

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

Organisation: Redpath Cathcart

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Honourable Emily Jane SUVAAL, BN MLC
Chair, Standing Committee on State Development
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Chair,

Re: Ability of local governments to fund infrastructure and services

I read with interest the Terms of Reference for the Committee's Inquiry and the previous referral to iPart NSW.

Based on my professional risk management background and senior finance experience of the Australia local government sector, I write to express my observations and thoughts to the Inquiry and Committee's deliberations.

Financial Sustainability Ratio Performance Reporting

The current financial state and monitoring of NSW local government councils is, at best, systemically flawed. The legacy of rate pegging and the cost shifting of asset management responsibility from State Government to local councils has only been compounded by the Office of Local Government's "Financial Sustainability Ratio" (FSR) performance measures instigated by the "Fit for the Future" initiative.

In essence, the FSR framework is fundamentally flawed and should be overhauled. A new FSR framework should be aligned to both the recurrent service activity of councils and the long-term asset management of council infrastructure.

A new FSR should address the structure of council own revenue, grants, contributions recurrent funding and long-term borrowing. In doing so, the State Government, Office of Local Government and councils would have an integrated FSR framework that properly addresses the financial sustainability of NSW local government.

Revenue base and "Cost Shifting" (State Asset Transfer)

A common theme across NSW local government is that individual council general revenue does not match the level of community services provided nor does it reflect a council's infrastructure. The fundamental flaw is that assets previously funded by State Government and transferred to Local Government have left councils with a funding requirement that is outside a council's general revenue.



A good example of this time-bomb being handed over is the Snowy Monaro Regional Council and the Snowy Special Activation Project. The Project is being funded and delivered by State Government and then transferred to Council, yet it is unclear that Council understands the annual recurrent spend required to maintain the assets nor how Council will fund the subsequent long-term capital replacement. More importantly, how does Council intend to fund the annual maintenance costs and capital replacement.

Rate-pegging

Though iPart NSW presented its report of the efficacy of rate-pegging, iPart did leave the core issue of funding and financial sustainability unanswered.

Has the Office of Local Government produced an update of its 2015 “Your Council - Profile & Performance of the NSW Local Government Sector” for the Committee? What would be of interest is to learn where NSW Local Government is now compared to the table produced in the 2015 Report:

TABLE 1 NSW LOCAL GOVERNMENT INDICATORS OF CHANGE	2004/05	2009/10	2013/14	% of Change 2004/05 to 2013/14
NSW Population	6,650,735	7,053,753	7,410,399	11.42%
Number of Councils	152	152	152	0.00%
Number of Councillors	1,567*	1,525*	1,480**	-5.55%
Equivalent Full Time Staff	42,219	44,588	44,846	6.22%
Number of Pensioner Rebates	451,454	457,412	475,431	5.31%
Open Space (ha)	154,663	129,047	150,696	-2.57%
Public Pools	485	468	464	-4.33%
Community Centres & Public Halls	1,498	1,606	1,787	19.29%
Length of Roads (km)	163,782	165,052	165,636	1.13%
Number of DAs determined	105,225##	71,550	60,791	-42.23%
Value of DAs determined	\$20 B##	\$17.03 B	\$25.69 B	28.44%
Number of Food Premises requiring inspection	39,503	42,566	45,103	14.18%
Levee Banks Maintained (km)	582	597	586	0.78%
Average Council Revenue Per Capita (\$)	951.61	1,338.72	1,518.18	59.54%
Average Council Expenses Per Capita (\$)	921.57	1,187.67	1,359.57	47.53%

Fair to assume that although rate-pegging has been “successful” in controlling council spend, the cost has been the stressed long-term financial sustainability of councils. It will be interesting to read the Committee’s findings as to the performance of local government and progress to attaining the Destination 2036 Action Plan.

I do hope that the Terms of Reference for the Review facilitate a new local government funding model, FSR framework and determine a number of key recommendations that require immediate attention from the Office of Local Government and individual councils,

Yours sincerely,