

**INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO
FUND INFRASTRUCTURE AND SERVICES**

Organisation: Dubbo Regional Council

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Standing Committee on State Development
Inquiry into the Ability of Local Governments to Fund Infrastructure and Services

Dear Committee Members

**SUBMISSION - INQUIRY INTO THE ABILITY OF LOCAL GOVERNMENTS TO FUND
INFRASTRUCTURE AND SERVICES**

Thank you for the opportunity to provide a submission into the Inquiry into the Ability of Local Governments to Fund Infrastructure and Services.

Whilst this is a challenging time for councils given the need to develop the draft Budget and Operational Plan to put before Council and community, it is pleasing to be able to provide our insights for your consideration. Accordingly, Council's submission is as follows:

Dubbo Regional Council Financial Position

Dubbo Regional Council, reports a consolidated position as well as three fund types that are included in the consolidated position:

- Water Fund – Provision of water network services to properties within the serviceable areas and funded through the water access charge, consumption charge and other water fees.
- Sewer Fund - Provision of sewer network services to properties within the serviceable areas and funded through the sewerage access charge and other sewerage fees.
- General Fund – All other services and infrastructure provided by Council not funded by water or sewerage revenue. Revenue for the general fund is predominantly general rate revenue and grant funding, as well as revenue earned from fees and charges for services provided.

Water and Sewer Funds, have reported historical surpluses over multiple years, and required so to ensure the ongoing upgrade and renewals for the network. The Water Fund has experienced surpluses for the past 7 years, revenue generated by user charges and fees. The reported net operating result for the Sewer Fund is a surplus of close to or over \$5 million over the past five financial years.

The General Fund's net operating position has been in a deficit position over the past four years. It is predicted that the structural deficit within the General Fund whereby the recurrent revenue is not able to fund the recurrent expenditure.

Total cash, cash equivalents and investments have stayed between \$270 million and \$218 million from 2017/18 to 2022/23. At the end of 2023/23, Council had total cash, cash equivalents and investments of \$269.7 million, of which \$200 million is externally restricted, \$69.7 million is internally restricted.

Asset Management

Dubbo Regional Council is responsible for the acquisition, operation, maintenance, renewal, and disposal of an extensive range of physical assets with a replacement value of \$3.6B. These assets include land, buildings, parks, recreation areas, roads, footpaths, drainage systems, water, sewerage and associated operating assets and provide service essential to our community's quality of life.

As per Dubbo Regional Council's Draft Asset Management Strategy, council manage the following summary of asset categories that service our community.

Asset Class/Category	Dimension
Transport	1,420km sealed roads, 1,379km unsealed roads, 75 bridges, 566km Kerb and Gutter, 127km of paved footpaths, 3,652 culverts.
Water	742km of water mains, 4 treatment plants, 14 pump stations and 17 reservoirs.
Sewerage	600km of pipe network, 5 treatment plants and 30 pump stations.
Urban Drainage	274km pipe drainage, 9,626 drainage pits, 71 Gross Pollutant Traps, 9.8km of channels, 103 stormwater basins and 139 urban road culverts.
Recreation and Open Spaces	1,011Ha of public open space (217Ha of this irrigated) including 35 playgrounds, 3 swimming pools.
Buildings	More than 350 buildings including specialised, non-specialised and RFS. 31 are specifically utilised for Council activities such as depots or airport terminals.

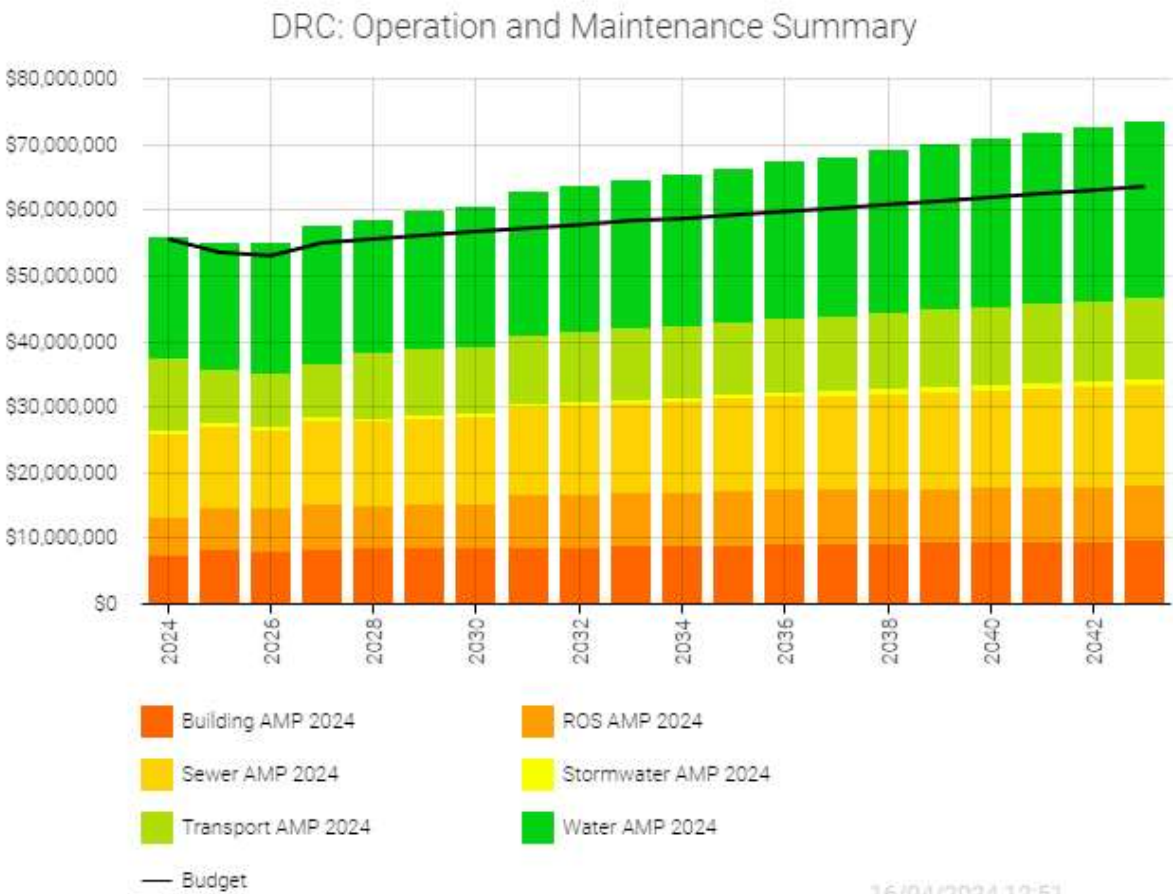
The General Fund is responsible for Transport, Urban Drainage, Buildings, and Recreation and Open Spaces. With revenue for the operation and maintenance of these assets is funded from Rates and General Revenue (Rates, Financial Assistance Grant and User fees and Charges).

The current value of these assets is as follows:

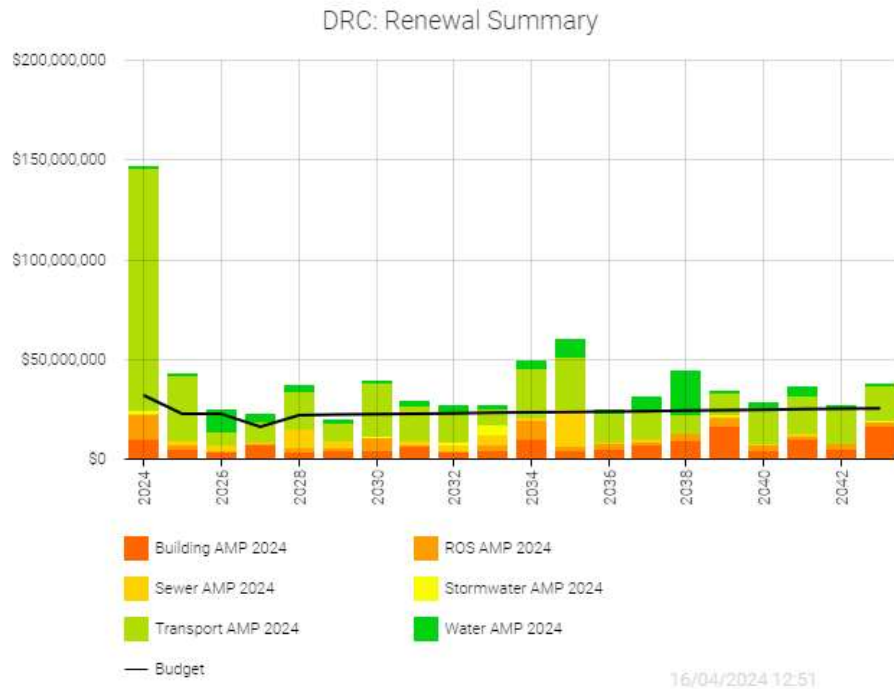
Asset Class/Category	Gross Replacement Cost * (\$M)	Carrying Value (\$M)	Annual Depreciation (\$M)
Transport	1,377	756	24
Water	484	329	7
Sewerage	421	253	6
Urban Drainage	208	140	2
Recreation and Open space	114	52	11
Buildings	297	167	9
TOTAL (\$M)	2,901	1,697	59

DRC assets are depreciating every year by an amount of \$46m (excluding Water and Sewer Funds) which is more than the value of the Current Rate Base of \$43.4m.

Current forecast that the current funding is not adequate to provide all services at the desired service levels or provide new services. There is an ongoing and increasing gap between projected funding and the need for operations and maintenance. As shown in the 2024 Draft Asset Management Strategy, in the following Graph.



This is having an impact on the Asset renewal Program as well with Projected future renewal and replacement expenditures are forecast to increase over time as the asset stock ages.



The Projected Capital Renewal and Replacement Expenditure and LTFP Outlays above where renewal projections are based on estimates of asset useful lives. The projected renewal and replacement program makes no allowance for borrowings to fund high priority items, but does include allowance for significant external grants where historic patterns are consistent.

The renewal summary shows a situation that results in changes to the infrastructure backlog. The initial trend in backlog is there are some years where backlog reduction is predicted and others where the backlog will increase. The situation is relatively stable until 2033 when increases are more common.

Asset type	Replacement Value	Operations & Maintenance	Renewals	Upgrade & New	Funding Shortfall	Renewal Backlog Year 1	Renewal Backlog Year 20
	At 30/6/24	1st 10 year average				2024	to 2043
\$ million:							
Transport	114.0	9.8	26.6	2.0	7.9	100.4	160.5
Water	1,377.0	20.5	2.7	7.5	2.1	(3.0)	(26.8)
Sewer	484.0	12.8	3.0	5.6	3.2	(2.6)	8.9
Drainage	297.0	0.6	0.8	2.0	1.1	0.6	6.8
Recreation and Open Space	421.0	7.0	3.0	3.1	5.6	11.0	36.4
Buildings	208.0	8.5	5.3	1.6	3.6	8.4	123.9
Other	784.2					-	-
Total	3,685.2	59.2	41.4	21.7	23.5	114.8	309.7
Infrastructure Backlog Ratio						4.0%	8.4%

By 2042, the backlog is projected to be \$309.7M in the absence of additional funding. The renewal funding gap over the period of this plan is \$23.5M per year, however, there is an initial backlog of \$114M and almost \$37M occurring in the final 10 years of this review. The Infrastructure Backlog Ratio of 4.0% in 2024 is slightly higher than the 2022 Regional Councils benchmark of 3.8%. The renewal backlog for transport, buildings and recreation and open spaces has increased by 2043 as renewal is more than the budget assumptions.

Currently the renewal funding ratio is at 55.5%. That is, the nominated renewals budget only accounts 55.5% of the nominated renewals (and backlog) over the first 10 years of the plan. This situation means that the backlog will increase unless that situation is addressed.

Rate Pegging and Special Rate Variations

Rate peg as it currently exists provides councils with an independent assessment to justify and increase in Rate revenue required by Councils to fund the increases in expenditure annually. This process in general is understood by the community and is accepted. Compared with each Council required to justify an increase its each year to the community.

Below is the rate increases applied to Dubbo Rates, as well as Rate growth (due to Development and other Factors). Compared with the CPI over the last 20 years.

FY	Rate Peg	Special	DRC Rate increase	CPI	DRC Rate Growth
2003/2004	3.60%	2.00%	5.60%	2.30%	
2004/2005	3.50%	2.00%	5.50%	2.50%	
2005/2006	3.50%	4.00%	7.50%	3.80%	
2006/2007	3.50%	5.00%	8.50%	1.70%	
2007/2008	3.50%	5.00%	8.50%	4.30%	
2008/2009	3.20%	0.00%	3.20%	1.30%	
2009/2010	3.50%	0.00%	3.50%	2.90%	
2010/2011	2.60%	0.00%	2.60%	3.80%	
2011/2012	2.80%	0.00%	2.80%	1.30%	
2012/2013	3.60%	0.00%	3.60%	2.60%	
2013/2014	3.40%	0.00%	3.40%	2.80%	
2014/2015	2.30%	0.00%	2.30%	2.20%	
2015/2016	2.40%	0.00%	2.40%	9.00%	
2016/2017	1.80%	0.00%	1.80%	2.20%	
2017/2018	1.50%	0.00%	1.50%	2.10%	
2018/2019	2.30%	0.00%	2.30%	1.70%	1.20%
2019/2020	2.70%	0.00%	2.70%	-1.00%	0.60%
2020/2021	2.60%	0.00%	2.60%	4.10%	0.60%
2021/2022	2.30%	0.00%	2.30%	5.30%	1.10%

2022/2023	2.30%	0.00%	2.30%	6.60%	1.20%
2023/2024	3.70%	0.00%	3.70%		1.50%
Average	2.89%	0.86%	3.74%	3.08%	1.03%

** Based on Dubbo City 2003/2024-2015/2016 rate peg prior to amalgamation in 2016*

The Dubbo LGA has experience constant growth over the past 20 years, with has resulted in additional rating income, but also places additional pressure on the existing services and infrastructure, as well as the continually growth of the networks and council assets with Roads, Recreational Areas, water and Sewer, as Developer Contributed Assets are gifted to Councils for ownership. Therefore, ongoing requirements for Operational, Maintenance and renewal programs.

Dubbo Regional Council has not applied for a special rate variation, the former Dubbo City Council's last approved SRV was in 2007/2008 which was for an increase of Service to fund a New Regional Theatre. The prior SRV granted was in 2004 of an 8% increase over a 3 year period for Road Maintenance and 6% and Open Space Infrastructure of 2%. An application was declined in 2009 (which was a proposed 4% increase for 2% Road Infrastructure and 2% Parks and Landcare Infrastructure).

The current process for a Special Rate Variation (SRV) requires significant resourcing with both external consultants and staff time to prepare the requirements of the application as well as an intensive community engagement program. Which is considered reasonable due to the impact on the community. The main constraint are the timeframes for applications and approval is the limited time of when applications are to be submitted for assessment and approval.

Increase in Expenditure and Cost Shifting

When comparing Councils expenditure incurred in 2017/2018 to expenditure incurred in 2022/2023 Financial Years (by Category) to increase in Rate income (for the same period), Rates income has increased by \$7.7M, compared with the following large expenses increases as follows

- Wages (including Superannuation) \$8.3M (including increases to workforce and annual award increases)
- Workers compensation \$1.6M
- Insurances \$568K
- Light and Power \$532K (this is with an improvement program to install solar panels on appropriate infrastructure)

Council has implemented various improvement programs that have resulted in decreased expenditure in the following categories:

- Street Lighting \$409K
- Printing & stationery \$293K

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- Advertising \$164K
 - Telephone and communications \$139K

Additional pressure is placed on Rates and General revenue to fund the increases in cost for the delivery of Cost shifting activities from the State and Federal Government including (but not limited to) the following:

- Increases in the Contributions to Emergency Services in 2023 \$1.65M compared to \$1.05 in 2018 which is a \$0.6m increase (57%) over a 5 year period.
- Functions under the Rural Fires Act (NSW) 1997, Increase pressure to provide RFS services within the current Budget, no control over the procurement (including the quality).
- Public Library operations costs, prescribed amount pursuant to s13(4)(b) Library Act (NSW) 1939 and the regulation) and the subsidy council would have been eligible to pursuant to s13(4)(a) Library Act (NSW) 1939, the original funding arrangement of a state subsidy of half the amount expended by councils on the operation of libraries from rate income. Currently received \$220,681 in Library Subsidy and have an operating budget of \$2,973,996 (which includes \$343,033 for Depreciation) as per the current 2024 Budget.
- Pensioner Rate rebates net cost incurred due to the mandatory pensioners rebates for rates and charges (total amount of mandatory concession minus state reimbursement), NSW requires councils to fund approximately half the cost of mandatory pensioner concessions (ss575-584 of the Local Government Act (NSW) 1993) current estimated shortfall \$235,000.
- Shortfall in cost recovery for regulatory functions/services and administration under the Companion Animal Ac (NSW) 1998, Protection of the Environment Operations Act (NSW) 1997 and food safety regulations (including undertake registration and inspection of food and food premises) under the Food Act (NSW) 2003 total approx. \$465k per year.
- Shortfall in the cost recovery functions as control authority for noxious weeds of \$345k per year
- Immigration services and citizenship ceremonies councils conduct citizenship ceremonies under the Australian Citizenship Act (Cwth) 2007 approx. \$50K.
- Crime prevention/policing costs of CCV surveillance, crime prevention programs, community safety committees with an annual budget of \$67-\$100K per year.

Yours faithfully

Murphy Wood
Chief Executive Officer