Submission
No 75

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Strathfield Council

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The NSW Legislative Council's Standing Committee on State Development recently announced an inquiry into the ability of local government to fund infrastructure and services.

When announcing the inquiry, the Chair of the Committee, Emily Suvaal MLC, noted that: *'Councils are experiencing significant financial challenges which are threatening the long-term sustainability of the sector. As the level of government closest to the people of this state, we owe it to councils to ensure they can continue to deliver the important services communities expect and deserve.'*

The Chair of the Committee also indicated that a particular focus of the inquiry will be the "rate peg" – the legislative cap on the amount that local councils may increase rates each year to meet the rising cost of services. The rate peg has been a matter of some controversy over recent years and has been the subject of a number of reviews, including by the Independent Pricing and Regulatory Tribunal which concluded in late 2023.

The Terms of Reference for the inquiry include:

a) *the level of income councils require to adequately meet the needs of their communities*
b) *examine 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) *assess 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) *compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff*
f) *review 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.*

The Committee has called for submissions from interested individuals and stakeholders, including local government. The submission period ends on **Friday 26 April 2024**.

a) The level of income councils require to adequately meet the needs of their communities

While Councils share similarities, each council is different. Rural, Metro, Remote, and Coastal councils all have different challenges and resulting cost implications. The service burden of each council is also different depending on its location, community needs and economic profile.

As a result, the income levels needed by councils to effectively meet the needs of their communities will differ from council to council. This will be greatly influenced by the council's capacity to levy rates across its rate base and impose user fees for other services. Factors such as the necessary maintenance and renewal of infrastructure, as well as significant increases in operating costs, will also affect councils' ability to fulfill their mandate and provide services to the community.

The finances of NSW local government are increasingly heavily stressed, with rates pegged well below the level of cost increases, costs shifted from state to local government, and community expectations ever increasing. Opportunities for Councils to raise own source revenue (outside of rating income) also vary greatly depending on the nature of the local government area i.e. large metropolitan, small metropolitan, rural, regional etc.

Councils are required to consider the needs of their diverse communities and do so with extensive consultation under Integrated Planning and Reporting (IP&R) requirements. Each Council also serves a different community, depending upon factors such as rural or metropolitan, coastal, or inland, predominant industry, mix of ethnicities etc. Communities typically have far greater demands for infrastructure and services than Councils will ever be able to afford to meet. So, Councils are always under pressure to find ways to deliver to meet demand. As a result, Councils must focus on relative priorities. Unfortunately, this can result in decisions that may be unavoidable at the time, but which are not necessarily in the best interests of the long-term financial sustainability of the Council.

While councils are different and may require differing levels of revenue to provide and maintain service levels, it is generally acknowledged that all councils require a level of "general revenue" per capita that exceeds their general "operating cost" per capita. This surplus is necessary to generate an adequate operating surplus each year, which can be dedicated to the necessary renewal and upkeep of public infrastructure (i.e., capital expenditure). However, contrary to this principle, most councils are currently experiencing operating deficits (before capital income). As a result, they are unable to adequately fund their operations, let alone commit the required level of funding to renew essential public infrastructure. This predicament often leads councils to reduce expenditure in assets as short term convenient option rather than take the unpopular but financially prudent option of reducing levels of service or removing discretionary services all together, particularly where there is low overall community benefit.

It is important to acknowledge that the current rate peg system in NSW has created a significant impediment for local councils in fulfilling their mandates to provide essential services and maintain infrastructure. Ideally, councils should be able to conduct a thorough cost analysis to determine the required funding for services and infrastructure, and then set rates accordingly.

This approach mirrors how utility companies set their prices based on the cost of providing services, with limited direct input from residents.

Due to the restrictions on general rates revenue, councils are often forced to prioritise balancing their services to within a funding limitation, rather than addressing the actual needs of their communities. This situation is then exacerbated by the fact that it is politically challenging to scale back services once they are in place.

This method has then led to underfunding of essential infrastructure maintenance and renewal. Many councils are unable to allocate sufficient funds to keep up with the required spending on infrastructure, leading to a backlog of works that becomes increasingly costly to address over time. This is akin to deferring maintenance on a house; the longer it's delayed, the more expensive and extensive the repairs become.

When the infrastructure backlog becomes too large to manage, councils are usually forced to apply for special rate variations (SRV) through a very onerous IPART approval process. These variations (if approved) can provide councils with additional revenue beyond the rate peg, which can be important for funding essential services and infrastructure projects. However, this often results in sudden and significant rate increases for ratepayers. The decision for a council to make an SRV application to IPART is usually very sensitive to political influence and can lead to a decision which isn't necessarily in the best long term interest of the community or the council.

To determine the level of income councils~~,~~ require to adequately meet the needs of their communities and fund infrastructure, several factors must be considered as noted below.

Firstly, a thorough analysis should be conducted into the operating costs of councils, including the true costs of providing services, maintaining infrastructure, and administering the council. This assessment should also consider future growth and the impact of inflation on costs and the extent to which councils can control the growth in expenditure (i.e. what is within their control, and what isn't).

Secondly, the specific needs of their communities and the level of service they expect should be factored into the level of expenditure required. The cost of providing those services should be then estimated based on factors such as population size, geographic spread, and service expectations.

Thirdly, the condition of existing infrastructure and the cost of maintaining and renewing infrastructure should be determined based on asset management plans and condition assessments.

Based on these assessments, councils should then be allowed to determine the level of operating revenue (i.e. rates revenue, fees and user charges) required to meet their operating needs and adequately fund infrastructure. This could be expressed as a per capita amount or as a total revenue target. This revenue target should take into account the need to generate an operating surplus from operations in order to adequately fund infrastructure, as well as creating the capacity for the council to absorb economic shocks and any other financial obligations the council may have in the future.

The approach to rate setting needs to shift from the directive of balancing operating expenses against a set revenue limit to a method where the true operating cost of providing services is the primary determinant of the required level of revenue level.

b) Examine if past rate pegs have matched increases in costs borne by local governments.

Up until the recent reforms to the methodology for determining the rate peg, the historical rate pegging methodology that operated in NSW local government sector was widely accepted as being “significantly flawed” and has been the primary cause of Councils’ experiencing financial sustainability threats as general revenue has failed to keep pace with the growth in operating costs as a direct result of rate pegging.

The previous rate peg methodology considered annual changes in the average costs faced by an “average council” in NSW with reference to the most up-to-date ABS data. The fundamental flaw with this method is that there is a 2-year lag between the time that price changes were measured over to when councils could recover these price changes by applying the rate peg to their rates income.

This lag may not have been a significant concern in periods when inflation was relatively stable, however, when inflation was volatile (as experienced recently through the post COVID period), the lag led to material differences between councils’ general income and cost of providing services.

This lag then created a permanent and growing deviation between councils’ expenditure profile and its general revenue, which then compounded further in future years. There was also no mechanism under the methodology for catch up adjustments, leaving Councils with the only option of seeking to bridge this gap is through an IPART process for a “Special Rate Variation” (SRV).

It was widely known and accepted that the method for calculating the Local Government Cost Index (LGCI) on which the annual rate peg was based off, did not accurately capture the true changes in the cost of services for NSW councils let alone being an appropriate gauge in determining the adequacy of revenue.

All other major sectors set their pricing to reflect the forecasted economic indexes while and having regard to historical trends whereas the LGCI used historical data only.

In addition to being a lagging indicator of changes in cost profile, the inputs to the LGCI were also significant flawed (for example: Instead of factoring in the agreed NSW Local Government award to measure changes to employee costs, the LGCI used the NSW Public Sector wage index which is almost always lower than the NSW Local Government Award).

Basing the historical rate pegs on a lagging indicator like the LGCI was problematic in periods where inflation was volatile. The reality is that in periods of large swings in inflation, Councils still needed to incur the present-day costs to deliver services which is much higher than the LGCI, whereas the rate peg only allowed for revenue catch up from changes to costs profiles from previous periods. This created a revenue shortfall in the present day and consequently constrained the actual growth required for operational expenditure. This was then further perpetuated through lower LGCI’s given that the new restrained cost base then formed the basis of future LGCI calculations and rate pegs.

Furthermore, periodic revaluations and annual indexing of infrastructure assets which are required under professional standards to reflect increases in the gross replacement costs of assets did not form part of the inputs to the LGCI. The increased values from these revaluations and indexing converts to depreciation expense in councils operating expenditure and broadly represents the rate at which council should be spending to renew (or set funding aside to periodically renew) its existing infrastructure asset portfolio.

Further evidence that the rate peg has not kept pace with increased costs borne by local governments are based on the number of applications for a special rate variation. Since the current Local Government Act commenced in 1993 there have been a total of 876 applications approved for an SRV out of nearly 1,200 applications made.

These numbers indicate that the statutory rate peg was not fit for purpose and has not matched increases in costs of maintaining services.

This impact of rate capping of general income was further exacerbated through 'cost shifting' activities of 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.

Assuming the rate peg will continue as government policy, the new rate peg factors identified through IPART's 2023 review are considered an improvement over the previous methodology for determining the Local Government Cost Index (LGCI). However, it is suggested that the initial estimates for notional rate yields for many councils still require recalibration. It should also be noted that there is already an existing gap between per capita rate and per capita costs as a result of the historical rate peg regime and which continues to place stress on council budgets. This is not addressed by the introduction of a population factor or any other review on the rating revenue system. A one-off catch-up adjustment should be considered through this inquiry to address this historical restriction to Councils general revenue.

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.

While Councils share similarities, each council is different. Rural, Metro, Remote, and Coastal councils all have different challenges and resulting cost implications. The service burden of each council is also different depending on its location, community needs and economic profile. In most cases, there is not a lot of choice or discretion available to Councils.

It most cases, Council expenditure is attributable to services / functions that are required due to regulatory or statutory obligations and there is very little funding allocation available for required infrastructure spending or for services that are discretionary.

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 base.

Further to this, 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.

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.

An annual cost shifting survey conducted by Local Government NSW (LGNSW) has identified that '*cost shifting onto local government remains one of the most significant challenges facing NSW councils today. The unrelenting growth of cost shifting to councils is increasingly eroding any possibility of financially sustainable local government and risking the capacity of councils to both deliver tailored, grassroots services to their communities and properly maintain vital local infrastructure.*

Alarmingly, the latest research commissioned by LGNSW shows that the increase in cost shifting has been accelerated by various NSW Government policies."[1]

In the latest cost shifting survey which based on 2021-22 data 'LGNSW Cost Shifting Report – How State Costs Eat Council Rates' has identified the most significant examples of cost shifting as:

- The waste levy - $288.2 million.
- The cost of rate exemptions, that are redistributed and passed onto other ratepayers - $273.1 million.

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[1] Local Government NSW Cost Shifting 2023: How State Costs Eat Council Rates Report Summary and Highlights November 2023

- State and Federal levels of government implementation or increases in regulatory requirements through legislation that is then administered by local government - $208 million.
- The Emergency Services Levy - $165.4 million.
- Local Libraries, the original commitment from State Government was to fund 50 per cent of libraries cost, it now covers approximately 8 per cent of the total costs - $156.7 million
- The NSW Government's, mandatory pensioner rebates - $55.2 million.

The report goes on to say that '*The 2021–22 Cost Shifting Survey has revealed that cost shifting totalled $1.36 billion in 2021–22' 'far exceeding historical records and representing an increase of $540 million since the Cost Shifting Survey was last carried out in 2017–18.'*[2]

The survey has identified the additional cost to each ratepayer in the council classifications as between $420.90 and $590.80 per annum:

Fig 1 LGNSW Cost Shifting 2023: How State Costs Eat Council Rates Report Summary and Highlights – November 2023

Accordingly cost shifting has and is reducing the ability of councils to provide services to their communities and to be sustainable in their approach.

d) Assess 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.

The rate peg system has had significant social and economic impacts over the last 20 years, affecting ratepayers, councils, and council staff.

For ratepayers, the rate peg has often resulted in a trade-off between service quality and cost. Due to limited revenue growth, councils may reduce service levels or increase user fees, impacting residents' access to essential services. For example, a council might delay road

[2] Local Government NSW Cost Shifting 2023: How State Costs Eat Council Rates Report Summary and Highlights November 2023

maintenance or reduce library hours to manage budget constraints, affecting the quality of infrastructure and community services.

Councils have faced challenges in maintaining infrastructure and delivering services within constrained budgets. The rate peg has limited councils' ability to invest in infrastructure renewal and new projects, leading to a backlog of maintenance works. This has resulted in deteriorating infrastructure quality and increased costs in the long run. For instance, a council may postpone upgrades to a sport field, impacting residents' access to recreational space and higher repair costs later.

The rate peg system has not only impacted ratepayers and councils but has also taken a toll on council staff. Job insecurity, morale issues, and burnout have become prevalent among council employees as a result of budget constraints imposed by the rate peg system.

These constraints have forced councils to restructure their operations, reduce work hours, and freeze hiring, and salary increases. Consequently, staff have been faced with increased workloads and responsibilities to maintain service delivery, often without adequate resources or support.

This has placed a heavy burden on high-performing staff, who are expected to meet the expectations of executive leadership and councillors despite the challenges posed by budget constraints.

For example, a council undergoing restructuring may require staff to take on additional duties or roles, working long hours and on weekends and public holidays which lead to increased stress and pressure (including problems in their personal lives). This can result in burnout, reduced job satisfaction, and lower morale among staff. In turn, this can impact service delivery and staff productivity, ultimately affecting the quality of services provided to the community.

This increased pressure on council staff also leads to staff not being able to take appropriate time off, either due to workload or the inability to backfill positions, resulting in an accumulation of leave balances. These accumulated leave balances represent a liability on councils, as they must eventually pay out these balances upon employee resignation or retirement as opposed to if they were taken in-service (assuming adequate staffing levels).

For example, consider a council where staff are consistently unable to take annual leave due to workload pressures because budgetary pressures have resulted in a hiring freeze. Over time, this can lead to significant accrued leave balances for many employees. And when these employees eventually resign or retire, the council is required to pay out these leave balances at a much higher rate to when they were accrued, representing a significant cash outlay for the council.

This liability continues to grow, particularly with the mandatory indexes in pay rates through the Local Government State Award. As pay rates increase over time, the cost of paying out accrued leave balances also increases, putting further strain on council budgets.

e) Compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff.

Recently there have been two reviews undertaken by the IPART on the rate peg methodology. However, the impact of these has not yet been fully realised:

- Review of the rate peg to include population growth – October 2021
- Review of the rate peg methodology – August 2023

The rate peg review in 2021 has resulted in the inclusion of a population growth factor since 2022-23, which is determined on a council-by-council basis. The population factor is calculated as the change in residential population less any increase in general revenue from supplementary valuations. Not all councils receive a population growth factor, in 2022-23 there were 81 of the 128 NSW councils that received a population growth factor of 0%, in 2023-24 there were 87 and for 2024-25 there are 79.

The review of the rate peg methodology undertaken by the IPART in 2023 has resulted in further changes that affect the peg from 2024-25. According to the IPART *"The new methodology we have applied will better account for the diversity among NSW councils and help ensure ratepayers contribute only to costs relevant to their local government area." "These rate pegs are based on employee cost increases, forecast inflation and council-specific changes in Emergency Services Levy contributions and population growth."*[3] The new peg is forward facing and now accounts for any changes in contributions for the Emergency Services Levy (ESL) from one year to the next.

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. 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.

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.

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[3] IPART Media Release Rate peg set for 2024-25 - 21 November 2023

Regarding supplementary rates, councils receive supplementary valuations as new rateable properties come online during the rating year, however these often results in councils receiving less income from rates on a per capita basis compared to the growth in per capita expenditure. It should be acknowledged that supplementary rates do not fully address the additional costs of providing services to a growing population on a per capita basis. This is especially noticeable in councils where growth in rateable properties is mainly through high/medium density dwellings (e.g., apartment units). In such cases, these new dwellings only attract the "minimum rate" due to the rating burden being distributed based on unimproved land values. Therefore, while a new dwelling may accommodate an average of 2-4 individuals, it still pays a minimum rate, which dilutes the average rates per capita as the population on a per head basis grows at a faster rate than the rates collected per new dwelling. This demonstrates that the percentage growth in population does not directly correlate with the percentage growth in rates from supplementary valuations.

Therefore, if IPART's intention for introducing the population growth factor through its 2021 review was to allow councils to maintain or increase their rate on a per capita basis, then its decision to deduct the value of supplementary rate growth from subdivision development in determining the population factor has nullified any gains generated by the population peg for many councils.

It is proposed that the inquiry consider enabling the ability for councils to transition to Capital Improved Values (CIV) as recommended by IPART in the Review of the Local Government Rating System as the basis for how the rate levy is calculated as opposed to the current system of using unimproved land values (ULV). This transition aligns with population growth, allowing council revenue to increase alongside the communities they serve.

CIV may be a better mechanism for capturing growth in rate yield and achieving equity in the rating system based on user pays rather than unimproved land value (ULV). As such, CIV as the basis for setting rates is efficient for several reasons:

- It is easily understood by landowners, who are more likely to know the value of their property than just the land it sits on.
- Higher property values contribute more to rates, while lower land values contribute less.
- CIV allows for immediate revenue increases due to population growth.
- Councils receive supplementary rate income as they currently do from subdivisions.
- Growth in vacant land (as it is now) leads to an increase in rates.
- The completion of building projects leads to an increase in rates.
- There is minimal delay between subdivision approval and increased rate income.
- Rates are paid as growth occurs.
- Minor growth resulting from increased capacity (e.g., secondary dwellings) is accounted for.

This approach has benefits in both greenfield and brownfield Local Government Areas (LGAs). For example, in an LGA where an 850 m^2 block adds a granny flat, increasing the value and providing additional living space, there would be no change in rates paid under ULV, but under CIV, there would be an increase due to the higher property value.

Assuming the rate peg will continue as government policy, the new rate peg factors identified through IPART's 2023 review are considered an improvement over the previous methodology for determining the Local Government Cost Index (LGCI). However, it is suggested that the initial estimates for notional rate yields for many councils still require recalibration. It should also be noted that there is already an existing gap between per capita rate and per capita costs as a result of the historical rate peg regime and which continues to place stress on council budgets. This is not addressed by the introduction of a population factor or any other review on the rating revenue system. A one-off catch-up adjustment should be considered through this review to address this historical restriction to Councils general revenue.

There should also be consideration in the determination of the rate peg when the state or federal government provides large rounds of stimulus funding in the form of capital grants (such as the recent WestInvest grants) to deliver significant community assets. When this occurs, the rate peg methodology should allow for a reasonable one-off increase in rates revenue to cover the lifecycle cost of that asset into the future.

f) Review 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.

The special rate variation process provides councils with an important mechanism to secure additional revenue beyond the rate peg. However, the onerous nature of the process means that councils must carefully consider the costs and benefits before embarking on a special rate variation proposal. The process of applying for a special rate variation through the Independent Pricing and Regulatory Tribunal (IPART) is known to be highly onerous and resource-intensive for councils.

To begin the process, councils must develop a comprehensive proposal that outlines the reasons for the rate increase, the specific services or infrastructure projects the additional revenue will fund, and the impact on ratepayers. This proposal must be supported by detailed financial analysis and projections to demonstrate the need for the rate increase and its affordability for ratepayers.

Once the proposal is complete, councils must undertake extensive community consultation to gather feedback and build support for the rate increase. This often involves holding public meetings, conducting surveys, and engaging with community groups to ensure that ratepayers understand the reasons for the increase and have the opportunity to provide input.

After the consultation process is complete, councils submit their proposal to IPART for review. IPART then conducts its own assessment of the proposal, taking into account factors such as the council's financial sustainability, the impact on ratepayers, and the need for the rate increase. IPART may also seek further information from the council or hold public hearings as part of its assessment process.

The entire process, from developing the proposal to receiving approval from IPART, can take several months to complete without guarantee of success. It requires councils to dedicate significant resources, time, and effort to ensure that their proposal meets the requirements of IPART and has the support of the community.

The process does provide councils with the opportunity to seek additional revenue beyond the rate peg, which can be important for funding essential services and infrastructure projects. However, the success of a special rate variation proposal ultimately depends on the support of the community and the approval of IPART, which can be challenging to secure. Additionally, the political willingness to proceed with a special rate variation is often difficult to achieve. Despite the financial necessity of an SRV, councils may face political pressure against pursuing it, even when it may be the most prudent course of action. This can further complicate the already challenging process of seeking approval for a special rate variation.

g) any other related matters.

In addition to the above, the inquiry should consider the below listed factors that impact the financial sustainability of councils and ensure that these factors are appropriately scoped into the inquiry in order to for a holistic understanding of the full range of issues that affect the financial sustainability of councils.

- **Cumulative Impact of Rate Pegging:**
  The inquiry should evaluate the cumulative impact of historical rate pegging on the sector's current financial sustainability. This assessment should uncover how rate pegging policies have affected councils' revenue-raising abilities over time and inform discussions on potential reforms to improve financial sustainability.

- **Restrictions on Investments:**
  The inquiry should examine the merit of the current restrictions that apply to council investments and the extent to which it limits investment income. This should identify constraints that hinder councils from maximising investment returns, potentially highlighting opportunities for regulatory reform to improve financial sustainability.

- **State Government Control over Fees and Charges:**
  The inquiry should examine the extent of state government control over statutory fees and charges. This should identify the impact of state regulations on local government revenue and financial autonomy, highlighting areas where greater flexibility or local control may be needed.
- **Operating Subsidies and Grants:**
  The inquiry should assess the extent of operating subsidies and grants from other levels of government. This should determine the level of financial support local governments receive and identify any gaps or areas where additional funding may be needed to support service delivery and infrastructure development (particularly in funding lifecycle cost of assets).

- **Political Influence on Price Setting:**
  The inquiry should examine the extent of political influence on price setting, particularly where the "user pays" principle applies to services. This should provide insight into whether pricing decisions are based on sound financial principles rather than political considerations, ensuring fairness and transparency in the provision of services.

- **Legal Costs and Recovery Opportunities:**
  The inquiry should investigate and evaluate the high legal costs that councils incur in defending themselves against litigations, claims, and assessments. This should identify factors contributing to these costs and examine the challenges in recovering legal costs even through successful outcomes. The inquiry findings should inform legislative reforms that mitigate financial risks associated with legal proceedings to councils.

- **Accessibility to Financing:**
  The inquiry should analyse the accessibility of the sector to long-term and short-term financing options, such as borrowings. This should identify any barriers that councils may face in accessing financing and explore strategies to ensure that councils have the financial resources needed to meet their obligations and deliver services to the community.

- **Local Government Role in National Issues:**
  The inquiry should review the sector's growing role and expectation of involvement in national issues such as climate change, the environment, and resilience. This should also assess whether there is adequate funding available for local governments to effectively engage in these matters and meet the expectations of the community and broader society.

- **Community Expectations vs. Financial Capacity:**
  The inquiry should examine the growing expectations of local government services from the community, alongside the community's capacity and willingness to pay for these services. This will help in aligning service delivery with community needs while ensuring that financial resources are allocated in a way that is sustainable and meets the expectations of ratepayers.

- **IT, Cyber, and Information Security Costs:**
  The inquiry should analyse the changing IT, cyber, and information security landscape, along with assessing the costs of implementing appropriate and mandatory safeguards. This will improve the understand and awareness of the financial implications of evolving security requirements and cost burden that is placed on the sector to meet these requirements. In addition, the inquiry should look into providing recommendations that ensure the sector is resourced and funded effectively to protect against cyber threats.

- **Impact of Cost Shifting:**
  The inquiry should perform a detailed review on the extent of and the impact of cost shifting activities from other levels of government. Understanding how these shifts affect local government finances will assist in advocating for fairer funding arrangements and developing strategies to mitigate the financial burden on councils.

- **Managing Growth in Operational Costs:**
  The inquiry should examine the growth in operational costs and determining the extent to which councils can control this growth. This should identify areas where

councils have control over costs and where strategies can be implemented to manage and reduce these costs effectively.

- **Realising Efficiency Gains and Cost Savings:**
  The inquiry should review council operations and identify areas where councils can effectively realise efficiency gains and realistic cost savings, especially in a high inflationary environment. It will be important for the inquiry to assess the extent to which councils have already achieved these gains, highlighting successful strategies and areas for further improvement.

- **Assessment of Compliance Activities:**
  The inquiry should evaluate the extent of compliance activities, including external audits to determine if these activities yield sufficient community benefits relative to their relatively high costs. This should also consider whether the high cost of compliance activities justifies the value for money for the ratepayer, and whether this results in resources being diverted from activities that provide tangible benefits to the community.

- **High Cost of External Audits:**
  The current mandate of the NSW Auditor General creates a monopoly in price setting for external audits, offering no room for councils to contest or negotiate audit fees. This lack of discretion leads to substantial financial burdens on councils, impacting their ability to allocate resources effectively to serve their communities.

- **Audit Scrutiny and Expert Resources:**
  The inquiry needs to assess whether the current exceptionally high level of audit scrutiny applied to the sector is justified in terms of the cost vs benefits. External audit compliance required substantial monetary investments from councils as well as its impact on human capital and use of expert resources to meet auditing and accounting standards. These costs pose a considerable challenge for councils, impacting their ability to effectively manage their finances while delivering essential services to their communities.

- **Relevance of AASB Reporting Framework and the LG code of accounting practice:**
  The inquiry needs to question the relevance of the Australian Accounting Standards Board (AASB) reporting framework and the LG Code of Accounting Practice to local government. It raises the opportunity to review the accounting standards and develop a framework that is more suitable for the sector, making financial reporting more understandable to the average ratepayer. This could lead to greater transparency and accountability, aligning with the community's expectations and needs as well as reducing cost burden of audits that result in financial statements that may not be meaningful the average ratepayer.

- **Opportunities for Commercialisation:**
  The inquiry needs to assess the opportunities for commercialisation of activities and the challenges of implementing such initiatives in a regulatory and political context. This evaluation can help identify potential revenue-generating activities for councils

and understand the regulatory and political barriers that need to be addressed to successfully implement commercialisation strategies.

- **Expansion of Local Government's Role:**
  The inquiry should examine the expansion of local government's role over the years, including the extent to which councils provide services beyond what is considered "core" operations. This should help in understanding the evolution of local government responsibilities and the financial implications of providing non-core services to the community.

- **Community Expectations of Local Government Services:**
  The inquiry should analyse the growing expectations of local government services from the community. This should look into the evolving needs of the community and whether there is appropriate mechanisms for the sector to implement strategies and source funding to effectively prioritise and deliver services that meet these expectations, ensuring that local governments remain responsive to the needs of their constituents.

- **Capital Grants and Asset Lifecycle Costs:**
  The inquiry should assess the level of capital grants provided to councils from other levels of government and consider whether sufficient regard has been given to the related assets' lifecycle costs. It should also examine how local governments can adequately fund these costs and whether the volume of capital grants should factor into the rate peg methodology.

  For instance, if a council receives a large capital grant to deliver a significant community asset, the rate peg should potentially allow for a reasonable increase in rates revenue to cover the lifecycle cost of that asset into the future. This approach would ensure that councils can adequately fund the ongoing maintenance and renewal of infrastructure assets.

  This assessment should also identify any gaps in funding from state and federal governments that may arise from insufficient consideration of long-term asset management needs. It should then inform strategies to ensure that capital funding is allocated in a manner that supports sustainable asset management practices.
- **Industrial Relations and Sector Productivity:**
  The inquiry should assess the role and influence of industrial relations and unions on sector productivity and efficiency. This should identify factors that impact workforce productivity and explore opportunities for collaboration between unions and local governments to improve efficiency and service delivery.

- **Competitive Labour Market:**
  The inquiry should evaluate the competitive labour market, particularly in disciplines such as Planning, Infrastructure Project Management, IT & Technology, Engineering, and Finance. This should assist in the understand and awareness of the challenges local governments face in attracting and retaining skilled professionals and inform strategies to address workforce shortages and improve service delivery.

- **Talent Competition with Other Sectors:**
  The inquiry should assess the competition for talent with other levels of government and the private. This should highlight the challenges local governments face in attracting and retaining skilled professionals. The inquiry should also inform strategies for the sector to compete effectively for talent in ensuring efficient service delivery.

- **Recruitment Timeframes:**
  The inquiry should examine the long recruitment timeframes that apply to the sector due to mandatory administrative procedures (in comparison to procedures at other levels of government and the private sector). This should identify inefficiencies in the recruitment process and explore ways to streamline procedures to reduce recruitment time and improve workforce planning.

- **Limited Performance Incentives:**
  The inquiry should review the limited opportunity to offer candidates performance incentives. This should help inform the impact on recruitment and retention of top talent and explore alternative strategies to attract and motivate employees, ensuring that councils can compete effectively for skilled professionals.

- **Dwindling Specialist Skills:**
  The inquiry should assess the level of dwindling around specialist skills, particularly those unique to the local government sector. This should identify areas where there is a shortage of specialised talent and inform strategies to develop and retain these skills within the sector, ensuring that councils can continue to deliver high-quality services to their communities.

- **Staff Retention Strategies:**
  The inquiry should review current staff turnover rates and related retention strategies. This should identify factors contributing to high turnover rates and inform the development of retention strategies, such as professional development opportunities, competitive compensation packages, and a positive work culture, to retain skilled professionals and maintain workforce stability.

- **Federal and State Government Funding:**
  The inquiry should assess the level of Federal and State Government appropriation towards funding council operating expenditure, compared to the high level of capital grants. This should evaluate the balance between funding for day-to-day operations and capital projects, highlighting areas where increased funding or alternative funding mechanisms may be needed to support ongoing operational service delivery.