

Attachment 2 – Local Government Financial Sustainability 2006

- Intergovernmental Agreement
  - The State Government and the NSW Local Government and Shires Associations enter into an intergovernmental agreement (IGA)
- Cost Shifting
  - The LGNSW build on the work of the Inquiry and undertake an annual survey of all councils to establish the total cost to Local Government of the main regulatory, policy and reporting responsibilities imposed by other tiers of government
- Revised Role
  - All councils with an infrastructure renewal gap and backlog voluntarily agree to restrain operating expenditure until their physical assets are restored
- Infrastructure Management
  - The State Government provide financial incentives and technical assistance to enable all councils within three years to adopt a total asset management system with consistent asset accounting practices
- Infrastructure Funding
  - To overcome the infrastructure crisis, increase council funding through a combination of increased Commonwealth and state grants, council expenditure savings and higher income from rates, fees and charges
- Regional Roads
  - The NSW Government assume responsibility for all regional roads in rural shires since such councils do not have the financial capacity and asset management systems to maintain and renew them
- Opinion Survey
  - Each council periodically (at least at the start of its four year term) conduct an opinion survey of its residents to find out how they rate the importance of each of its major services and how they rate their satisfaction with each service
- State and Council Controls
  - Reform land use planning and development control, approval and appeal processes in conjunction with the State Government so as to improve the probity, timeliness and quality of outcomes
- Rate Pegging
  - The State Government free councils to determine their own income by removing statutory limitations on their rates (i.e. rate pegging) and certain fees (e.g. development application processing fees)
- Financial Assistance Grants
  - The Commonwealth Government increase its financial assistance grants (FAGs) to Local Government by 20 per cent ($300 million in 2003/04 values) and then set them at a fixed percentage of:
    - Gross domestic product (0.22 per cent); or
    - Total Commonwealth collected taxes, including GST (0.86 per cent); or
    - Total income taxes (1.27 per cent).
- Long-Term Planning
  - All councils develop and adopt a long-term strategic and financial plan in close consultation with their communities
- Resource Sharing
  - The OLG and the LGNSW jointly undertake a functional analysis to determine which, if any, of the services that councils deliver would benefit from being provided by contractually-based resource sharing or outsourcing arrangement

- Financial Data
  - The OLG amend its Code of Accounting Practice and Financial Reporting to standardise key accounting and reporting policies, (asset condition assessment, asset valuation, depreciation rates, asset maintenance, renewal and expansion, a high-level chart of accounts, a workforce profile database and key financial indicators.
- Financial Benchmarks
  - The LGMA reissue its Sustainable Financial Health Check Manual with an expanded list of financial KPIs and an appropriate range of lower and upper benchmarks

Attachment 3 – IPART: Revenue Framework for Local Government 2009

- Providing services that reflect community demands
    - there needs to be a balance between the demands and expectations of local communities and their council's scope to raise revenue.
- Improving inter-governmental arrangements between councils and OLG
    - Expand the current requirements for developing a Community Engagement Strategy to consider the expected levels of service expressed by the community
    - Require councils to circulate a short summary of their Draft Delivery Program to obtain community input on council decisions
    - Encouraging and assisting councils to improve the quality of information included in annual reports
    - Develop an asset management manual that includes guidance and/or requirements to help councils develop asset management systems and plans
- Improving financial management and asset management
    - require councils to disclose their Net Operating Result (surplus/deficit), excluding capital revenues, as the principal measure of operating result.
    - develop consistent definitions of asset condition for use by all councils in asset management planning and asset management systems.
    - require councils to:
        - report maintenance costs relating to public works in their operating statements
        - report actual annual expenditure on renewal of capital works within Special Schedule No. 7 of the published financial statements
        - have asset management systems based on a common definition of asset condition
- Improving the effectiveness of the provision of services
    - require councils to report on both expected and realised productivity improvement
    - conduct a community satisfaction survey to measure satisfaction with service delivery and infrastructure provision
- A new framework for regulating council rate revenues
    - introduce a new regulatory framework that:
        - provides 2 options for regulating council revenues (Option A and Option B)
        - introduces 4-year rate setting horizons
        - establishes a closer relationship between rate setting and strategic planning.
- Option A be adopted as the new default arrangement for all councils, and that this option retains rate pegging (in part)
    - council applying the annual rate peg automatically be entitled to 'catch up' rates income foregone
    - council applying for a medium-term revenue path under Option A, a council must:
        - develop a medium-term revenue plan that aligns with its Delivery Program
        - engage and consult with its community in developing this plan and obtain community support for the plan.
    - applications for medium-term revenue paths be assessed against criteria including:
        - Service provision requirements (eg, unmet demand for services, or community support for enhanced service standards)
        - special cost pressure faced by the council (eg, due to need to prepare audited asset management plans, or undertake financial restructuring
        - Infrastructure backlogs that have adverse implications for the amenity, safety and health of community

- Option B be adopted as an alternative form of regulation that operates in conjunction with Option A, illustrating financial performance requirements (in part):
    - responsible funding policy for capital works that uses a combination of sustainable debt levels and revenue funding
    - track record of sound asset management practices, including having all assets valued at fair value
    - track record that indicates the council has the capacity to achieve recurrent financial sustainability over the current 4-year term
    - fully costed list of major capital projects to be funded via rates revenue
    - audited asset management plan that defines the service levels
    - where annual monitoring shows that a council's performance has slipped below the minimum eligibility requirements in a given year, that the council be advised, and that it may revert to being regulated under Option A

Attachment 4 – Sample Asset Definition

OPERATIONAL	**Operations** – regular activities/expenditure to provide services such as running costs, public health, safety and amenity eg street sweeping, grass mowing and utility costs such as street lighting. Generally relates to consumption of resources. (May also include direct asset service related management costs).	These are day to day (often continuous) operational activities that have no effect on asset condition but are necessary to keep the asset appropriately utilised and operating.(Note excludes community service operating costs eg lifeguard staffing of pools or entry counter staff). These activities form part of the asset annual operational budget.
OPERATIONAL	**Maintenance** – all periodic or reactive actions necessary for retaining an asset as near as practicable to its original condition, including regular ongoing day to day work necessary to keep assets operating eg road patching but excluding rehabilitation or renewal. Maintenance ensures asset reaches its expected useful life. Can be Planned/Unplanned, Reactive.	Generally these activities fall into two broad categories: Planned (Proactive) maintenance: Proactive maintenance works planned to prevent asset failure. Work carried out to a predetermined schedule or planned in association with other works. Unplanned (Reactive) Maintenance: Reactive action to correct asset malfunctions and failures on an as-required basis, or in response to reported problems (eg. pothole, repairs, emergency repairs).
CAPITAL	**Renewal** – restores, rehabilitates, replaces existing asset enabling the asset to achieve fully its original service potential, life, performance and capacity (note partial renewal relates to increasing the service potential of an asset but not up to its original intended service potential)	**Rehabilitation** activities are defined as the major re-instatement or repair often of structural component assets (of value greater than $X) to ensure required levels of service are met and prolonged asset life is achieved. **Replacement** works are defined as the disposal and substitution (complete replacement) of an asset (of value greater than $X) generally which has reached the end of its life, with an equivalent standard (or agreed alternate) asset.
CAPITAL	**Upgrade** - creation of a new asset to meet additional service level requirements. Upgrade work enhances asset to provide higher level of service or extends asset life beyond its original life. Activities or works (generally of value greater than $X) that enhance an asset to provide higher level of service or extends the asset life beyond its original life.	
CAPITAL	**Expansion** - creation of a new asset to meet additional service level requirements. Expansion extends an existing asset or a new asset at the same standard currently enjoyed by users to a new group of asset users. Activities or works (of value greater than $X) which extend an existing asset or provides a new asset to a new group of asset users.	

Attachment 5 – Functional Classifications

Council Functions and Expenditure Items

Recreation & cultural	Administration & governance	Community amenity	Community services & education	Roads, bridges & footpaths	Public order, safety, health & other
Museums	Administration	Public Cemeteries	Administration & Education	Aerodromes	Animal Containment
Art Galleries	Governance	Public Toilets	Children's Services	Urban Roads Local	Fire Service Levy
Community, Centres & Halls		Town Planning	Aged & Disabled	Sealed Rural Roads Local	Noxious Plants & Insects
Performing Arts Venues		Street Lighting	Social Protection	Unsealed Rural Roads Local	Environment Protection
Other Sport & Recreation				Bridges on Urban Roads Local	Stormwater Management
Other Performing Arts				Bridges on Sealed Rural Roads Local	Urban Storm Drainage
Public Libraries				Bridges on Unsealed Rural Roads Local	Other
Swimming Pools				Footpaths	Health
Sporting Grounds				Parking Areas	Enforcement of Regulations
Parks & Gardens					Beach Control
					Building Control
					Street Cleaning

Expenditure Function	State Standard $/capita
Recreational & cultural	214.66
Admin & governance	254.03
Education & community	63.34
Roads, bridges, footpaths & aerodromes	204.07
Public order, health, safety & other	163.68
Housing amenity	71.25

Attachment 6 – Other States Approach to Fees and Charges (extract Sunshine Coast Council: SCC)

2.7 Fees and Charges

Section 97 of the *Local Government Act 2009* allows a local government to fix a cost recovery fee.

All fees and charges will be set with reference to full cost pricing. Cost-recovery fees will be charged up to a maximum of full cost and reflect as far as possible the actual cost of providing services and facilities. Commercial charges will be at commercial rates. Council acknowledges the community benefit associated with not-for-profit organisations and Traditional Owners conducting activities on the Sunshine Coast. All not-for-profit organisations are exempt from cost recovery fees for applications to conduct activities requiring an approval on public and private land within the Sunshine Coast Regional Council local government area. All applications from Traditional Owners of the Kabi Kabi and Jinibara people are exempt from cost-recovery application fees in relation to tourism and cultural business activities occurring on community land within the Sunshine Coast Regional Council local government area.

Section 172(1)(d) of the *Local Government Regulation 2012* provides that if the local government conducts a business activity on a commercial basis the Revenue Statement must state the criteria used to decide the amount of the charges for the activity's goods and services. Commercial charges will be charged at commercial rates for a business activity conducted by council on a commercial basis and all commercial charges for the 2023/24 financial year are set out in the Register of General Cost-Recovery Fees and Commercial Charges 2023/24 as adopted.

Land valuation fees issued by the Department of Resources will be passed on to land owners via the rate notice.

Attachment 7 – Other States Rating (Category) Definitions: extract SCC

Primary Place of Residence (PPR)

Without limiting the above meaning the following cases do **not** comply with the definition of a ***principal place of residence,*** namely a single ***dwelling house***, a single ***dwelling unit,*** or a ***multi dwelling*** house or a ***multi dwelling*** unit that is:

(a) not occupied by at least one person/s who constitutes the ***owner/s***, but occupied by any other person/s, whether in return for rent or remuneration or not, including members of the ***owner's*** family, unless the specific criteria (C) above applies; or

(b) not occupied, whether permanently or temporarily for more than 120 days of the ***financial year***, including for the purposes of renovation or redevelopment, except in the case where;

  (i) a ***premises*** being renovated remains the registered ***principal place of residence*** *of the owner* for electoral, taxation, government social security or national health registration purposes and that the ***owner/s*** do not own any other ***property*** which they claim to be their ***principal place of residence***; and

  (ii) a ***property*** is vacant due to the ***owner/s*** absence on an extended holiday, provided that the ***property*** remains vacant for the entire period of their absence.

  (iii) a ***property*** is vacant due to the ***owner/s*** absence due to work commitments, provided that the absence is confirmed in writing by the owner's employer to council's satisfaction and the ***property*** remains vacant or is occupied by immediate family members only during the period of the owner's absence.

  (iv) The owner is absent due to medical reasons of the owner or a close relative and this is confirmed in writing by a health professional to council's satisfaction.

(c) not owned by a natural person, e.g. owned by a company, excepting where the ratepayer residing at the property as their principal place of residence is the company owner.

Transitory Accommodation

where a ***property*** is offered or available, or used, for rental in a temporary manner, generally associated with, but not limited to, holiday rental letting, typically for a rental period or rental periods of less than 42 consecutive days at any one time. (Note: ***Transitory Accommodation*** listings or advertising/ marketing, for example, on such as publicly available websites and/or with real estate agents, will constitute evidence of the property being offered or available).

Without limiting the meaning the following is **not *transitory accommodation;***

(a) a room in a property that is offered or available, or used, for holiday rental letting within a ***principal place of residence*** and the owner/s reside at the property when the room is offered, available or used for holiday rental letting; or

(b) a property with a documented tenancy agreement in place that meets the requirements of the *Residential Tenancies and Rooming Accommodation Act 2008* **and** the agreement is for a period of 42 consecutive days or more.

Attachment 8 – Example Rate Categorisation and Rate Schedule: extract SCC

Category	Description	Identification
1. Agricultural		
1	This category will apply where the land is: a. used for ***primary production purposes***, or has the potential ***predominant use*** by virtue of its improvements or activities conducted upon the land of ***primary production purposes***; and b. used for ***non-residential purposes***, or has the potential ***predominant use*** by virtue of its improvements or activities conducted upon the land of ***non-residential purposes.***	Land to which the following ***land use codes*** apply: 44 nursery garden centre 60 sheep grazing 61 sheep breeding 64 livestock grazing – breeding 65 livestock grazing – breeding and fattening 66 livestock grazing – fattening 67 goats 68 dairy cattle – quota milk 69 dairy cattle – non-quota milk 70 cream 71 oilseeds 73 grains 74 turf farm 75 sugar cane 76 tobacco 77 cotton 78 rice 79 orchard 80 tropical fruit 81 pineapple 82 vineyard 83 small crops and fodder irrigated 84 small crops & fodder non-irrigated 85 pigs 86 horses 87 poultry 88 forestry and logs 89 animals (special)

3R. Rural Commercial & Industrial with a rateable value from $210,001 to $500,000		
3R	This category will apply where the land has a rateable value from $210,001 to $500,000 and is: a. used for ***non-residential purposes***, or has the potential ***predominant use*** by virtue of its improvements or activities conducted upon the land of ***non-residential purposes***; and b. not included in category 4I, and c. located in a ***rural*** area as delineated on Map 2.	Land to which the following ***land use codes*** apply: 07 guest house/private hotel/hostel/bed and breakfast 08 ***community title scheme*** unit(s) 09 ***group title multi dwelling*** or ***group title vacant land*** 10 combination of single or multiple dwellings/residential **with** single or multiple commercial/shop/office/food outlet 11 shop/office (single) with or without accommodation 12 shops – shopping group (more than 6 shops) 13 shops – shopping group (2 to 6 shops) 14 shops main retail 15 shop secondary retail 16 drive-in shopping centre 17 restaurant/fast food outlet 18 special tourist attraction 19 walkway/ramp 20 marina 22 car park 23 retail warehouse 24 sales area 25 office(s) 26 funeral parlour 27 private hospital/convalescent home (medical care) 28 warehouse and bulk store 29 transport terminal 30 service station 31 oil depot 32 wharf 33 builder's yard/contractor's yard 34 cold store/ice works 35 general industry 36 light industry 37 noxious/offensive industry 38 advertising – hoarding 39 harbour industry 41 child care centre 42 hotel/tavern 43 motel 44 nursery/garden centre 45 theatres/cinemas

16UT. Residential - Urban Transitory Accommodation with a rateable value from $0 to $595,000		
16UT	This category will apply where the land has a rateable value from $0 to $595,000 and is: a. used for ***residential purposes***, or has the potential ***predominant use*** by virtue of its improvements or activities conducted upon the land of ***residential purposes***; and b. is defined as ***transitory accommodation;*** and c. located in an ***urban*** area as delineated on Map 2.	Land to which the following ***land use codes*** apply: 02 single dwelling 03 ***multi dwelling*** (dual occupancy, secondary dwelling or flats) 05 large homesite - dwelling 09 ***group title multi dwelling*** or ***group title single dwelling***

23. Retirement Villages & Nursing Homes		
23	This category will apply where the land is used for ***retirement village*** purposes or ***retirement lifestyle village*** purposes or nursing home purposes, or has the potential ***predominant use*** by virtue of its improvements or activities conducted upon the land.	Land to which the following ***land use codes*** apply: 21 ***retirement village***, aged people home (non-medical care or mixed medical and non-medical care). 211 ***retirement lifestyle village***

28. High-rise Units - Principal Place of Residence		
28	This category will apply where the land is: a. used for ***residential purposes***, or has the potential ***predominant use*** by virtue of its improvements or activities conducted upon the land of ***residential purposes***; and b. part of a ***community title scheme*** with a ***high rise unit*** or ***group title multi dwelling*** with a ***high rise unit;*** and c. used as a ***principal place of residence***.	Land to which the following ***land use codes*** apply: 08 ***community title scheme*** unit(s) 09 ***group title multi dwelling*** unit

Rate Schedule (extract SCC)

Category		Differential General Rate cents in dollar	Minimum Differential General Rate
1	Agricultural	0.3818	$1,406.50
2RN	Rural Commercial & Industrial - $0 to $110,000 RV*	1.4494	$1,528
2UN	Urban Commercial & Industrial - $0 to $103,000 RV	1.5525	$1,530
16	Residential - Not Principal Place of Residence/Multi Dwelling - $0 to $595,000 RV	0.4192	$1,689
16RT	Residential - Rural Transitory Accommodation - $0 to $595,000 RV	0.9384	$2,813
16UT	Residential - Urban Transitory Accommodation - $0 to $595,000 RV	0.9671	$3,093
27	High-rise Units - Not Principal Place of Residence	1.0985	$2,605
27T	High-rise Units - Transitory Accommodation	2.3425	$4,315

Attachment 9 – Example Annual Charges (extract Sunshine Coast Council)

6.1 Environment Levy

6.1.1 Basis of Charge

Separate charges are to be levied under section 94(1)(b)(iii) of the *Local Government Act 2009* pursuant to section 103 of the *Local Government Regulation 2012*.

The Environment Levy, a separate charge, will be made and levied for the 2023/24 financial year on all rateable land in the Sunshine Coast Regional Council area to fund the costs of a range of strategic environmental management initiatives including but not limited to:

- The acquisition, protection and management of environmentally significant land.
- Major on-ground rehabilitation and regional planning, management and research projects that assist in the protection and enhancement of our biodiversity, waterways and wetlands and coastal areas.
- Engagement and support for the community that is involved in the protection and enhancement of the Sunshine Coast environment.

All expenditure of money raised by this levy will be in accordance with council's Environment Levy Policy.

6.1.3 Basis of Charge Calculation

The amount of the charge has been calculated on the basis of the estimated cost to implement the initiatives. Council considers that the benefit to any particular rateable land from the range of strategic environmental management initiatives listed in section 6.1.1 cannot be distinguished from the benefit to any other particular rateable land. Accordingly a separate charge of $82 per annum is to be levied equally on all rateable land in the region.

All rateable land in the region will benefit from the range of strategic environmental management initiatives listed in section 6.1.1 that are funded by the charge.

6.1.4 Concessions

Concessions as shown in section 2.3 will not apply to this charge.

6.2 Transport Levy

6.2.1 Basis of Charge

Separate charges are to be levied under section 94(1)(b)(iii) of the *Local Government Act 2009* pursuant to section 103 of the *Local Government Regulation 2012*.

The Transport Levy, a separate charge, will be made and levied for the 2023/24 financial year on all rateable land in the Sunshine Coast Regional Council area to fund strategic transport infrastructure, services and initiatives, including major initiatives in the region in accordance with Council's Transport Levy Policy, to achieve outcomes and undertake activities including but not limited to:

- Utilising Levy revenue to fund or leverage selected eligible transport infrastructure for multi-modal transport outcomes that have priority but cannot be provided in a timely manner through existing funding mechanisms.
- Allowing council to influence the bringing forward of investment in State and Federal Government transport network improvements.
- Enabling council to enter into partnerships with the State Government, and potentially third party interests, to jointly fund selected eligible transport infrastructure and initiatives;
- Enabling council to fund selected eligible initiatives, projects and services for community benefit.

6.3 Arts & Heritage Levy

6.3.1 Basis of Charge

Separate charges are to be levied under section 94(1) (b) (iii) of the *Local Government Act 2009* pursuant to section 103 of the *Local Government Regulation 2012*.

The Arts & Heritage Levy, a separate charge, will be made and levied for the 2023/24 financial year on all rateable land in the Sunshine Coast Regional Council area to fund arts and cultural heritage projects, in line with the goals and strategies endorsed within the Sunshine Coast Heritage Plan 2021-2031, the Sunshine Coast Arts Plan 2018-2038, in accordance with Council's Arts & Heritage Levy Policy.

Revenue from the Arts & Heritage Levy will be expended on a range of facilities, programs, projects and activities concerned with the preservation and promotion of the region's history and cultural heritage, the development and promotion of a sustainable arts ecology, and to trigger the support of other government and non-government partners. Specifically, the Arts & Heritage Levy will be used to achieve key heritage outcome areas, goals and activities, identified in the:

- Sunshine Coast Heritage Plan 2021-2031 including but not limited to:
  - Knowledge Programs: Including research projects, digitisation initiatives and accessibility programs in relation to the history and heritage of the region.
  - Conservation Programs: Including Heritage Advisory Services, heritage incentives, and conservation/preservation projects on council-owned heritage properties, places, and objects.
  - Support Programs: Including Arts & Heritage Levy Grants programs such as Community Partnership Funding Program, Events and Exhibitions Program, Collections Support Program, Cultural Support Program; heritage sector development and community education workshops.

Attachment 10 – Sydney Water Stormwater Charge

Stormwater service charges

You pay a fixed charge if you're in one of our stormwater drainage areas. This is to maintain the large trunk drains in o system. This charge also contains an amount to fund projects, specifically improving waterway health across Sydney. stormwater catchment map to find out if your property is in one of our stormwater areas.

Do you stop most of the stormwater leaving your property?
If you store and reuse most of the stormwater around your home, you can apply for a discount on your stormw charges (155 KB) PDF. Or explore more ways to use stormwater at your home (8 MB) PDF.

Charge for stormwater service	2022–23 charge	2023–24 charge
If you live in a unit or low impact	$6.64 a quarter	$7.09 a quarter
If you live in a house	$20.78 a quarter	$22.17 a quarter

Stormwater drainage charge

This fixed charge is to cover the cost of managing bush regeneration, weed control and trash racks on this purchased land. It helps us to maintain the waterways and wetlands used to drain stormwater.

Charge for	2022–23 charge	2023–24 charge
Your stormwater drainage	$35.88 a quarter	$36.42 a quarter

Land charge

There's a fixed land charge for new customers connecting to the system from 1 July 2012. It applies for 5 years, or 20 quarters. The charge helps buy the floodways and flood-prone land that become part of the stormwater drainage system.

Charge for	2022–23 charge	2023–24 charge
Land	$90.63 a quarter	$96.67 a quarter

Attachment 11 – Example – Estimates to Renew Road Assets (extract Albury Council)

Infrastructure	Category	Life/Yrs	Unit	(Aug 2020) Current Rate	Apr 2024 Review Rate
Formation					
Urban Sealed Formation	Local Roads	240	m2	12.68	15.44
Urban Sealed Formation	Non- Local Roads	200	m2	8.45	10.3
Rural Sealed Formation	Local Roads	240	m2	4.72	5.75
Rural Sealed Formation	Non- Local Roads	200	m2	3.14	3.82
Unsealed Formation		100	m2	4.1	5.0
Pavement					
Urban Sealed Pavement	Local Roads	120	m2	82.3	143.7
Urban Sealed Pavement	Non – Local Roads	100	m2	82.3	143.7
Rural Sealed Pavement	Local Roads	120	m2	26.8	92.2
Rural Sealed Pavement	Non- Local Roads	100	m2	28.4	92.2
Unsealed Pavement		100	m2	16.54	20.1
Sealed Surfaces					
Asphalt	Local Roads	30	m2	38.8	42.0
Concrete Seal		50	m2	206.8	251.8
Paver Seal		50	m2	206.8	251.8
Spray Seal	Local Roads	20	m2	10.35	22.9
Kerb and Channel					
Concrete Kerb	Local Roads	85	M	208.4	210.0
Concrete Kerb	Non-Local Roads	75	m	208.4	210.0
Footpaths					
Path	Boardwalk	30	m2	339.6	339.6
	Concrete	50	m2	141.7	123.8
	Gravel	10	m2	29.3	35.68
	Hot mix	10	m2	82.1	11.51
	Pavers	50	m2	165.4	201.4
Bridges and Major Culvert					
Road Bridges	Bridges	100	m^2(deck area)	2000.79	2425.0
Pedestrian Bridges and Culverts	Bridges	100	m^2(deck area)	2000.79	2425.0

Attachment 12 – Example – Ratios (extract QAO)

[Financial Management (Sustainability) Guideline 2024 (statedevelopment.qld.gov.au)]

Council Cohort/Groupings

Tier	Remoteness Area Factor[1]	Population Band[2]	No. of Councils	
1	Major Cities	1,000,000+	1	
2	Major Cities Inner Regional Outer Regional	100,000-999,999	11	
3	Major Cities Inner Regional	40,000-99,999	7	
4	Inner Regional Outer Regional	20,000-39,999	11	
5	Outer Regional Remote	10,000-19,999	9	
6	Remote Very Remote	2,000-9,999	7	
7	Very Remote	0-1,999	15	

Measures

#	Type	Measure	Rationale
1	Financial Capacity	Council Controlled Revenue Ratio^	Capacity to generate revenue internally
2	Financial Capacity	Population Growth Ratio*^	Population growth/decline pressures on council
3	Operating Performance	Operating Surplus Ratio	Holistic overview of council operating performance
4	Operating Performance	Operating Cash Ratio	Cash operating performance (less depreciation and other non-cash items)
5	Liquidity	Unrestricted Cash Expense Cover Ratio	Unconstrained liquidity available to council
6	Asset Management	Asset Sustainability Ratio	Capital renewals program performance
7	Asset Management	Asset Consumption Ratio	Extent to which assets are being consumed
8	Asset Management	Asset Renewal Funding Ratio**^	Asset replacement program performance
9	Debt Servicing Capacity	Leverage Ratio	Ability to repay existing debt

Targets by Cohort

Group	Target Band	Group	Target Band
Tier 1	Greater than 50%	Tier 5	Greater than 90%
Tier 2	Greater than 60%	Tier 6	Greater than 90%
Tier 3	Greater than 80%	Tier 7	Greater than 90%
Tier 4	Greater than 80%	Tier 8	Greater than 90%

Attachment 13 – Example Operating and Capital Account (Budget)

				xx Sustainability Plan			
	Base	growth indices > CPI	FY24 $m	FY25 $m	FY26 $m	FY27 $m	FY28 $m
Operating Account							
Operating Revenues	o general rates	0.50%			-	-	-
	o utilities annual charges (water, sewer, waste and stormwater)	0.00%			-	-	-
	o utilities user charges (water, sewer, waste)	0.00%			-	-	-
	o regulatory fees (eg development, animal, weed, food, OSMS etc)	0.00%			-	-	-
	o commercial fees (eg caravan park, saleyards, cemeteries, aerodrome)	0.00%			-	-	-
	o property hire, lease and licences (eg halls, café)	0.00%			-	-	-
	o contract and private works revenues (eg RMCC)	0.00%					
	o other fees	0.00%			-	-	-
	o investment interest	2.00%					
	o allocated annual operating grants and subsidies (eg FAG)	0.00%					
	o competitive operating grants and subsidies (eg environment)	0.00%					
	o competitive maintenance grants and subsidies (eg roads)	0.00%					
	o emergency maintenance grants and subsidies (eg disaster)	0.00%					
	o attributions/overhead (incl plant hire)	offset			-	-	-
	o other (incl dividends)						
	TOTAL OPERATING REVENUES		-	-	-	-	-
Operating Expenditures							
asset	o asset operations/servicing/management	0.00%					
	o asset maintenance (general, reserves)	5.00%					
	o asset OMR (utilities - water, sewer, waste and stormwater)	4.00%					
	o asset depreciation (general, buildings)	2.50%					
	o asset depreciation (utilities - water, sewer, waste and stormwater)	2.50%					
	o asset depreciation (plant)	2.50%					
services	o regulatory	0.00%					
	o commercial	0.00%					
	o property	0.00%					
	o contract and private works (incl RMCC)	0.00%					
	o services (community, culture, environment, economic, emergency)	0.00%					
	o support *	0.00%					
	o donations and government transfers (incl ESL)	0.00%					
	o utilities (water, sewer, waste and stormwater)	0.00%					
	o attributions/overhead/plant	offset					
	TOTAL OPERATING EXPENSES		-	-	-	-	-
	OPERATING RESULT (surplus/deficit)		-	-	-	-	-
Capital Account							
Capital Revenues	o capital grants - allocated (eg Block)						
	o capital grants - competitive						
	o emergency grants (eg disaster restoration)						
	o capital contributions - cash						
	o capital contributions - gift						
	o asset and property sales						
	o LIRS subsidy						
	o cashflow generated by depreciation		-	-	-	-	-
	TOTAL CAPITAL REVENUES		-	-	-	-	-
Capital Expenditures	o IPPE renewals (general)	90.00%					
	o IPPE renewals (utilities)	90.00%					
	o IPPE renewals (plant-equipment)	90.00%					
	o IPPE new/upgrades (general)						
	o IPPE new/upgrades (utilities)						
	o property acquisitions and development						
	o loan + lease payments						
	TOTAL CAPITAL EXPENSES		-	-	-	-	-
	CAPITAL RESULT (surplus/deficit)		-	-	-	-	-
	OVERALL RESULT (surplus/deficit to be funded by reserves/debt)		-	-	-	-	-
Financing							
Reserves	Brought forward						
	External (nett)						
	Internal (nett)						
	CarryOver						
Debt	New borrowings						
	FINANCING		-	-	-	-	-
	EQUITY IMPACT (working capital)		-	-	-	-	-

Attachment 14 – Example – Financial Sustainability Risk disclosures

Asset

Risk	Likelihood	Consequence
Development slower than expected resulting is reduced contributions	Likely	Moderate
Assets are not maintained, renewed or rehabilitated in line with AMP (or depreciation) resulting in public liability claims	Possible	Moderate
Major asset failure due to inadequate maintenance, renewal or rehabilitation (including following disaster)	Unlikely	Major
Inflation is significantly higher than estimated	Likely	Moderate
Natural disasters impact works program	Possible	Moderate

Revenue

Risk	Likelihood	Consequence
Change of direction after election impacts revenue raising	Possible	Moderate
State legislation results in under recovered or lower revenues	Possible	Moderate
IPART rate peg lower than expected	Possible	Moderate
Reduction or cessation of grant funding	Possible	Major
Inadequate use and patronage to generate expected growth in market, regulatory and private use programs	Possible	Moderate
Development slower than expected resulting is reduced supplementary valuations and rates	Likely	Moderate

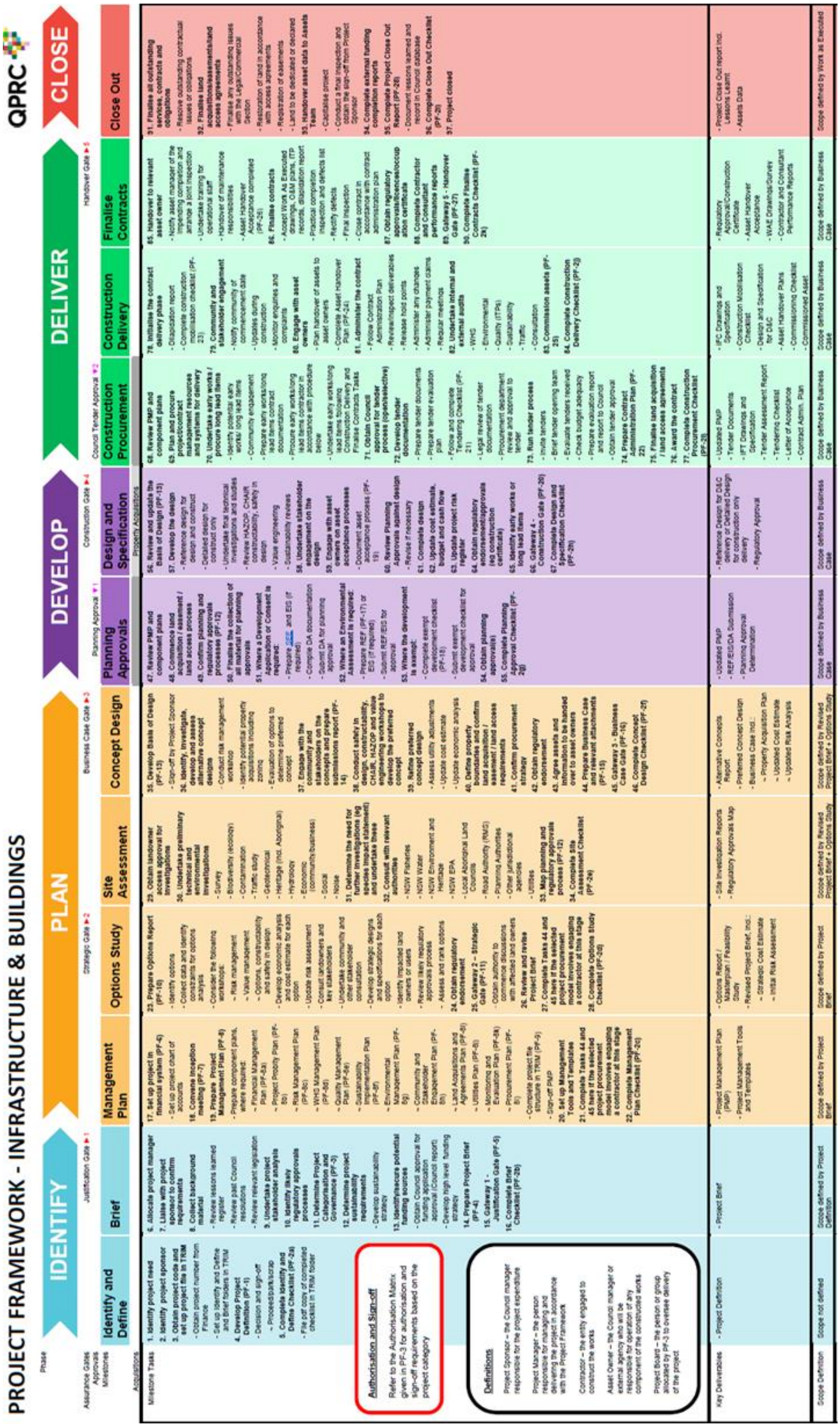
Cashflow

Risk	Likelihood	Consequence
Investment rates and returns lower than expected	Likely	Moderate
Patronage/usage (and subsequent rates of return) lower than expected	Possible	Moderate
Global financial issues impact supply chain and credit availability	Possible	Major
Economic circumstances result in debtor defaults	Possible	Minor
Natural disasters cause underwriting of damage repairs by council	Possible	Moderate

Capacity

Risk	Likelihood	Consequence
Cybersecurity and privacy leak, including AI	Likely	Moderate
Insufficient skilled human resources	Likely	Moderate
Poor management of staff, labour, contract and consultant resources	Likely	Moderate
Low organisation maturity in assets, technology in asset, project, development, compliance and financial management	Likely	Moderate

Attachment 15 – Example – Project Management Framework (extract QPRC)



Attachment 16 – Example - Sustainability Principles

1.Average a balanced budget	strengthen reliable tax base
	assume availability of grants will tighten
	account for impacts of gifted and grant funded assets
	prepare balanced or surplus operating budgets
	target 'benchmark' ratios
2.Update contemporary costs	update AMPs - refresh works schedules estimates with asset revaluations
	update contributions plans 5 yearly with AMP schedules/costs
3.Consider 'minimalist' approach	match funding to minimum obligations per legislation
	minimise level of NGO, community sponsorships and donations
	consider recruitment of volunteers/groups for nominated activities
4.Set the tone...(policy)	establish policies (pricing, grants, public good (CSO), debt, donations, gifted assets, CSR responsiveness)
5.Maintain unrestricted cash	provide assurance to creditors of the new councils' liquidity and cashflow
	buffer for 'shocks', and reserve for 'opportunity'
	aim> 3 months of cash opex as available working capital
6.Manage grants 'legacy''	scope the program or project to the funding provided
	retreat if funding deferred or reduced
	notate budget as 'subject to receipt...'
	defer commencement until deed executed
	pursue 'pay and do' for disaster cashflow
	include future grant-funded asset OMR in financial plan forecasts
7.Measured asset divestment	recycling property, low value assets
	sales to improve liquidity and restore working capital
8.Migrate into shared resources platform	(human, plant, technology) and contracted service arrangements
	focus on compliance and specialist functions
9.Invest in organisational maturity	invest in contemporary and specialist skills, particularly PM, AM, CM, development, finance
	workforce planning: manage demerger churn; build expertise through TTR and traineeships
	maintain emergency response capability
10 Explore options to build rates to benchmark	restore rates to pre-merger yields as minimum
	Gundagai retain value SRV
	yields for both to cover nett asset OMRD
	manage risk of depreciation expense growing faster than tax (rates, annual charges) yields
11.Manage capital programs	reduce new/upgrade capex to value of confirmed grants and contributions
	monitor annual carryovers and modify program on organisation capability
	measured retreat from underfunded government policy-programs
12.Assets first, Nice next...	acknowledge assets sponsor services
	focus on growth in asset expenditure
	notes community views performance through lens of condition, access and functionality of assets
13.Keep pace (rates v depreciation)	monitor rates and annual charges growth remains greater than asset depreciation annual growth
14.Build resilience into design	renewal of key infrastructure and buildings should be BBB estimate-design ready
	leverage disaster grants - prioritise those renewals

15.Refresh Asset plans	apply IPWEA/IIMM standards (condition rating; MR, renewal, resilience technical standards)
	map new or upgraded assets to full funding from grants or contributions
	benchmark actual expenditure per asset class against depreciation
	revise asset profile renewals to align to AMP, or ss7 data sheet (condition x restore to std $)
16.Refresh Contributions and Grants Plans	align to AMS-AMP works schedules
	seek 3% of development construction cost in s7.11 plan
	apply contemporary construction indexation
	recalibrate Plan values 5 yearly
17.Prepare Depreciation Plan	align to AMP useful/remaining lives
	align/modify to condition assessment and revaluation cycle
19.Modernise Utility plans	assess treatment and storage performance (NSW PWA)
	apply water + sewer best practice (NSW DPE)
	prepare strategic business plans
	apply nominated pricing recoveries
	build reserves to access/match grants
19.Reframe Service and Asset standards	document service-program-activity framework
	establish parameters: role | scope | pricing principle | LoS | trends | criticality | performance | CSR
	align to assets hierarchy
	establish service criticality and MAO | asset renewal ICL
20.Build Working Capital	plan for operating surplus to accumulate working capital equivalent to 3 months operational expenditure, as buffer to shocks, initially fill project or grant gaps, and match funding for future grants
21. Manage gifted and grant funded assets	Accommodate future operations, maintenance and renewals in financial plans
	recover value of future OMRD for new estates through rate sub-categories and differential rates
22.Apply Funds accounting (utilities)	establish and account for ringfenced and self-financing Funds in annual budget and annual report
	balances held in restricted funds (reserves)
	opportunity for shared facilities and services
	establish rates of return (RoR) per pricing policy
	financial and asset ratios to meet or exceed OLG benchmarks
23.Establish rates of return	set for annual and user charges for utilities Funds, or as recommended by AMP and SBP reviews
	target (phased) fee recoveries for services: shared | private | regulatory | market
24.Use reserves and debt to smooth asset capex	smooth asset renewal and upgrade
	establish infrastructure/BBB 'sinking fund'
25.Rationalise strategy actions	assign findings and recommendations of existing strategy and plans into QBL/CSP pillars
	assess findings relevance, then clean out irrelevant/no go actions
	nominate actions status; the prioritise desired actions into DP (QBL ranking tool)
	apply weighted factors for asset investment: load | climate | risk | MR | freight | tourist | growth
26.Utilise community surveys	sensibly survey satisfaction and importance: levels of service, and asset servicing and standards
	utilise results to guide CSR responsiveness: triage | action
27.Declare trade offs	publish the changes to service-asset settings to enable other financial or projects to proceed
	be clear on what council will or won't do with limited resources
28.Reformat budgets and reports	consider input-outcome cashflow model to improve transparency and awareness of service and asset
	apply activity base costing to identify real cost of services (attributions)
	differentiate service, support and asset expenditure and associated revenues
	identify results (surplus/deficit) in the Operating Account and Capital Account
	balanced operating account indicates the value of depreciation is available for asset renewal
	operating surplus is available for new or upgrade capital expenditure

29.Reduce natural resources	reduce energy consumption, water consumption, waste generation explore recyclables v virgin fill, recyclables in bedding, circular economy
30.Expand performance indicators	Financial, Asset, Workforce, Sustainability, Resilience
31.Remodel general rates	set notional yield to cover
	o asset OMRD* (nett)
	o public service CSO (nett)
	revise/introduce rate subcategories (energy)
	differentiate to asset standards and LoS#
32.Reset pricing policy	attribute support (overhead)to identify real service costs
	phase rates of return (RoR) per pricing policy targets: shared | private | regulatory | market
	monitor change in patronage, affordability
33.Narrow any revenue gaps	gaps in less-than-benchmark revenues
	supplement by planned improvement in cost recoveries
34.Leverage council property	consider bio-offsets | renewable energy | carparks - EVC
	explore affordable housing | essential worker accommodation
35.Build transparency	establish registers (asset, contract, property, investment, grant)
	revise assurance framework
	o risk appetite
	o risk register
	o internal audit
	o ARIC
	o quadrant analysis
	prepare 'State of' reports (environment, infrastructure, Funds (utilities)
36.Leverage disaster grants	establish BBB internal reserve
	prioritise renewals
	consider obsolescence of vulnerable assets
37.Leverage relationships	maintain a collaborative and 'can do' reputation: agencies | professional associations | joint organisation
38.Pursue new annual charges	explore options for expanded annual charging with Government under s496 (stormwater, waste)
	explore s501/503 options with Government for ringfenced annual charging (climate, transport, emergency, environment, tourism
39.Continue advocacy	join LGNSW and others advocating emergency services levy, regional roads transfer and regulatory fee recoveries
40.Consider creative recoveries	stormwater: maintenance, depreciation, related debt | street/gutter cleansing | discharge controls
	waste: street | roadside litter | road base/utility trench bedding | set mandatory procurement specs via Government
	water: catchment management (erosion, weed) within storage catchment or riparian inflow
	sewer: irrigation of recreation reserves
	renewable energy (above notional rate yield): establish business rate subcategory | apply multiuse apportionment/valuation of sites
	subdivision growth: calculate estate gifted assets annualised OMRD | establish locality rate subcategory | structure rates to recover 125% annualised OMRD
	activity based costing: Illustrate 'real' and recoverable service costs | capitalise % support costs to record real cost of acquisitions and assets
	mimic Sydney Water charging approach: at least raise stormwater charge to cover depreciation (Ministerial intervention)

ALWAYS THINKING ADVISORY

Peter Tegart April 2024