

**Supplementary
Submission
No 1a**

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

Name: Ms Lyn Magree

Date Received: 26 April 2024

26 April 2024

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

Dear Members of the NSW Parliamentary Committee

I would like to provide this addendum to clarify my submission dated 20 March 2024, regarding the *'Investigation of the council financial model in NSW'*.

On 14 March 2024, the Premier Chris Minns withdrew the referral to IPART and instead allocated the review to the NSW Parliament's Standing Committee on State Development; along with a slimmed-down draft terms of reference on *"the ability of local governments to fund infrastructure and services"*. [Therefore, I now submit this addendum under point "\(g\)" of the terms of reference: "any other related matters"](#).

Terms of Reference: (G) Any other related matters

The question from the draft terms is: *"the ability of local government to fund infrastructure and services"*. I don't believe the current system is sustainable, as insurance is exempt from the tender process; therefore, I request the Committee review the current model.

There are currently three stakeholders with significant market power, which enables them to control and dominate the insurance market sector and subsequent pricing. The stakeholders are:

1. **Local Government NSW (LGNSW)**: The voice of local government, 128 NSW councils
2. **Statewide Mutual (Statewide)**: Insurance and risk advisors to 115 NSW councils
3. **JLT Insurance Brokers (JLT)**: Insurance brokers and manager of Statewide Mutual

Questionable Conduct - \$4M in Commission paid LGNSW

1. LGNSW – FORMED IN 2013

The formation of LGNSW on 1 March 2013, was the result of the amalgamation of the Local Government Association of NSW and the Shires Association of NSW. LGNSW claim to be, *"an independent organisation"* that exists to serve the interests of NSW general and special purpose councils. **I do not believe LGNSW is independent when it has received \$4,088,942 in commission**, over an eight year period, from Statewide and JLT.

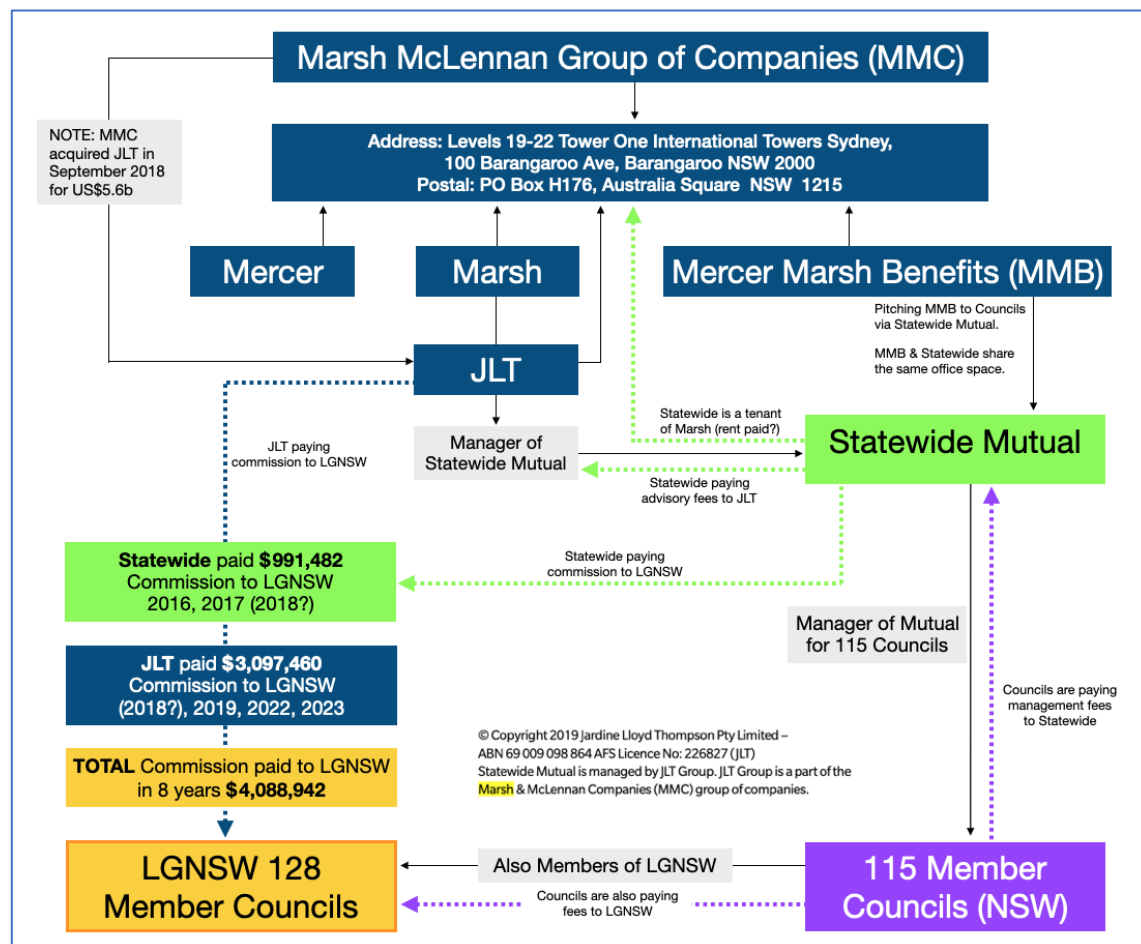
There is no mention in LGNSW notes as to the services LGNSW provided to Statewide and JLT for the receipt of over \$4m in commission. The question every resident of NSW should be asking, and the State Government answering, is why has LGNSW received over \$4 million in commission from Statewide and JLT? And how independent is LGNSW? Why should the residents of 128 councils be funding insurance that doesn't go to tender?

JLT has been the advisor to Statewide for close on 30 years. How is this competitive? How is this model sustainable when insurance NEVER goes to tender? How can the residents of NSW's 128 councils be assured that the insurance pricing is competitive?

LGNSW – Commission received from Statewide and JLT (Marsh McLennan) – Overview

Payment	Year	LGNSW Consolidated	Commission Received
1	2016	\$505,179	Statewide
2	2017	\$486,303	Statewide
3	2018	\$503,099	Statewide/JLT
4	2019	\$508,576	JLT
5	2020	\$524,796	JLT
6	2021	\$534,078	JLT
7	2022	\$497,866	JLT
8	2023	\$529,045	JLT
TOTAL		\$4,088,942	

The LGNSW / STATEWIDE / JLT (Marsh McLennan) – Org Chart and Overview



Questionable Conduct – Statewide’s conflict of interest

2. STATEWIDE

“Statewide is owned by Members [115 NSW councils], governed by a Board – comprised of elected Member Council representatives – and managed by JLT.”

Statewide claims, *“Our Board goes to great lengths to ensure the mutual acts solely in the interest of Members”.*

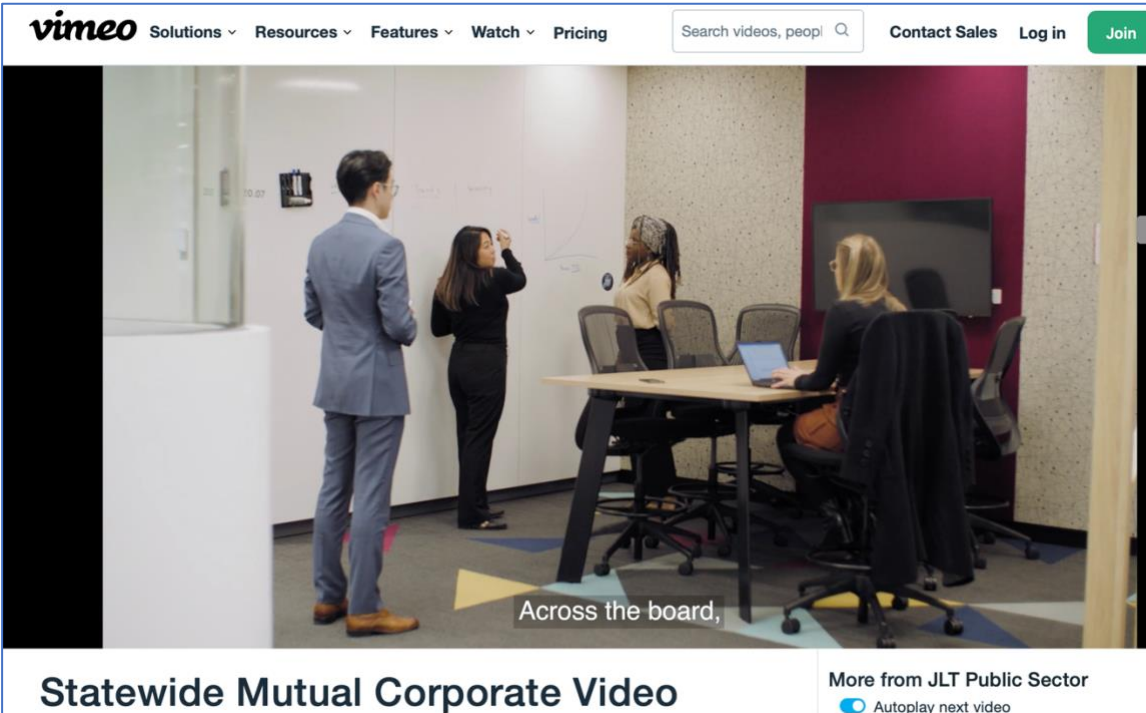
I don’t believe this to be true for the following reasons:

Statewide: Is a tenant of JLT, which I believe is an undeclared conflict of interest. When Statewide operates both as a tenant of JLT, and adviser to 115 Member councils, there may be conflicts of interest between Statewide’s role as a tenant of JLT, and its role when acting as an independent advisor to its 115 Member councils.

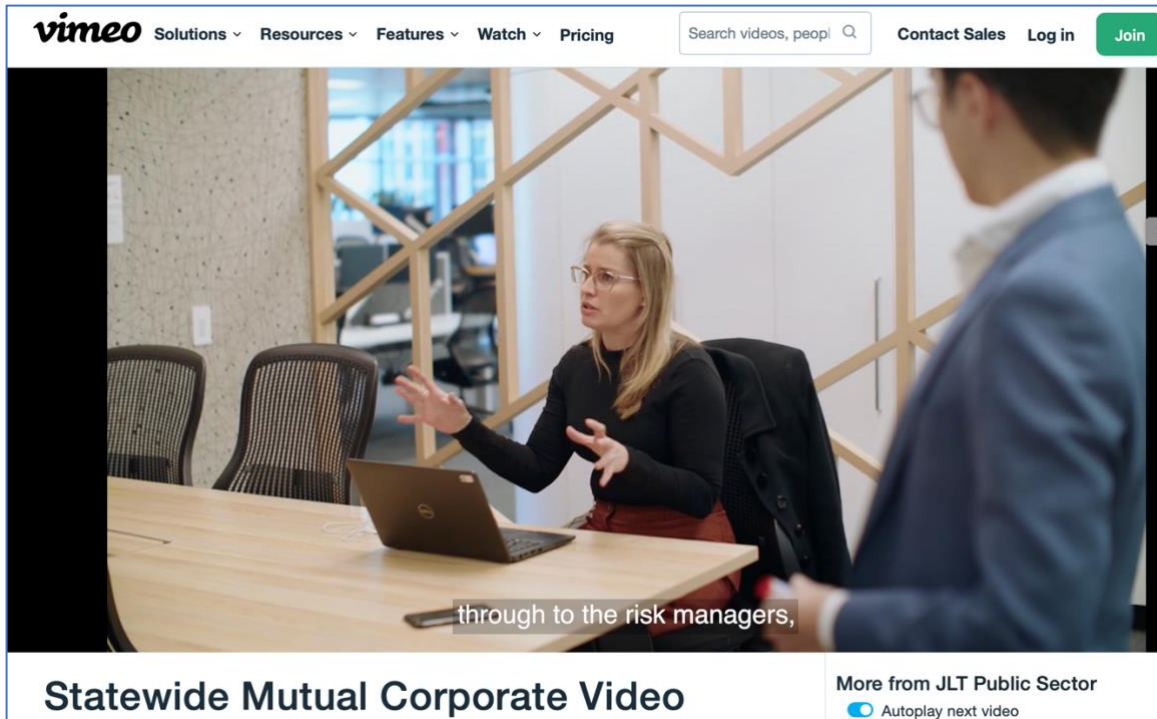
Quality of Service: Balancing the roles of a tenant (Statewide) and an insurance provider (JLT and Landlord) may affect the quality of service provided to the client (115 Member councils). Statewide’s attention may be divided, potentially impacting the level of care and service provided to its 115 Member councils.

Access to Information: JLT is a subsidiary of Marsh. Marsh leases levels 19-22 Tower 1, 100 Barangaroo, Sydney. Marsh/JLT operate in an open plan/hot desk environment; where sensitive client information from Statewide, and its Member councils, can be viewed by Marsh/JLT employees that could lead to privacy and regulatory concerns. Below are two screenshots from Statewide’s corporate video evidencing Statewide operating in Marsh/JLT’s open plan environment.

How comfortable would ASIC be with this arrangement?



The screenshot shows a Vimeo video player interface. The video content depicts a meeting in an open-plan office. A man in a blue suit stands on the left, facing a woman in a black dress who is pointing at a whiteboard. Another woman in a yellow top is seated at a table with a laptop, and a woman in a black top is seated at the end of the table. The office has a modern, open-plan layout with a red wall and a large window. The video player includes a search bar, navigation links (Solutions, Resources, Features, Watch, Pricing), and a 'Join' button. The video title is 'Statewide Mutual Corporate Video' and there is a 'More from JLT Public Sector' link with an 'Autoplay next video' option.



Income as an advisor: JLT may prioritise the quality and value of Statewide’s services over that of its 115 Member councils. The income generated from Statewide’s advisory services and rent could be significant for Marsh/JLT operations, growth, or specific projects. Maintaining a steady income from advisory services and rental payments could be a crucial concern for Marsh/JLT (landlord) to cover expenses and generate profit. Therefore, JLT’s advice to Statewide may not benefit its 115 Member councils, but instead benefit Statewide the tenant.

Regulatory Compliance: There may be regulatory requirements that the tenant-insurance provider needs to adhere to, especially concerning client confidentiality, disclosure, and fair business practices.

Rent as a tenant: Statewide’s primary concern could be ensuring that the rent is paid on time and that the lease agreement terms are met. Statewide may prioritise the selling of advice to Members, and subsequent selling of JLT products over providing unbiased advice tailored to its 115 Member councils’ best interests.

Transparency and Disclosure: Full transparency about the dual role should be disclosed to Statewide’s 115 Member council along with any potential conflicts of interest. Currently it’s not. Statewide provides only its PO Box, which is the same as Marsh/JLT. Statewide does not provide its street address, which is the same as Marsh/JLT.

Professional Liability: If the tenant-insurance provider fails to meet the professional standards of ASIC, or makes errors in providing insurance-related advice to Member councils, both Statewide and JLT could face liability issues, which could lead to legal claims or regulatory penalties. How would this affect Statewide’s 115 Member councils?

How does this current relationship affect the State Government now that it has been made aware of the potential conflicts of interest between Statewide and JLT?

How does this current arrangement underpin, “the ability of local governments to fund infrastructure and services”.


3. JLT PUBLIC SECTOR

“Through our deep knowledge of the Local Government, JLT has developed a unique method to provide protection solutions for Local Government clients.”

In the above, JLT doesn’t say it’s competitive, because it’s not – and yet we, the residents, are expected to accept, and pay for, a non-competitive tender process. Why?

Below is the insurance component of my council, Goulburn Mulwaree, and its proposed Special Rate Variation (SRV) increase.

Insurance is second on the list of “5 Major Expenditures” yet insurance doesn’t go to tender. And hasn’t for years. Why not? How is this model sustainable? Why should residents be expected to accept JLT’s renewal terms when there is NO competition?



Special Rate Variation Proposal

Scenarios	2024-25	2025-26	Cumulative
Base Case - Rate Peg*	3.5%	2.5%	6.1% (over two years)
Option 1 - One - year SRV (including rate peg)	43.5%	2.5%	47.1% (over two years)
Option 2 - Two - year SRV (including rate peg)	25.5%	20.5%	51.2% (over two years)

Rates comparison v 5 Major Expenditure Categories 2018/19 - 2023/24				
	Increase (\$'000)	Increase (%)	Average Increase (\$'000)	Average Increase (%)
ESL	404	92.66%	67	15.44%
Insurances	1,002	89.46%	167	14.91%
IT Expenses	985	569.36%	164	94.89%
Light & Power	1,641	156.29%	274	26.05%
Depreciation	13,884	114.59%	2,314	19.10%
Increase in expenses	17,916	120.28%	2,986	20.05%
Rates	4,710	24.76%	785	4.13%

Why is there NO tender process for the buying of insurance?

Local councils typically purchase insurance coverage for a wide range of purposes to protect themselves from various risks and liabilities associated with their operations. Some common types of insurance coverage purchased by councils include:

Public liability insurance: This type of insurance provides coverage for claims made against the council for property damage or personal injury to third parties that occur as a result of the council's activities or operations.

Property insurance: This covers damage or loss to council-owned buildings, infrastructure, equipment, and other assets due to events such as fire, theft, vandalism, or natural disasters.

Workers' compensation insurance: Councils are required to provide workers' compensation insurance to cover employees for injuries or illnesses sustained in the course of their employment.

Cyber insurance: With the increasing risk of cyber threats and data breaches, councils may purchase cyber insurance to cover expenses related to data breaches, cyber extortion, and other cyber-related incidents.

Professional indemnity insurance: This coverage protects the council and its employees against claims of negligence, errors, or omissions in the provision of professional services, such as planning, engineering, or legal advice.

Motor vehicle insurance: Councils often maintain insurance for their fleet of vehicles, including cars, trucks, and specialised equipment, to cover damages, liability, and other risks associated with operating vehicles.

Event insurance: Councils may purchase insurance coverage for events they organise or host to protect against liabilities arising from accidents, property damage, or other unforeseen circumstances.

Environmental liability insurance: This insurance provides coverage for clean-up costs and damages resulting from pollution or environmental contamination caused by the council's activities or operations.

Directors and officers liability insurance: This type of insurance protects council members, executives, and directors from personal liability for wrongful acts or decisions made in their official capacities.

In conclusion, I hope that you will question all of the above, and I look forward to hearing from you and answering any questions you may have.

Yours sincerely