Submission
No 57

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Cessnock City Council

Date Received: 26 April 2024

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Standing Committee on State Development
NSW Parliament House
6 Macquarie Street
Sydney NSW 2000

Dear Committee Members,

Submission Inquiry on Funding Services and Infrastructure

Cessnock City Council welcomes this opportunity to place a submission to the Standing Committee on State Development's Inquiry into the Ability of local governments to fund infrastructure and services.

As a Council we support the submission and data of the United Services Union submission. Further we would encourage the committee to consider the details within the LGNSW Cost Shifting Report – "How State Costs Eat Council Rates". Both of these reports provide the Committee with strong evidence that would assist all Councils to improve their financial sustainability.

Council wishes to discuss three items as they relate to us:

1. The rate peg is not supplying the income needed
2. Impost of monopoly suppliers
3. Cost shifting via the Rural Fire Service

<u>The Rate Peg</u>

Cessnock City is located in the Hunter Valley about 120 kilometres north of Sydney, 58 kilometres south west of Newcastle Airport and approximately 40 kilometres west of the University of Newcastle and the Port of Newcastle.

Total land area is 1,966kms2 with a population of 64,082. Cessnock City Council is the 2nd fastest growing Council in New South Wales and is classified as a Regional Town.

Over the course of the last three years significant investment has been made in the resourcing of the Council in order to deliver capital works projects, maintenance improvements and manage the increasing amount of development activity.

Capital income via grants and dedications since the year 2020 have increased by 138% as at 30 June 2023 as opposed to 27% for operating income for the same period.

Depreciation, a true cost needing to fund infrastructure renewal has increased by 47% in the same period. In basic terms the growth in depreciation expenditure needs to be met by a similar income growth all other things being equal.

The grants from Commonwealth and State governments comes with the risk of having to fund shortfalls for the construction of projects but also includes a risk of increased depreciation and maintenance that is effectively unfunded without substantial increase in the rate base, either through new housing or increased rate peg income. In reality neither met the pace of the demand.

While it would be envisaged that Councils would only apply for grants that meet their strategic requirements, this ignores the political pressure of Councillors, rate payers and user groups that continue to use the grant income as a metric of success.

Impost of Monopoly Suppliers

Cessnock City Council has previously expressed our concern with having to use monopoly suppliers such as the Audit Office of NSW. We remain of the opinion that centralising audit activities has not provided the State or Councils with any increased benefit in financial outcomes.

For instance the Auditor General's report to Parliament on Local Government 2023 provided nothing more than technical audit matters without any commentary on the financial position of the Local Government sector despite having access to all of the information required. It was a great report on the risks in the statements without actually reporting to Parliament anything that may be of use to this committee.

The Audit Office commenced auditing Cessnock City Council at the year ended 30 June 2017. The total fee for audit was $39,000. The quote received for the audit of the upcoming 2024 financial statements is $101,000. This represents a 159% increase in fees since the commencement of the Audit Office commencing as auditor, or if you prefer an increase equivalent to 19.9% per annum. Far exceeding the rate peg benchmarks.

At the same time Council has had to employ more internal resources to be able to reach a satisfactory conclusion to the audit. It is estimated that in 2017, the internal wage cost to Council was $130,000. For the 2024 statements it is estimated to be $247,000. An increase of 90% or 12.9% per annum. Again, exceeding the rate peg benchmarks.

The ongoing rise in cost alone is unsustainable just on the engagement quote. In conjunction with our quoted fee for the 30 June 2023 statements, Council received an additional invoice of $52,000 to reflect additional costs borne by the contract auditor and the Audit Office. This apparently represents 196 hours of additional work undertaken by the contract auditor which exceeds 5 weeks of additional work. This is a problem with the Audit Office model of cost recovery as Council's are require to pay under section 422(3) of the Local Government Act without question. Council considers this to be paying for the inefficiencies of the contract auditor and the Audit Office.

Something as simple as removing the Audit Office of NSW from a monopoly position could save Council's significant amounts of expenditure.

Cost Shifting by Stealth – The Rural Fire Services Red Fleet

This is a matter of increasing depreciation on the books of Councils with little actual purpose excepting the notion that it has to be accounted for somewhere.

Logically the answer is the Rural Fire Service should be accounting for these assets. They buy new assets, transfer them between stations, manage their maintenance.

There is a dubious link drawn by the Audit Office of NSW as to how Local Governments apparently gain an economic benefit for these items which conveniently ignores the draft advice given to the Office of Local Government that highlighted that these aren't Council assets. This is a further indication of the lack of service that the Audit Office of NSW is supplying to Local Government.

Every additional dollar of depreciation or net gain or loss on disposal of these assets effects the metrics below that Council report to the community and the Office of Local Government.

> *Operating Performance Ratio*: Depreciation cost and loss on disposal on sale reduces this which needs to be funded by operating income of Council.
>
> *Own Source Operating Ratio:* Each new truck in the LGA reduces this ratio as each truck would initially be accounted for as capital income from the RFS, even though no funds change hands.

This makes the financial statements of the Council a nonsense as Council will be reporting on matters and items of which is has no control or responsibility and having to explain this complexity to the community.

For a more detailed analysis on the effect of the total cost shifting we recommend the committee review the LGNSW Cost Shifting report.

Yours faithfully

Matthew Plumridge
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