REPORT ON PROCEEDINGS BEFORE

# STANDING COMMITTEE ON STATE DEVELOPMENT

## INQUIRY INTO THE ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

**At Macquarie Room, Parliament House, Sydney on Wednesday 29 May 2024**

**The Committee met at 9:15.**

**CORRECTED**

**PRESENT**

The Hon. Emily Suvaal (Chair)

The Hon. Mark Buttigieg
Dr Amanda Cohn
The Hon. Scott Farlow
The Hon. Emma Hurst
The Hon. Peter Primrose

**PRESENT VIA VIDEOCONFERENCE**

The Hon. Sam Farraway (Deputy Chair)
The Hon. Stephen Lawrence

**The CHAIR:** Welcome to the second hearing of the Committee's inquiry into the ability of local governments to fund infrastructure and services. I acknowledge the Gadigal people of the Eora nation, on whose lands we are meeting today, and pay my respects to their Elders, past, present and emerging. I acknowledge any Aboriginal people who also may be with us today. My name's Emily Suvaal. I'm the Chair of the Committee today. I ask everyone in the room to please turn their mobile phones to silent. Parliamentary privilege applies to witnesses in relation to the evidence they give today. However, it does not apply to what witnesses say outside of the hearing. I urge witnesses to be careful about making comments to the media or to others after completing their evidence. In addition, the Legislative Council has adopted rules to provide procedural fairness for inquiry participants. I encourage Committee members and witnesses to be mindful of these procedures.

**Mr RICHARD SHERIDAN**, Director City Performance, Bayside Council

**Mr DAVID TUXFORD**, General Manager, Georges River Council, and President, Local Government Professionals Australia, NSW, affirmed and examined

**Mr CRAIG SWIFT-McNAIR**, General Manager, Woollahra Council, and Vice President, Local Government Professionals Australia, NSW, affirmed and examined

**The CHAIR:** Welcome, and thank you for making the time to give evidence to this important inquiry today. Would any of you like to start by making a short opening statement?

**RICHARD SHERIDAN:** I'm happy to do that. Thank you for having us in as Local Government Professionals. We're a group of people that work in council and volunteer our time as a group of accounting and finance professionals to, I guess, embetter local government and provide a forum for us to get together and learn from each other and tackle the issues of the day that we deal with in local government. I've been in local government for about 10 years now, and I previously from that came from the commercial sector. I joined local government at the time of the 2014 inquiries, when they were calling out for CFOs to join the industry, to be a bit more strategic in our thinking. I was part of that batch, and I've been involved in two amalgamations since that. So I've had a fairly fun career in local government to date. I'm happy to be here and happy to share any experience we can share with you.

Really, for us, what we've been talking about for 10 years is financial sustainability. The reason we've been talking about it is because, in our surveys we do with general managers, the two highest risks of local government are financial sustainability and cyber risks. The only reason financial sustainability remains the highest is because we haven't resolved the problem yet. But cyber is really beating on the door in terms of our second biggest risk. That's why we're quite keen to provide any information to this hearing at the moment. Really, for our perspective, financial sustainability is really about the councils' individual ability to fund services they've committed to in their long-term financial plan. It is more than just the rates we collect; it is how do we actually fund the council going forward, using the IP&R process? That's where we put a lot of our focus when we talk to councils and talk to the community: How are we going to keep funding the business going forward?

For us, I think three issues come out from reviews we've had recently. One is that the cost of local government—while the price and what IPART do is important, it's also the volume of work that we do, and you hear quite often that we're taking on a lot more work as we go. That's not built into the price indicators. Really, cost is made up of price and volume. We always reinforce that with IPART, that they can capture the price of increases and we support lot of the work that they do, but if we take on more things through developer contributions, building new facilities, doing a lot of notice motions through council—we get about 200 every four years asking for new services and new things that we should be doing. They're all small, but they also add up. And then we take on grants and provide new services. All those things add to our cost base over time, and that's why the costs of councils have outstripped some of the CPI that you've seen in that IPART report.

The second issue we talk about is the income constraints. IPART will capture the costs quite well in their indicator, but some of the statutory fees that we have in council have been on hold for a long time. This causes issues in terms of—the net costs of our services are always increasing, but it is not captured by the rate peg. Constantly, councils are always having to stretch a little bit harder just to factor that, so any time we can actually get rid of some of those statutory fees that don't go up by CPI, we think those little wins for us would be a massive improvement to our financial sustainability. The last one is that—we have been talking about this issue for a lot of years, and it doesn't feel like anyone's got the delegation to fix financial sustainability. I hear, quite often, people say, "My scope for this review is to do this, and I can't do any more." One of the things we'd call out as professionals is, out of this Committee, how are we going to be able to make the changes we need to make, and who's going to have the delegation to make those changes? That's my call-out for you guys. Thank you.

**The CHAIR:** A compelling pitch. Thank you. This question is for all of you: In your experience, why do councils enter financial trouble?

**CRAIG SWIFT-McNAIR:** How long have we got? I might start. I think this has already been spoken to in your previous hearing and, no doubt, in many of the submissions, which I've read a few of. We've got elected bodies and—no disrespect to any elected bodies—they want to make decisions for the benefit of the community, which is all fine and good. Richard's just spoken about all the different motions we end up dealing with—and appropriately, through the years, but they all do add a cost. So I think there's always this issue of priority. It's no problem if there are 200 notices of motion during a term of council; that's fine. But we can't just continue to add and add the service delivery that we do or add in new services without taking a really hard look and swallowing the bitter pill: We just don't have enough money to do it all. Ultimately, you then start to reduce services in other areas so that you can do the new things, because the rate peg may not be enough to cover it and you may not wish to apply for a special rate variation for all sorts of reasons. So you've still got this relatively limited income revenue pie, but we're being asked to do more and more with it, which is highly appropriate, as I say, for councillors to wish to do that, but you have got to have the priority conversation.

At the end of the day, the three of us sitting here as the bureaucracy of local government can put forward all the best arguments as to why and why not. We don't make those final decisions, and then we need to manage what those decisions are. Invariably, some of those decisions do put strain on council. I do want to just very much declare this isn't all about how bad councillors are; that's not the issue. We also have to get our act together and make sure we're as efficient and effective as we can be with the moneys that we do have.

One benefit—and I use the term loosely—of having a rate peg is that you know that you're going to have your rates increase by, let's say, 3 per cent, just for the argument, and you know what you can work within. But it is incumbent on all of us to make sure that we are doing what we can to be effective and efficient. What are the productivity gains that we can make? But some of that is very difficult and, again, it gets to the size of your council—have you got the ability, the capability and the capacity to actually take key issues like productivity and do something positive to reduce your costs? But I would also say you can only reduce your costs so much without starting to impact on the service quality that you are delivering to the community.

So there are many reasons why we end up in these difficult situations. I'll throw in, for the argument, grants, which are fabulously welcomed at many points during our council lives but are often leaving councils with a lot of cost, so we don't have the funds to maintain whatever it was that we've just built through the grant funding. So there are lots of different issues and hence I jokingly say, "How long have we got?" But I think they're some of the key issues that pop up.

**The CHAIR:** You mentioned councillors and their involvement. Do councillors need more involvement in the budget-setting process? Is there a need to increase accountability measures for budget overruns or anything like that?

**CRAIG SWIFT-McNAIR:** Look, I'll leave the overruns a bit. But I think the issue is councillors—and I can only talk for my councillors—are very involved in the budget process and are very alert to all the different strings that need to be pulled to ensure that the ratios that we're all working towards and the benchmarks are being met. If you do X over here, it will impact Y. I can speak for my councillors being very involved in all of that and very much taking that into consideration when they make decisions. There are certainly lots of conversations happening at local government at the moment around should councillors get more involved in line-item detail of budgets. I certainly don't think I've met a councillor that wants to do that, and I don't know that they necessarily need to because that's why we're employed as general managers—to manage that level of detail. And, sorry, the last part of your question was?

**The CHAIR:** Do they need to be held more accountable for budget overruns or expenditure overruns?

**CRAIG SWIFT-McNAIR:** It's an interesting question and I'll tread lightly. We are held very accountable, clearly, as the general manager is ultimately responsible for most of those things. But often it's not decisions that we have made that end up in the difficult situation we may be in. I don't know how you would practically hold councillors accountable for budget overruns other than the four-year election cycle, to be frank.

**The CHAIR:** In your view, do councillors understand that they may be making a decision between competing priorities?

**CRAIG SWIFT-McNAIR:** I do think that that's certainly—the understanding of that has grown a lot in the last five to seven years, perhaps. I think there's a very clear understanding generally that, yes, we might want to spend a million over here, but we're not going to be able to do something else, so how do we slice and dice the tight bucket of money that we've got to do that? Having said that, there are still decisions that can be made that you don't necessarily have the ability to fund.

**The CHAIR:** Do processes exist, and what processes exist, to ensure that councils don't exceed their budget in a given year?

**CRAIG SWIFT-McNAIR:** Maybe some of the other gurus on this panel can answer that one, but I don't think there are any processes in place that I could point to that say, "This is why and how you should not do that", if that makes sense. We have cash reserves; we've got a million things. Richard and David can talk to that. We have lots of different pockets of cash that are only able to be used for certain things. They're very much all tied to various uses, and that often builds a picture that will be very healthy financially—"Look at all this that we've got." Yes, but we can only spend that much of it on discretionary as opposed to what's sitting in various reserves et cetera. To be truly honest, outside of the ratios that we all do have to report on quarterly and then annually, which the Office of Local Government clearly are watching reasonably closely, there is not a whole heap of process that I could point to. I don't know if David or Richard can do so.

**DAVID TUXFORD:** I'll just jump in. I think at Georges River we do a really good job with our quarterly reviews. We highlight to councillors where there have been issues and the reasons for those issues. It could be weather conditions that have pushed the project out which has created an extra cost. It could be a rise in raw materials. There's a number of things that the costs could have increased by because of whatever reasons, and our quarterly reviews, they're quite extensive. We have a briefing to explain to councillors the areas that might be of interest to them and we show the outcome of the budget, the way it's moving and what we can do to curb that expense if we need to.

We've also got to remember too that we have a 10-year long-term financial plan and, just on that, if we could stick to that 10-year long-term financial plan, we'd be good for 10 years. But, unfortunately, there are times when people or councillors and officers want things to be done outside that 10-year long-term financial plan, and we run the rule that if you put something in you've got to take something out and that's the rule that we try to abide by. It doesn't always work. It causes some confusion at times and a little bit of angst but that's what we try to work to and we remind our councillors of that quite regularly.

**RICHARD SHERIDAN:** I was just going to cover some of the technical applications. Under the Local Government Act we've got sections for councils that are accountable for the business. We've got regulations around authorisation. Council can only spend up to the amount that they've voted in the budget for that year. If it is going to go over or has to change, they then have to go back to council to get that renominated, and the quarterly review is the perfect place for that. There are fairly strong rules around going over budget in terms of that transparency, and it's hard to track sometimes. But we do make sure that anything which is going to exceed the budget extremely has to then go back to council and then they can make a decision whether they have to then delay a further capital works program another year or two years because we've spent all the money on this one. We had a lot of troubles during the higher inflation period with a lot of those projects because we had to start deferring things, but at least it has been transparent and the community is at least understanding the reasons why.

**The Hon. PETER PRIMROSE:** You casually alluded to the rate peg. I'll leave that one to the side for the moment. But in terms of revenue to councils, what potential sources of revenue, such as charges and levies, aren't actually pegged? What charges and levies could councils use and do councils use that aren't pegged? And which are the key charges and levies that are pegged in some way? Can you just elucidate on that if you would?

**RICHARD SHERIDAN:** We've got our land rates, which obviously are pegged. We've got our waste charges, which are linked to the reasonable cost of delivering waste—so they're not technically pegged but they're obviously linked to the cost of delivering that service and that's regulated. Then we have our user fees and charges which then get adopted by council every year. Technically, outside of the statutory fees like the DAs and the stormwater and a few things which are linked to a statutory setting, council can set increased fees through user fees and charges. But the reality is that a lot of those things are using community facilities, soccer fields, buildings of council, or aquatic centres, and the community can't really afford to pay the full cost of what that service is. So council always has to subsidise.

We do have a setting that we can set rates at a market rate for things which we consider as commercial services, but generally most things in our realm are done on a pricing policy which is less than cost, either marginally less than cost or significantly less than cost. We have the ability to set higher fees but it's the ability to pay, for the community, to use our facilities, that becomes restricted. Things like property and parking, I guess, are unrestricted, but that just comes down to a big capital investment in terms of those things. They're our main sources of revenue.

**The Hon. PETER PRIMROSE:** Could I ask about something like, for example, emergency services. In terms of the emergency services, subsidies and other resources are provided by other levels of government. Councils are also expected to provide that. For instance, if a council wished to put on an emergency services levy to increase the resources, training and facilities available to its various emergency services, whatever they may be—be it for flood or fire or whatever—is that restricted in any way by any legislation?

**RICHARD SHERIDAN:** I think that's a hard one.

**The Hon. PETER PRIMROSE:** I can quote you a few examples of where it has been used, but not for many decades. I'm just curious as to what it is now.

**CRAIG SWIFT-McNAIR:** We certainly don't, as local government in New South Wales, have the ability just to apply a levy because it's a good idea; we would have done it. We would need to apply through the appropriate channels—IPART or whomever. That's a bit of a complex one, actually, because we're already in the middle of an emergency services levy regime.

**The Hon. PETER PRIMROSE:** I wasn't aware of that.

**CRAIG SWIFT-McNAIR:** We would need to apply if we were going to do something different like that as a permanent levy. That would be my initial response.

**The Hon. PETER PRIMROSE:** May I ask, because it's a question that's been on my mind for a while, if you could possibly take that on notice?

**CRAIG SWIFT-McNAIR:** Yes, certainly.

**The Hon. PETER PRIMROSE:** I'd be interested in what the legislative and other restrictions are, and whether there are any examples where councils might be doing that—and it doesn't have to be only emergency services. What discretionary fundraising is available to local government, I guess is the question, and how would that be operationalised?

**CRAIG SWIFT-McNAIR:** Yes.

**Dr AMANDA COHN:** Thanks so much for being here today. I have a question arising from your written submission. You talked about the rate peg overlooking the opportunity to keep pace with land value. I'm interested in it. Is the solution to that problem just removing the rate peg, or do we need to be looking at other additional measures to capture that increase in land value?

**RICHARD SHERIDAN:** It's an interesting point. When we looked at this, land values have gone up 140 per cent over the last 10 years, and rates have gone up 25 per cent. I think a lot of people get quite confused by this fact. They think that if land's going up, council would get more rates. Councils only get more rates by the rate peg, but we provide a lot of community services where we have to buy land or we own land, so the actual cost for us to acquire land for open space becomes quite restrictive. The developer contribution plans obviously then will take a bit of a hammering if land values are going up significantly. We see it as a loss of capture, where we could potentially get—if we were giving more credit for the increase in land value, on top of the rate peg, then that would actually provide an extra source of income. But it doesn't do what people think it does. It confuses ratepayers because they get an annual letter from the valuer every year saying their land value has gone up and they panic, and they find out the rates don't go up as much. So it is a very confusing system. Whereas if it was a stamp duty system, they would get the full benefit of that land value increase.

**Dr AMANDA COHN:** Are we adequately capturing the benefits of development through the current developer contribution?

**RICHARD SHERIDAN:** That is a challenge too—not in the subject of this review but, yes, there is a cap from IPART of that, and councils then have to make a further application to increase that. I hear councils like the Hills talk about it all the time where they've got to build massive areas, and they have to continually go back to get approval. If they don't get approval in time, then they can't collect the money and they miss the boat. It is a hard thing. The other thing we always argue for is that the developer contributions, obviously, can increase the size of a building but not necessarily have enough money to replace the whole building.

The uplift in depreciation and the uplift in maintenance costs is not covered by developer contributions, and it's assumed that the rate then has to cover those additional costs that will stem from that. As we go through this argument around further density, we find that the more dense a population is, the more the need for services because they've got less open space, and they need more community facilities and they need more libraries. It's a difficult time for councils. As population and density grows, we find those costs do significantly increase.

**DAVID TUXFORD:** Adding to that, the biggest issue that we have is the maintenance component. The way that you can bring your budget into check is by cutting your maintenance, and that's really a no-no. Sometimes you're left with no other choice because you've got to do that. Then when the next year comes, you've got to pay double of what you were going to pay the previous year for the maintenance. It is a practice that we shouldn't get into, but sometimes it's a practice that we're led down the path of because we're trying to balance out an operating budget. But it's something that we certainly need to keep an eye on and make sure that the maintenance upkeep of our buildings, roads and every other part of our infrastructure items is maintained at an acceptable level.

**Dr AMANDA COHN:** You also mentioned earlier that the statutory fees don't align with CPI, or the cost of providing those services. I'm interested in understanding that in more detail. We've also had other submissions that mention those fees. Have you got a list of them? Have you got data to support that they're not keeping up with the cost of providing those services, or case studies or anecdotes of that impact?

**RICHARD SHERIDAN:** Yes. The first one I can think of—and we were talking about this yesterday—is the stormwater fee has been set at $25 forever. I think now our equivalent at the water would charge four times that for that access-to-stormwater fee. But there is a whole list of statutory fees. We had issues with development application fees for a lot of years. They were just stagnant; they didn't go up at all. They've started to increase now but, similar to what IPART was saying, we've got this massive catch-up. Most councils' development services—the ratepayers are probably subsidising it in our council up to $5 million, just to run the development services at the moment, because of that huge catch-up. We can definitely get a full list of all those fees.

The other one that we particularly talk a lot about in the affordability to pay is the poor old pensioner rebate, which has been $250 since 1989. Obviously, we can't afford to increase it, and I don't think the State Government want to increase it because it's going to cost a lot more in terms of the rebate. So things like that. At the moment we're getting a lot of pensioners who are now falling into our unpaid list. That's an intergenerational problem, because if they don't pay those rates then it's going to pass onto the property when they pass it down to the next generation. So things like that, where you'd think it would be sensible to provide that subsidy to pensioners, but every year it's getting less and less for them because it hasn't had an increase in 30 years.

**Dr AMANDA COHN:** Those are both excellent examples. I'm interested in any more you can provide us on notice. You also mentioned in your answer to an earlier question the ratios that you're required to report on to the Office of Local Government. I'm interested in your perspective on those ratios. Are they actually supporting councils to implement sound practices or is that having unintended consequences?

**CRAIG SWIFT-McNAIR:** I can answer, but maybe the finance guru should take that.

**RICHARD SHERIDAN:** We were watching very closely another jurisdiction recently that put in performance ratios which were relevant to the local government area. They had eight different areas and they identified eight different things. One of the big issues with the performance ratio—if I represent the whole of New South Wales—is you can't have one size fits all. There's no way that a Far West New South Wales council is going to comply with those ratios. That's near impossible. The other part of the ratios, which we talked about at our finance conference this year, is 50 per cent of them were set up as a banking—encouraging us to borrow more money. They're debt-related ratios and they have no real impact for council. We don't really understand them. We don't know why we report on them. They don't do a lot. But there are a couple of good things around operating performance ratio, own source revenue and rates outstanding. They were probably the three that we'd probably go, "Well, they make sense."

The only problem with the performance ratio at the moment is we have a very bumpy calculation where we have to redesign our financial statements just to fit into the formula because we include capital income in our operating P and L, and it just confuses a lot of people. There's some work which has been going on for several years at the OLG to try and recapture that and re-present to councils some performance ratios that may make more sense. I'm a fan of a financial sustainability scorecard, which would be consistent and which the councils could report against. It's an ongoing process to try to get that improved.

**The Hon. SCOTT FARLOW:** My question is around grants revenue, effectively, and how much councils are reliant on grants revenue, how that is such bumpy revenue and what you see that we could potentially do on that front to make it more consistent.

**CRAIG SWIFT-McNAIR:** I'll start. We love grants. That's the first thing I'd say and so keep them coming. That would be my statement. But they are a double-edged sword. I'm ignoring Federal assistance grants for the moment, which are untied and we can do broadly what we will with them. The grants situation always comes up as the alternative side to cost shifting when we have that conversation. Grants are great but they do potentially impose, as David said a little earlier, great maintenance burdens on a council. Whilst you might need to build that widget for $3 million and you've got a grant to do it, firstly, you may have had to shift other priorities because there's never an alignment, which is what it is but that is the truth.

We may have had to go fifty-fifty with the State to get that funding, which may have shifted other priorities. Then we've built the widget and we now have to maintain it. There are no additional moneys to maintain. Whilst it is fabulously good to have new infrastructure around the place, there is this ongoing burden which does sit on council and which we then have to try to manage in the constraints of the financials that we've currently got. I can only really speak for Woollahra, but we don't necessarily bank on—for want of a better term—a certain amount of grants every year.

We know the Federal assistance grants are going to come in at broadly whatever they come in at, but there's not much guarantee because it's generally all competitive with the other grants that come in. We certainly all apply as we can for grants. Other councils may have slightly different approaches. Ironically, the cost to apply, manage and maintain grant processes is really high and complex for some councils. It gets back to that scale issue of whether you're large, medium, small, rural, regional or metro. There are all those issues that come into it. I know that rural and regional councils rely much more heavily on grants than we do in the metropolitan area.

**The Hon. EMMA HURST:** I'm sorry—I hope this question wasn't asked while I was out of the room. I noticed in your submission cost shifting and the significant and detrimental impact on local government service delivery and financial sustainability. I'm wondering if you can give any real-life examples of cost shifting that has occurred, which the rate peg has not adjusted for.

**RICHARD SHERIDAN:** I think we talked about DA fees before in terms of passing that burden. Another one is we deliver the food inspection services, which were given to us from another authority. Councils are also capped in terms of what they can charge for that service. Quite often, we run at a fairly large loss just to maintain it. Obviously, it's a very important service because people don't want to sit in restaurants without having the accreditation on the door. So it's an essential service for the community, but that's not something we can fully recover the cost of. The other one, which I think is the biggest elephant in the room for us in the next 10 years, is going to be the EPA levy.

Significant amounts—I think I've heard up to $5 million—is collected through the rate costs. The idea was to then reinvest into ways of us tipping waste in the future. During the yellow bin crisis, and now finding new sites for tipping council's waste in the future, we haven't seen lot of investment in this space. There are going to be a lot of problems in the future for councils unless we can get that investment going into that waste. Because of the way it's structured, the ratepayer will have to pay for any underinvestment, and that takes away council's ability to generate rates and collect and fund our services. That's an evolving concern for us as well.

**DAVID TUXFORD:** If I can just add to that, it just so happens that I have a copy of a mayoral minute that was presented to council on 26 February from our mayor about that subject of cost shifting. We estimated that cost shifting has added an extra $320 to $350 per ratepayer annually and trends have highlighted an ongoing annual increase. That's what we're looking at. Some of the areas we're talking about are emergency services contributions, rate exemptions, waste levies, library funding shortfalls, companion animals, contaminated land management, protection of the environment operations, noxious weeds and development applications. As I say, that was presented to our council. The motion was that we note that and we write to the Premier of New South Wales and Minister for Local Government regarding these matters.

**The Hon. EMMA HURST:** Are you comfortable to table that mayoral minute?

**DAVID TUXFORD:** Absolutely. It's a public document.

**The Hon. EMMA HURST:** That would be great. Thank you. Your submission is very critical, obviously, of the current rate peg methodology. I just wanted to hear from you in regard to what sorts of recommendations you would like to see from this inquiry. What would be your main goals you would hope to see in the report when it comes through?

**RICHARD SHERIDAN:** It was critical of the rate peg, but I think it was the alternative solution that we're providing. As you know, we're about to go into our four-year election cycle so we're going to refresh all our documents with our new council when they come back on board. Using the IP&R process, we see it as two problems. We've got a statutory setting problem, where we can't raise certain income, but we've also got this wonderful process called IP&R, where we sit down with our community and we talk about the services, we talk about the costs but we can't talk about the rates. It just feels like that's a cost that council's already funding. It won't cost us any more money if we just roll out, through the IP&R process, and actually consult with the community about increasing our rates in that forum. Obviously we can't with the current rate-pegging system.

I guess there have been many other solutions looked at. For councils who are performing well and are financially sustainable, should they then be allowed to ask for an extra 1 or 2 per cent increase to fund services that the community really wants from us? It gets us away from that whole "rates, rubbish" argument and we can actually then meet the community needs, but we can also provide the rates to deliver services they want. That's the big part of our submission. Obviously we have an IP&R working group under the Local Government Professionals as well, and they talk about this stuff a lot. The visibility and the transparency to the community and the councillors is really strong through this process. It's not going to cost us any more to run that process, so we think that's a really good solution.

**CRAIG SWIFT-McNAIR:** If I could, I think the gut reaction is "Let's just scrap the rate peg" because that sounds like a great idea for a whole heap of reasons. But it's never going to be that simple, politically and/or otherwise. Realistically, something like the rate peg is likely to remain. But getting to Richard's point, is there something that can be in place where, going back to ratios and benchmarks et cetera, if you as a council are meeting those certain benchmarks, do you have the ability or could you have the ability then to increase it—and let's pick a number; 2 per cent—above whatever the rate peg is set at, and however that's calculated, to allow you to do certain things? Again, as Richard has said, we are wholly accountable to the community through our IP&R processes as to what that would look like, and then, clearly, through the elected councillors as to whether they're comfortable doing so. But I think we were only just talking earlier: Having a rate peg and a rate cap does at least let you know how much your income is going to increase by every year. It's just simply that it's never been enough.

Getting to your point about recommendations, it's slightly off topic, but I think one of the key things we really want as a local government sector is to have an adult conversation with the State about this issue. For 20-plus years we've had review after review, recommendation after recommendation that sit in a cupboard and may be looked at once or twice. Some of these submissions do a great job in digging up some of the past, but they're still issues we're dealing with today. We really need to be able to have a conversation about things like the rate peg, cost shifting and grants without any politics in it and without any emotion—a conversation that just says, "This the reality of this sector of local government. How can we partner with the State to actually be far more effective in delivering for the community?" That's not something that we've really had access to before.

**The Hon. PETER PRIMROSE:** I have two questions: One is a formula and the other is totally speculative. The formula one is following on from one of your earlier responses. I don't know what it's called in local government anymore, but in health it was RMR—routine maintenance and repairs—which you referred to. You mentioned the dangers of allowing that to slip because you never ever catch up and things start to fall to pieces. Is there a formula that is recommended for local councils to include RMR as a percentage of their revenue? Please take this on notice if you wish. Does someone in the Office of Local Government, or someone else, collect that percentage? Is there an opportunity to see where that's going over time for local councils?

**RICHARD SHERIDAN:** We have a process famously called Special Schedule 7, which is our report on our assets. In that report, it requires council to determine through the asset management program what the required level of maintenance is and council has to then expend 100 per cent of that as a ratio. It's not audited, and the auditors will give long reasons why. I guess it is a little bit speculative, so it's very hard for them to document it. That is the current process. We obviously then report against the asset backlog, which is also not audited. That's the attempt for us to make sure that—if the council gets in trouble, we'll often take away asset renewal and asset maintenance as a first but, obviously, when you manage roads and stormwater, you can't afford to because the condition of those assets deteriorates so quickly. There are asset groups that will give you a curve that, once you get to the mid condition and after that, the cost triples for council, so you end up in that debt spiral or cost spiral if you don't maintain it properly. That's the reason why we monitor that fairly closely.

**The Hon. PETER PRIMROSE:** Is that reported or is the data accumulated across local councils somewhere that we could have a look at it?

**RICHARD SHERIDAN:** There is an engineering group that do the whole of council. I don't know if they get all councils, but I know I've seen reports where there are 70 or 80 councils that will contribute to it. So, yes, there are some asset engineering groups.

**The Hon. PETER PRIMROSE:** The IPWEA?

**RICHARD SHERIDAN:** Yes. They would have very good data on that stuff.

**The Hon. PETER PRIMROSE:** Thank you, I might take that up. My other question is totally speculative in terms of what we're hearing about the numbers of zombie DAs being reactivated at the moment. In terms of being conditioned up, are those old conditions affecting, in any way, costs onto councils or is it totally negligible? If conditions are based upon DAs that are 20 years old then, obviously, in terms of obligations on the applicants, it may not meet the current requirements which may then fall onto local councils. Or is that just not really an issue in terms of the numbers? Again, please feel free to take that on notice if you wish.

**CRAIG SWIFT-McNAIR:** I think we'll take that on notice. It's not something that has come to my attention in Woollahra, so we'll take it on notice.

**The CHAIR:** In the two minutes that we have left, I wanted to ask quickly about outsourcing with the view of looking at it through the lens of a sustainability issue. We've seen that that's become a bit of a knock-on effect on some of the financial sustainability troubles. Do you lose skills in house by outsourcing services?

**DAVID TUXFORD:** I'll answer that one for the Georges River Council. Yes, I'm a firm believer that you do. We try to not outsource for the reason that we do not want to lose that skill base within our workforce.

**The CHAIR:** Does it end up being more expensive in the long run if and when that does happen? Because you say you try not to.

**DAVID TUXFORD:** When you train your staff up to be at a certain level, you put a lot of investment into those guys. You don't want to see them walk out of the organisation to go somewhere else. Then, to get someone else in, it means that you have to retrain and all those things. When outsourcing, there's no retraining that's needed, but there's still that loss of skills and the skill base within your organisation. You want a highly skilled workforce which can, I guess, counter any issues that you might have.

As I say, I'm a supporter of having the skills in-house as opposed to out-house. But there are some that you do still have to outsource. It might be a capital works program where you've got too many capital works programs on your plate and you need a project manager for a specific one. It doesn't mean that you haven't got the skilled staff, but you just haven't got that many staff, so you need to bring someone in for that. There are circumstances when you do bring someone in, but it's only for a specific project.

**The CHAIR:** Thanks so much for making time to give evidence today. The secretariat will be in touch with questions on notice that you've taken.

(**The witnesses withdrew.**)

**Mr IAN CLAYTON**, Manager, Property and Revenue at Mid-Western Regional Council and Vice-President of the NSW Revenue Professionals, affirmed and examined

**Mr ANDREW BUTCHER**, Senior Revenue Accountant, Campbelltown City Council and President of the NSW Revenue Professionals, affirmed and examined

**The CHAIR:** Welcome to our next witnesses. Thank you so much for giving time to give evidence to this important inquiry. Would you like to start by making a short opening statement?

**ANDREW BUTCHER:** Yes, certainly. We're here on behalf of the NSW Revenue Professionals, which is a group that I'm extremely proud to be the president of. The group is a self-funded organisation established to promote best practice, conduct training and run an annual conference for rating and revenue-raising practitioners in New South Wales. We're made up of around 200 members, with access provided to all 128 New South Wales councils. Our executive committee consists of four metropolitan representatives, of which I am one, and five regional council members, of which Ian is one of those.

We've been active for nearly 30 years, and successfully run 26 consecutive conferences for our members. Our focus is on collaborating, and advocacy with various State government and key government stakeholders: Local Government NSW, Office of Local Government, Valuer General—and we've had a strong engagement with Treasury and IPART. In fact, the last time that I was in this room, I was giving evidence to the parliamentary inquiry into the FESL.

I'd like to thank the Committee for the opportunity to give evidence on behalf of NSW Revenue Professionals. In our submission, we've covered all seven of the items identified in the terms of reference. Primarily, our focus in this inquiry is on the IP&R reforms: funding, the rate pegging legislation or the rate pegging policy of government. We see the IP&R as an extremely powerful tool that could mitigate the amount of rate pegging and involve the community more so in the decision-making of councils. We believe that it's underutilised and that greater emphasis needs to be placed on the community engagement during the CSP and the resourcing strategy.

We have also included a reference to CIV as being the recommended basis of all rates and taxes in New South Wales. There are a number of reasons for that, and if we get the opportunity I might go into that depending on the questions from the Committee. But CIV certainly has some opportunities to create uplift that was mentioned with the previous witnesses about value capture. It is used around the world, value capture, and it's something that could be utilised with the use of CIV. The IPART also recommended a process of capturing uplift from vacant land or unoccupied land to utilise land, or built land, and a growth factor that would be included in that. That was something that we saw some value in.

At the moment, you would most likely all be aware of the Treasury's consultation paper on the potential refinancing of the emergency services levy. We believe that CIV was a contributing factor to the FESL not really making it across the line when it was implemented previously. It would be an opportunity to leverage from all stakeholders in the government sphere on CIV. If the Valuer General created one set of CIV values, they could be tapped into by everybody and it wouldn't just be a cost for one sector.

Exemptions from land rates—as I mentioned before, we're the people at the coalface dealing with the community in each council and feeding a lot of information up to our decision-makers. The level that Ian and I both operate at in our individual councils means that we do have a lot of access and a lot of visibility over that process, although we may not have a lot of influence on how it ends up. We compile and live and breathe that data and that information and the feedback from the community to offer best practice to not only our own councils, but others.

Exemptions from land rates is one that we see as an impact on councils' ability to fund. I can give an example of that, in that we are seeing a lot of charities or public benevolent institutions which, not mentioning anything about the work that they do—we all know that they do great work in our communities—buy or have the capacity now to buy or to fund significant infrastructure in our community. That significant infrastructure may involve up to 1,000 or more apartments that are used by people that are not, maybe, as privileged as others. Those people that live there will use council resources, and the point being that there's no payment for that to the council. The council misses out on income for that.

Now, the way in which the process works, which is quite technical—and if you really want to know it, I can get into the detail, but the process is quite technical. That cost is a loss to the council in the year that it is incurred and then it's a burden to the community for every year thereafter. So it is not a direct cost shift or not a cost shift that has ever been particularly identified in that way, but a council that loses $100,000 in rate income on a particular development will then shift that onto all the rest of the ratepayers, and that's purely the way in which the statutory compliance with rate pegging works.

We think that the Government identified this issue in the original legislation, and that is why Housing NSW pays the same amount as everybody else in land rates. Affordable housing, which we all know is topical—and we are not trying to move away from that. Housing NSW pays the council land rates just like anybody else, but a public benevolent institution that is running a social housing network is actually exempt from paying council rates. Take away the cost implications, it doesn't make sense to us—I can't think of the word now—in the way in which it's applied from a principle basis.

In a street, you may have a number of houses. One of them is occupied by Mr and Mrs Struggle Street. They pay land rates. The second house may be owned by a private investor. Their tenants, paying all the time and on time, suddenly fall on hard times and have fallen behind in their rent. The owner finds out that this is the situation, so they say "Look, I'll reduce your rent for a period of time." That's very benevolent; they still pay the rates. The third property may be housing commission, where Housing pays the rates. The fourth house is a public benevolent institution and the property is occupied maybe by people with the same social or financial impacts as the other three, but they don't pay any rates to the council and the people that live there are using the same services.

We get the reason why State and Federal governments have exemptions. You're probably funding them through your alignment with the legislation. State and Federal have social responsibilities that the council doesn't. The council's responsibilities are to provide those services. If the public benevolent institution were maintaining the roads or mowing the parks or providing the services that we provide, then those exemptions would make sense because they would align. Also, an exemption is not necessarily foreseeable by a local council. For example, a private developer builds a multistorey development, it's rated by the council and, before it becomes occupied or at any stage, it's purchased by a public benevolent institution. We don't see that coming and that has a direct impact on our budget because there is an exemption of cost. It is for that reason as well. If it's okay with you, Ian might have some areas to elaborate from more of a regional perspective on top of that.

**The CHAIR:** If we can keep it brief, Ian, then we will move to questions.

**IAN CLAYTON:** I'm happy just to go with the questions, if you would prefer to move on.

**The CHAIR:** Thanks so much for your opening remarks.

**Dr AMANDA COHN:** Thank you so much for the information you've already given us. I was hoping to pick up on what you were talking about in terms of the CIV, which various bodies have recommended at various points in time. Particularly in your written submission, you talked about not just the efficiency and the understandability of moving to CIV but about the immediate effect of it. I was hoping you could explain that in more detail in terms of the time lag between subdivisions and rate income and what difference moving to the CIV would make.

**IAN CLAYTON:** I can have a crack at that. When a subdivision occurs, there is an uplift in the overall value. If you've got a parcel of land and it's divided into four, even on unimproved land values, usually, the sum of the four individual values will be higher than the original one. So there is an uplift in rates at that point. The advantage of CIV would be, then, at some point when those places are developed and they start building houses on them, there will be a further uplift in the value. The original IPART recommendations around population increases was allowing that capture to occur. The CIV would have significant second uplift in rateable value within what would be the cap. That's really, I think, where the advantage comes.

**Dr AMANDA COHN:** You've outlined in a lot of detail the impact of the rate exemptions. If we were looking to make recommendations about changing those exemptions, is it as simple as calculating exemptions based on use rather than ownership, or is it more complicated than that? What factors should we be taking into account in recommending any changes in that space?

**ANDREW BUTCHER:** We have long held the view that any land that is occupied or used for residential purposes should not be eligible for an exemption because the people that live in those properties, whether they own them or they are rented, will be using the services that primarily local government provides. That part is not about the cost impact; it's more about the social equity, in that everybody in that street contributes one way or another towards the land rates that the council uses to fund the services, work services, activities and facilities that are provided. That would be number one, simple as—any land that is used for residential accommodation. The other one is for a commercial benefit. That would be a little bit more difficult. But, say, for example, a large public benevolent institution that owns a building that they lease out, then they wouldn't be able to get an exemption from that.

**The Hon. SCOTT FARLOW:** Talking about exemptions, you outlined in your submission as well about build to rent. It's not necessarily an exemption, but it's a change in rating, so to speak. I think you and I have seen figures from Ryde council as well that have put it at about a half-a-million-dollar impact when it comes to build to rent, compared to a normal strata complex. Can you just outline why that's the case and what you would see as a potential change that the Government could make to address that shortfall?

**ANDREW BUTCHER:** Certainly. It's a good question. Build to rent is emerging. It's new, and, from a conceptual point of view, it's a great concept. However, it does have those impacts on council's rates. The reason for that is that we are using unimproved land value. So the site—and Ryde, as you mention, is a great example. I'm pretty familiar with the Ryde situation—multiple buildings, towers on that site. The land value may only be set at so many millions of dollars. The council land rates will be based on that single land value when it's built to rent.

On that site will be anything up to 600 units, I think, for that development. There's a minimum of 600 individuals that are going to be tapping into council services—parking, using the roads, the parks. Particularly, densification causes the need for more parks to be provided and maintained, but the contribution will only be one amount of rates on the unimproved land value. If it were a strata or subdivided into a strata, we would have 600 different people contributing towards the rates, and each of those people would possibly, depending on the rating structure that council determined, contribute up to about 45, 50 per cent more in land rates per tower than just the single site. Now, you said how would—

**The Hon. SCOTT FARLOW:** That's because you've effectively got the floor in place as well. Is that the reason?

**ANDREW BUTCHER:** The floor in place?

**The Hon. SCOTT FARLOW:** I guess in the sense of you pay individual fees for rubbish collection or the like.

**ANDREW BUTCHER:** Well, that too. That's a knock-on effect, but the knock-on effect is that legislation requires council can only levy one annual domestic waste management charge per rateable parcel. When it's a strata, there are 600 individual rateable parcels as opposed to one. That causes another knock-on effect from that. To fix it, there's a number of opportunities. It could well be as simple as an amendment to regulation—which is the simplest fix—to restrict the categorisation, for rating purposes, to be business for those properties, because, essentially, a developer is operating a business. It doesn't impact on the individuals, so the affordable housing situation remains the same. It will be a problem if it's owned by a public benevolent institution, because it would be exempt from rates altogether.

**IAN CLAYTON:** Perhaps another fix, too, may be in the way that that parcel is valued. If the Valuation of Land Act allowed each of those units to be separately valued, that may have a similar effect to what it would be if it was strataed in terms of rates.

**The Hon. EMMA HURST:** Thank you both for coming in today. Your submission raised concern that the rate peg's not kept pace with the increased costs. Obviously, that's something we're talking a lot about in this inquiry. You talk about that backlog in infrastructure and high deficits for some councils. I'm just wondering what needs to actually happen to ensure that councils that have historically not had enough funding can actually catch up in those spaces, and I'm particularly keen to hear about that regional perspective as well and what needs to happen there.

**IAN CLAYTON:** I think, with some smaller regional councils, particularly with small populations and large areas, it probably is questionable whether rates and the rate peg can fix a lot of those things, because the capacity of the residents to pay the rates simply may not be there. It's a really challenging scenario for some of those regions. Perhaps for councils more like ourselves, as Andrew mentioned, we probably see that there is a greater role for the IP&R process to set the rates. It's extremely good at setting the wants and desires of the communities, but at the end of the day currently they have to be squashed down to fit the revenue. If the revenue was part of that conversation early on, then that could see some real advantages. But, yes, the answer for some individual councils is not so simple.

**The Hon. EMMA HURST:** Mr Butcher, did you have anything to add to that one?

**ANDREW BUTCHER:** No, not at all. I think Ian's answered that.

**The CHAIR:** I might continue on with a couple of questions about capital improved value. Thank you so much for your submission, which was very detailed. It was a very interesting read. We heard from the Valuer General in our first hearing, who talked about the transition to a capital improved value system, and they stated it would cost $500 million and take five years. You also talk in your submission at length and have spoken today about the benefits of moving to a capital improved value system over the status quo. I'm just interested to get your thoughts on whether the transition would be as expensive as that, you would think.

**ANDREW BUTCHER:** That's a very good question. We don't know, but we have been involved in a number of discussions with the Valuer General. We work closely with them on this point. There was also the IPART review into rating, from—what year was that? I think it was 2016 it was tabled.

**The CHAIR:** There's been a few.

**ANDREW BUTCHER:** Yes. Was it December? Yes. That went into a lot of detail in a transition to CIV. And, from my memory, one of the options or a transition that did occur, which was comical at the time—but it made a lot of sense—was that the Irish Government sent a letter out to all of their landowners and said, "Tell us what your land is worth." But when you think about it, it actually makes a lot of sense, because I doubt whether anybody in this room who owns property would not have an idea as to what it's worth. Even if everybody undervalued their land by 25 per cent, thinking, "If I put a lower figure on, I'm not going to pay as much tax", then the same effect will occur overall.

I'm not suggesting that is the only way in which it can be done, but it is a good start and that would reduce the cost. The Valuer General should have a lot of information on sold land because—particularly metropolitan councils. The regional councils less so, and Ian might want to talk to that. But most land in metropolitan Sydney or properties that are sold have got a house on them and, if they don't, any land that is vacant, you know what it has sold for anyway. There is a lot of data around that, and it's a lot better data. In the area where I grew up, there would be no vacant land there at the moment. It's all built, so every sale that occurs there is capital-improved value.

**The CHAIR:** Did you have anything to add, Mr Clayton?

**IAN CLAYTON:** Yes. I'd suggest that there would be some challenges in creating the database for the Valuer General to know what each property is and keeping that going forward as well. In times gone by, development applications, inspections and that type of thing all went through councils, but that doesn't necessarily happen now with private certifiers. So a lot of the time council doesn't even know whether a building is complete and occupied or not. In regional areas, some councils—metropolitan councils will have different systems and may know better. There would be some challenges I can see in that, which I'm sure the Valuer General has passed on as well. A lot of the State is vacant farmland once you get out over the other side of the great divide, and a lot of that land isn't transacted all that regularly. But I'd imagine, on a broad scale, it may not be a massive task for the Valuer General to come up with a process to handle those.

**The CHAIR:** I might ask a few questions about rates increases and revenue. What's the general shortfall in revenue between what you have and what you would like to have?

**ANDREW BUTCHER:** That's a very good, open question. IPART actually discussed this point in the rate peg methodology response or their paper on it, and they identified—and this has been my experience, and I've worked in a number of councils—that the councils will determine first what their income is and then work backwards from that. We know that the rate peg is going to be X amount for a particular year, and that gives us this much revenue. So then we will work within that expenditure frame. That's also a requirement under the Local Government Act. I think it is section 8 of the Local Government Act that requires councils to operate a balanced budget, so they operate within their means, and also include responsible accounting practices for intergenerational equity as well. What is needed is a very difficult question to answer because every council will be different. As the gentlemen that were here previously mentioned, back in 2019 we had the floods—a lot of rain—and our council where I work now was particularly impacted with mowing. So there had to be a shift in the way in which the money is spent, and that means that a project that was going to happen in the current year would be moved to another year and so on. So it's a bit difficult.

**IAN CLAYTON:** Yes. I think the answer is that there will be massive variations between each council. But, going back to the IP&R process, that's where that can be identified, because the community is telling council what they want. Whatever that adds up to, if the council was of a mind to provide all of those services and facilities, then this is how much revenue there would be. I suppose the gap is from what the rate peg is now to where that is.

**The Hon. MARK BUTTIGIEG:** Can I just ask a follow-up to that? This is the crux of the issue, right? Just outline for us what is the statutory requirement for councils' provision of services. Is that laid down anywhere in writing, in legislation or regulation? What are you actually obliged by law to provide?

**ANDREW BUTCHER:** It is, but it's fairly broad. I can't remember the section of the Act it's in, but it's in the Local Government Act and it's fairly early on. It identifies what councils' functions are, and that is reasonably broad. I think, from memory, there are probably about six tiers to what those functions are.

**The Hon. MARK BUTTIGIEG:** Is it not possible to accurately model those functions and their costs based on the data that you've got, given that councils have been doing that since Adam was a boy, and then say, "This is our cost base, based on what we're required to do; therefore, we need X amount of revenue"? The rate peg will or will not do that, so anything above that requires a special rate variation. Essentially, that is the theory of the current system, right?

**ANDREW BUTCHER:** Yes.

**The Hon. MARK BUTTIGIEG:** So why is that deficient?

**ANDREW BUTCHER:** As mentioned by our previous colleagues, there's a political appetite for applying for a special variation and also the council's own appetite to apply for a special variation on the back of the cost and the view that the community takes on a special variation. I have been involved in a number of special variations myself, and I think Ian probably—

**IAN CLAYTON:** No, I haven't, actually.

**ANDREW BUTCHER:** Ian hasn't, but I have been involved in that process. Once you put in front of the community that the council is proposing to increase the rates by a certain percentage—say, 5 per cent or 6 per cent over the cap, so you may be looking at 8 per cent, say—it's an immediate backlash over the cost. It's not ever—or very rarely is it—about what I'm going to get or what the council is going to do for me. But to that point, as we raised in our submission, the IP&R process should be relied upon a lot more. There needs to be greater flexibility in those increases, with less of a cost implication on the application.

Going through the IPART application for a special variation is quite intensive, but it also replicates what we're doing in IP&R. If council wants to apply for a special variation, I've already been out to the community with my CSP. I've already got a resourcing strategy. I've already got all these things in place. However, because we've now found that assets may not be at the level that they need to be, that we need to spend more money on that or that we've built a new facility that is now costing a lot more than was anticipated, for whatever reason, then the council will be required to go out for a special variation to increase above the peg. There needs to be more of a juxtaposition between the peg and IP&R. Does that make sense?

**The Hon. PETER PRIMROSE:** As long as you have the peg, isn't it the case that it doesn't matter whether you've based your calculations on unimproved capital value or some formula of improved capital value? Either way, it still has to make up only to a particular increase—a percentage. Is that the case?

**ANDREW BUTCHER:** That is correct.

**IAN CLAYTON:** It could depend, though, on if there was CIV. As I said earlier, if you get that second uplift in value, if the pegging regime allows council to benefit from or retain their additional rates when that second uplift happens, then it is an improvement on what happens currently.

**The Hon. PETER PRIMROSE:** Is that the case now?

**IAN CLAYTON:** No, because without a CIV there is no second uplift.

**The Hon. PETER PRIMROSE:** There is no uplift. But if you changed the system, which may take a number of years, or you could write a letter to everyone and ask them, as you said, to get your database right—but you're saying that there would basically be a boost of some sort through using improved capital value.

**IAN CLAYTON:** There certainly could be, yes

**The Hon. PETER PRIMROSE:** If that was a provision in the peg?

**IAN CLAYTON:** Absolutely.

**ANDREW BUTCHER:** There is growth at the moment in what Ian was saying. You've got one parcel of land, maybe a large parcel of land, and council is getting, say, $5,000 in rates on that parcel. If that's subdivided during the year into 20 smaller lots, then the growth is taken into account and the council does grow by that. But that's the one-off growth. What the IPART recommended in the transition to CIV is that that process stays the same but then there is a second uplift when the property is occupied. So that makes a lot of sense because vacant land would be rated at a lower amount. You're not using the services because you're not living there, but then when you move in you are living there.

**The Hon. PETER PRIMROSE:** That makes sense, thank you.

**The CHAIR:** Going back to rates now, on average across councils how much is collected in rates and how much is fees and charges?

**ANDREW BUTCHER:** Around 60 per cent is land rates and fees and charges. I think grants makes up about 11 per cent, depending on the council. It's higher for regional councils than metro councils.

**IAN CLAYTON:** Yes, that's right.

**The CHAIR:** So how much would you say rates would have to go up by to adequately fund the activities that council wants to do?

**ANDREW BUTCHER:** That would be individual for each council because they're not all the same. Campbelltown is a fringe metro, and we have growth in our area and we're a fairly sustainable council. Our rates are around about the midpoint for metro. For regional councils, it varies. Like Ian mentioned before, you've got Greater Hume. Look at those councils out there and some that have huge areas but very, very small populations. Their expenses would be totally different to ours.

**The CHAIR:** Did you have anything to add?

**IAN CLAYTON:** I think Andrew is 100 per cent right. It is just so variable. As I say, the process currently is that the wants are reduced to match the revenue. If there were suddenly no limit whatsoever, then those lists of wants might be also much higher. There is no perfect one-size-fits-all answer.

**The CHAIR:** I might just in the time we have left ask a couple more questions about build to rent. I acknowledge my colleague asked that earlier; I'm just building on what he has asked. Your submission mentions a fair bit about the build-to-rent scheme and how that's rated. Am I right in thinking that if two lots are combined, say for example 20 dwellings are put on it, that only gets rated as if one person owns that land and one person is living in it? Is that right?

**ANDREW BUTCHER:** Correct.

**The CHAIR:** If it's two lots, it's rated as two adjacent single family homes though? Is that right? If it was the two lots as they were before they were combined and put 20 dwellings on it, that would be two single homes.

**ANDREW BUTCHER:** It'll depend what the ownership is. If they're owned by the same person they can be aggregated into one assessment for rating purposes, and that would result in a reduction. But essentially they're rated based on their unimproved land value anyway. They're both rated as if they're owned by one person and one person lives there; whereas they are used differently to that and they have multiple people living on the property. They can be rated separately under a strata scheme, which is essentially what the development is built for because the developer can keep it for up to 15 years before then subdividing it into a strata and selling off the units.

**The CHAIR:** You talked about ways to address the build-to-rent issues earlier and some of the potential fixes. I'm wanting to ask about rating and what changes we could do with rating systems to ensure that that adequately captured situations like this.

**ANDREW BUTCHER:** Currently, we use four separate classifications for rating: residential, farmland, business and mining. In our view, the business category would fairer represent the use of the land because it's owned by one person as a developer. If you want to make a comparison—like a hotel—a hotel is made up of multiple apartments or sections. They're not rated individually, but the business is rated holus-bolus under the business category. That would go a long way to fixing the problem. It would fix the domestic waste issue as well because business isn't domestic waste and it's not controlled by the same rules.

**The CHAIR:** I might finish with a final question. We're looking at a plan to make Sydney denser—more multistorey buildings. How does that make the rating system in New South Wales less fair, and what can we do about it?

**ANDREW BUTCHER:** I might as well, because metro is my area. The densification is not so much of a problem because the rating structures allow for that growth. A vacant block of land is rated as a vacant block of land. It's actually rated as business because it can't be used for residential accommodation whilst being developed, so council gets a sum of money for that. The people that are working or building on that site are probably not using the council services like parks, gardens and everything else—driving on the roads; that's probably about it.

Once the dwelling or the residential apartment is built, the property is subdivided into however many residential apartments there are, and each one of those people will contribute land rates. That's where the growth comes in to fund the services they need. If a council's rating structure is set correctly and set up properly, then there shouldn't be an issue for densification. Secondary dwellings, when you get out into my area around the fringe, they represent an issue because there are two families, generally, or two lots of people living on one property and there's an impact on the services that are required and you've only got one ratepayer, essentially. That is an issue. But multistorey—

**The Hon. MARK BUTTIGIEG:** Sorry, I'm a bit confused because I think the Chair asked a question before about this subdivision and then multiple units being put up but not being rated accordingly to the owner. Now you're saying—

**The Hon. SCOTT FARLOW:** That's build to rent, though.

**The Hon. MARK BUTTIGIEG:** Right, okay.

**ANDREW BUTCHER:** With build to rent there's only one ratepayer, but there are 600 units.

**The Hon. MARK BUTTIGIEG:** That's a fundamental flaw, right? That's got to be fixed, surely.

**ANDREW BUTCHER:** Yes. If it's subdivided like a normal strata unit, then 600 rate notices would go out.

**IAN CLAYTON:** That's where, perhaps, the way those properties are valued may be a better solution than making it business. If there are 600 valuations for that parcel of land, then it's going to be effectively rated exactly the same as a strata.

**The CHAIR:** What is the improvement that you would say for that?

**IAN CLAYTON:** Perhaps examining the provisions of the Valuation of Land Act for that type of property to have it valued that way. So rather than issuing a single assessment for the whole of the property, you issue it by the number of units, the same as it would be if it was strata.

**The CHAIR:** Thank you so much for giving evidence to the inquiry today and making the time to be here. We really appreciate it. The Committee secretariat will be in touch if there are any questions on notice also.

**(The witnesses withdrew.)**

**(Short adjournment)**

**Mr SACHA THIRIMANNE**, Acting Chief Financial Officer, City of Ryde Council, sworn and examined

**The CHAIR:** Thanks so much to our next witness for making the time to appear before this important inquiry. Would you like to start by making a short opening statement?

**SACHA THIRIMANNE:** I would like to thank the Committee for the opportunity to provide evidence today regarding the City of Ryde's submission. The City of Ryde is a large metropolitan council, with over 130,000 residents, which is serviced by 563 full-time—FTE—staff. The population is forecast to reach 190,000 by 2041. We have a current operational expenditure budget of $158 million and a capital works budget of $89 million. This expenditure aims to provide both services to our community and critical infrastructure for our growing local government area. As a finance professional with over 14 years experience within local government, I have witnessed firsthand how it is becoming increasingly difficult over the years for council to balance its budgets while still continuing to provide services and infrastructure to the community due to factors outside of council's control. Section 8B of the Local Government Act requires council spending to be responsible and sustainable. Council must align revenue and expenditure to aim to achieve intergenerational equity, which is becoming a great challenge to council, and I believe the financial model currently used by councils requires reform.

In regard to income, council rates account for approximately 50 per cent and is used to fund council's general operations. Previously, the rate peg methodology adopted by IPART used a local government cost index. This was backward-looking and not reflective of market, industry and economic factors. In addition, many properties are rate exempt, regardless of the demand placed on services and infrastructure by these properties. In regard to expenditure, industry and market factors such as construction costs, utilities, insurance, cybersecurity, environmental sustainability targets and occurrences of cost-shifting outside of council's control, such as election costs, street lighting and audit fees, have had a major impact on council's ability to deliver services and infrastructure while managing these expenses in a financially sustainable manner.

**Dr AMANDA COHN:** Thanks so much for making the time to appear before us today. I had a question from the written submission from the City of Ryde. You mentioned that you introduced previously a compliance levy to pay for development monitoring and regulatory activities that was later removed by the department of planning.

**SACHA THIRIMANNE:** That's correct.

**Dr AMANDA COHN:** I was hoping you could expand on that in more detail and explain what it was, how it works and what the impact has been on the City of Ryde from not being able to do that.

**SACHA THIRIMANNE:** The compliance levy was introduced even in my previous council where I worked. It was levied on the cost of development of a development to account for all the compliance costs in terms of building certification and regulatory costs—things like that. That was a great source of income for council at the time. We would hold that income and obviously then be able to use it to fund those kinds of departments. However, yes, that was repealed and we actually had to refund funds that were received from a certain point in time. That was, again, another example of where there was an opportunity for council to try and lean on its own source income rather than rates income. However, it was disallowed.

**Dr AMANDA COHN:** The written submission mentions the housing policy changes from the State Government—the State significant developments, build to rent, affordable housing and zoning changes. We've touched on them a little bit already this morning but, specifically in the context of Ryde, how are they impacting the council?

**SACHA THIRIMANNE:** Build to rent is a good example to use. We have three build-to-rent properties in progress at the moment. The rules state that build to rent is exempt from subdivision for a period of up to 15 years. However, in the Macquarie Park zone it's in perpetuity. That means that, although the properties are currently business—and with a business property you're getting a higher rate in the dollar, so it provides council with a decent amount of income—the residential rate in the dollar is much lower. It prevents subdivision. A normal developer would develop apartments and strata them out. You would be paying that residential rate in the dollar per dwelling. However, if it's only considered as one assessment due to the prevention of subdivision, and it is still classed as residential, we'll actually be getting a lot less for that particular property.

But you also have to consider with these properties that we have in Macquarie Park—I think there are three of them—all of them have over 300 dwellings. The amount of population and need for services within those precincts—there is a lot of demand on the service and not enough income to try to satisfy that demand, provide infrastructure and provide services for those additional populations. It is the same with State significant developments. With State significant developments, council are pretty much left out of the process and that has an impact on development contributions, which we're noticing. If it's lodged as a State significant development, often they don't have to come to councils. They can bypass council in a way, and it's impacting development contributions that a developer would usually pay for the amount of dwellings.

**The Hon. SCOTT FARLOW:** Why is that the case? Is that because they're not entering into voluntary planning agreements or the like with you? What's that prohibitor? I imagine there are section 7.10 and 7.11 contributions there as well. What's the difference, effectively?

**SACHA THIRIMANNE:** Section 7.11 contributions are—

**The Hon. SCOTT FARLOW:** Sections 7.11 and 7.12.

**SACHA THIRIMANNE:** Yes. Section 7.12 are fixed contributions. However, section 7.11 is based on the price that we have per dwelling. So a one-bedroom apartment will pay a certain amount. Two and three and so forth will pay a certain rate that council has struck. IPART has a minimum but there is a certain rate that is struck. However, with SSDs, I might have to take it on notice in terms of the planning side of it but, from my understanding, they can enter into voluntary planning agreements with us. But even with voluntary planning agreements, what we're noticing is a lot of contributions through the State significant development are being written off by the developer providing a public benefit to us. They might provide a road.

**The Hon. SCOTT FARLOW:** Essentially, they're entering into a voluntary planning agreement with the State and bypassing council?

**SACHA THIRIMANNE:** Correct.

**The Hon. SCOTT FARLOW:** Thank you, but if you could take it on notice for any further details or examples, that would be helpful.

**SACHA THIRIMANNE:** Yes, I'd be happy to.

**Dr AMANDA COHN:** Your written submission also provided a really helpful list of external fees and charges that you've described under cost shifting—street lighting, election costs, Valuer General fees et cetera. I'd be really interested—and I appreciate you might need to take this on notice—if you've quantified those things and what the impact on council has been. Particularly, with those costs increasing, how has council offset those? What impact has it had on services of having to increase funding for those things?

**SACHA THIRIMANNE:** I'm happy to take the physical figures on notice and I'll be able to get you some numbers. Again, similar to election costs, we've noticed that every time there's an election, each year I've budgeted, they have gone up significantly. It's more or less the same process. We pretty much pay the Electoral Commission. There are a lot of council resources that still go into making sure that happens. Those have increased over time. Audit fees is another real recent one that we've noticed. In the past, council would get their own contract auditor and would go out to tender, and many councils had one of the big four. The Audit Office have come in now. Initially they contracted their own, but now we've been told that the Audit Office will be doing us directly. I think that's for a lot of the larger councils.

We've noticed in the last bill that we've got for this 2023-24 audit that the increase in the audit fee has gone up by 45 per cent. That is something that we have no choice, in terms of the Auditor-General, in terms of selecting who to audit. We have no choice in terms of their audit scope, the amount of hours they want to do, and we've obviously just been given a bill of that amount. We are talking to them about that. It is an increase and it is hard to try and fund things like that that come out of left field. But I will get back to you in terms of the details in terms of those cost increases over the years.

**Dr AMANDA COHN:** Thank you. That's a really helpful example.

**The Hon. SCOTT FARLOW:** Picking up on that build-to-rent point you made in Macquarie Park—and I have cited Ryde, actually, with our previous witnesses and the $500 million that you had estimated that it had cost council—you mentioned about the peculiar situation in Macquarie Park, where that prohibition in terms of subdivision is in perpetuity rather than for 15 years. How did that come about?

**SACHA THIRIMANNE:** Looking at the rules, it was particularly about the zoning. I think, from memory, it was E2 zoning, and that's what that area's zoned at. That's why it's in perpetuity. I think the other impact, in terms of Macquarie Park, which we're facing with that is that it's currently considered an innovation district. It obviously brings a lot of local economy jobs and things like that. But obviously, over time, if all these commercial properties turn into build to rent, you've got a lot of those commercial companies that are in that precinct now that will move out. You won't have that local economy there in terms of the commercial and the jobs and things like that.

**The Hon. SCOTT FARLOW:** And you have a different infrastructure requirement from council, as well, to cater for a business hub, compared with catering for a residential hub.

**SACHA THIRIMANNE:** Correct. If it's a commercial precinct, you can imagine people only go there during the week. They're pretty much there. They might go out at lunchtime. A lot of people are working from home now; they might not even be in the office in that precinct. There's not much of a stress on the infrastructure, but we are collecting that business rate income. However, if it does all turn into build to rent, which seems to be the trend, like you said, there is going to be a massive increase in population. However, the demand on services is going to be greater too, but the income is not going to be enough to satisfy that.

**The Hon. SCOTT FARLOW:** You also identified the construction on Crown land in your submission. Back to the rate exemptions part, you state:

> For example, the housing development by Department of Housing within the Macquarie Park Precinct where more than 2,000 privately owned units are scheduled to be constructed on Crown Land will result in loss of potential income of approximately $2m due their rates exemption.

Is that in terms of, as we've heard previously, benevolent associations managing properties and being rate exempt? Or is that another quirk?

**SACHA THIRIMANNE:** No, that is just an example of how ratings and properties such as Crown land, hospitals, schools, universities, religious bodies—again, similar to the build-to-rent example, those properties have a lot of population that come in. However, if they're not rateable then we do not have the income there to satisfy them. As you can imagine, say, with Macquarie University, with a lot of the Crown land, they're quite big parcels.

**The Hon. EMMA HURST:** Thank you for coming here today. In your submission you talk a lot about the special variation process and how onerous and time-consuming that process is. I'm wondering how we make it easier for councils to be able to access these variations when needed. What actually needs to change there so that it's not this huge process?

**SACHA THIRIMANNE:** I think the last time we received a special variation was in 2014-15 and that was for infrastructure backlog.[1] That was a permanent special rate variation that we have got. From my understanding, it's a long process. I think you have to prove to IPART that the community has the capacity to pay, that they won't be impacted. I think the other thing is that you have to get support from council too. As you can imagine, as the elected body, increasing rates is not something that they usually would go for, in the first instance. Like I said, there's an 18- to 24-month period because it's almost like you have to brief councillors; you have to get them on board. You have to put out your long-term financial plan and show them.

It's almost like you have to prove to IPART that a special variation is required. It's almost like you have to be in the red already, and heading further in the red, rather than being proactive and looking to the future and thinking, "We're growing; we need this infrastructure." The costs of services are more expensive and we need to do something now so in 10 years time—like I said about intergenerational equity—we can provide that for the future. I'm not sure what can be done in terms of expediting that process. However, it would be good if council had a bit more power in terms of determining the right time to do it and when they could do it.

**The Hon. EMMA HURST:** Maybe the whole process itself needs to be revamped rather than finding a way to make it faster.

**SACHA THIRIMANNE:** Correct. I think that's why councils will often just elect to look at cutting services because that's something operationally that can be done. However, that's not always the best outcome for the community. As an accountant myself, and as the acting chief financial officer, every year we do try and find efficiency gains. Putting pressure on ratepayers is not what we want to do. We always look for own-source income and try to drive those other income sources. In most cases you want to try and avoid that, but I think the way things are going now it seems like it is necessary.

**The Hon. EMMA HURST:** Your submission also talked about State significant developments and how that will have an adverse impact on council rates, incomes and developer contributions. I'm just wondering what you think this Committee can recommend in that space? What needs to actually happen as a solution?

**SACHA THIRIMANNE:** I'm not a planner but, from my understanding of State significant developments, I think councils are being cut out of the approval process. I know that has a big impact with the

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[1] In correspondence to the committee received 21 June 2024, Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, provided a clarification to their evidence.

negotiation of developer contributions. I was mentioning before that items are often dedicated to council as a public benefit. However, whatever is dedicated often just serves the development and doesn't actually serve the community. It may not be things that council wants, whereas with the developer contributions, it's levied based on the number of dwellings and it's based on council's contribution plan. Council then can use that funding to actually provide the infrastructure within the LGA to support those developments.

With the SSDs, unfortunately, that doesn't happen. I did touch on the BTR before. We've got three examples in Macquarie Park at the moment which are currently in progress, and that's to do with residential subdivision not allowed in those precincts. Because subdivision is not allowed, they're just levied as one assessment and are classed as residential. The residential rate in the dollar is much lower than the business rate in the dollar. Because of that prevention of subdivision—I think in most cases it says 15 years but, because of the particular zoning in Macquarie Park, it says in perpetuity. Within one of those new built-to-rent apartments you're having 300-plus people and up to 500—all that extra population—but you're only getting, essentially, treated as one assessment at a residential rate, and it's not enough to satisfy the increased demand.

**The CHAIR:** Mr Thirimanne, thank you so much for making time to be here today. I also had a couple of questions about State significant developments. In terms of what you were saying previously, does this mean that council infrastructure on-costs are unfunded?

**SACHA THIRIMANNE:** Sorry, could you repeat the question?

**The CHAIR:** When you were talking about State significant developments previously and the implications that would result for a local council like your own when something becomes a State significant development—I'm interested in understanding some of the knock-on impacts for a local council, such as whether the infrastructure costs would than, as a result, not be funded.

**SACHA THIRIMANNE:** Yes. I guess it comes down to, like I said with the developer contributions—usually, with renewal of existing assets, council will attempt to put money aside each year from its budget and use an asset replacement kind of funding for renewal. I mentioned we have a special variation that was done in 2014-15 to make sure that council's existing assets are kept at a good standard and they are serviced. However, with new developments you can imagine there would be new infrastructure required, whether it be all the roads and things to support the development—and, obviously, open space if it's required as well to support those developments. When it comes to new developments and new infrastructure that's needed, we heavily rely on developer contributions. If that does change due to State significance—because we're obviously not involved as much in those processes, and developers are going directly through the State—that will impact our funding if we have to provide the infrastructure, which we will have to.

**The CHAIR:** Thank you for clarifying. Earlier, you made a reference to increasing non-rates and other own-revenue sources. I invite you to talk further about that and what opportunities are there.

**SACHA THIRIMANNE:** Rates account for about 50 per cent. Fees and charges account for roughly around, I would say, probably 17 per cent. The only thing with the fees and charges is a lot of them are statutory, so a lot of them are not really controlled by us. We are told very, very few and far between when they do go up, and it has never kept in line with the cost of the service, essentially. I think things like that would be good to look at. We do, obviously, look at where we can try to drive other sources of income. Like I said, with the income sources that are already staples of council, we try to make sure that we do hit those targets. We do try to generate those things, whether it be, like I said, compliance, fine income—things like that.

Unfortunately, a lot of the other income we have is due to contracts, whether it be leases or bus shelter income. But there's not much room to move there. We do try internally, obviously, to drive those things as a performance measure of council. I have my team, within every one of the business units they manage, drive all the income under every business. Planning brings in a lot in terms of, like I said, the DA income, compliance income. We try to drive those incomes. But, yes, we do look for opportunities. But, like I said, it is hard, too.

Being a council, too, you're providing a service to the community. Often, unlike a private company where you would recover the cost of service and try to make a profit, you have to consider that we are providing a community service. We have to be quite balanced with our neighbouring councils, too. Even though it might cost us a lot more, we can't charge a lot more. We have to be fair. We are a bit limited there in terms of even our fees and charges. Like I said, it doesn't amount to much.

**The CHAIR:** Your predecessor in your role told *The Sydney Morning Herald* that the City of Ryde finances were precarious. Why is that?

**SACHA THIRIMANNE:** With the City of Ryde finances—with the previous CFO, when she first came to the City of Ryde, she discovered that funds from externally restricted developer contributions were moved to council's internal reserves. There was a project called the Ryde Central Project, which was to build, essentially, a civic centre opposite the Top Ryde shopping centre. In her investigation, she found that money was used and moved from developer contributions, which is obviously strictly managed by legislation and should not be used for any other purposes—other than providing infrastructure to the community—because it has been received from developers. That's the purpose it was received and that's what it should be used for.

However, it was moved to internal Ryde Central Reserve to complete that project. Once she discovered that, she informed the CEO. The CEO directed that she undertake a thorough investigation with forensic accountants and get a legal opinion. Thank God, she pretty much found that before they had actually started spending money on the project. Due to COVID, there were delays with the project. And, obviously, now we've returned that funding. We've put it back to its rightful sources.

In terms of her comment about a precarious situation, there are a lot of projects—and this is still another one which is being talked about, the Ryde Central Project—that council wants to commit to in terms of major projects that we have on our horizon. However, committing to those projects—I think she's concerned about the going concern. As of now, yes, we're okay, but there are things that have come up. I'm not too sure if you read that we also have VPA obligations. In that investigation, the forensic accountant also discovered VPAs that were either in executed or operating status, and what had happened was when a developer obviously hands you and dedicates you an asset, whether it be a road or a park, eventually they'll hand it over to council. When it becomes in council's ownership, we have to ongoingly fund the renewal and maintenance of that asset.

There were 17 VPAs identified. They obviously will all come on board at different times. The maintenance and renewal—the life-cycle costing—was never done, so it was never in council's long-term financial plan. That was one thing that was picked up. One of those VPAs, as well, had a fit-out of a library and creative hub that was $30 million—again, that's the responsibility of the council. Never budgeted. Never considered. It was signed up. Now we actually have in our new long-term plan, which has currently finished exhibition—it will be going to council in June for adoption. We have actually provided all those costs within the long-term plan: all the maintenance, all the renewal. We have obviously talked to our asset management team. They have kind of told us the delivery of those items and we have provided for it.

As I mentioned, looking at as we stand now, we have balanced the budget for 2024-25—with difficulty. But when she talks about a precarious situation, she is talking about the going concern. She is talking about the future. This is where I think—in that report, we do say that council needs to start considering now a cut to services or a special rates variation because, from memory, I think it was about $2.5 million in renewal that needs to be put aside each year, and then I think it was another $2 million again for maintenance each year.[2] Like I said, the $30 million—we have funds in the developer contribution that are allocated to that project, however, that reserve pretty much will be pretty drawn down to nothing after that. But, obviously, we have to assume that those things will happen. They're liabilities currently. They may happen. They may eventuate, but we have to assume that they will, and it is prudent to put money aside and be prepared for those things when they do come up.

**The CHAIR:** Does Ryde council have the income to do all of the things that you've just mentioned?

**SACHA THIRIMANNE:** The VPAs?

**The CHAIR:** Yes. The library, the—

**SACHA THIRIMANNE:** With the library and creative fit-out, that's a $30 million—it is obviously an estimate at this stage based on a QS, a quantity surveyor. We do have funds. Within our section 7.11 plan, it is actually allocated in there—the funding from a specific section 7.11 reserve. It's there, so we can rightfully use that money. It is only a certain percentage. The section 7.11 plan looks at what percentage actually is for the community—from memory, I think it is about 82 per cent—but the remainder has to come from council reserves.[3] We actually have the money in there. Because we return the funds, as I mentioned about the Ryde Central, we have put that money back to those external reserves, so luckily there is money to put aside for that. However, if you look at the long-term financial plan, from year three you can see your net operating result is declining in the first couple of years. It is pretty much declining rapidly. You can see it starts getting into the red. Like I said, we have to really think how we're going to fund going forward. Like I said, initially now it's okay, we're balanced, but the going concern is what she means is a precarious situation that she's concerned about.

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2 In correspondence to the committee received 21 June 2024, Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, provided a clarification to their evidence.

3 In correspondence to the committee received 21 June 2024, Sacha Thirimanne, Acting Chief Financial Officer, City of Ryde Council, provided a clarification to their evidence.

**The CHAIR:** How is Ryde going to choose between those competing priorities?

**SACHA THIRIMANNE:** I think what we'll have to do is, like you said, we are going to have to workshop with councillors and we're going to have to look at making some hard decisions. With the VPAs, they're obligations that we're tied to and we can't get out of. Like I said, yes, some of them may eventuate, some of them may not, because they're actually based on the timing of the developer. The Macquarie Park VPA is active until November 2025, so it's up to the developer to enact that, but we still need to provide for it. I think we do need to consider, like I said, a cut to services or a special rates variation, and I think we need to start thinking about that very, very soon.

**The CHAIR:** In terms of your own revenue sources and cost recovery, you've got a broad range of services, like child care, sporting, libraries and that sort of thing. Does council make any money from this?

**SACHA THIRIMANNE:** The City of Ryde doesn't have a childcare service. But, depending on the service, we have sustainability principles. Where possible, we do try to achieve cost recovery at a minimum. As you can imagine, certain services you can but certain services you can't. Trying to find that balance between providing a community service and charging a fair fee in comparison to the market and your other neighbouring councils is always a consideration. Even when we do the fees and charges—this year, for the 2024-25 budget, we have done an increase of 5 per cent. But that is after benchmarking with other councils. In some cases, 5 per cent is too high. Libraries are a good example. A lot of the fees there we can't actually increase like that because it becomes unfair and it becomes uncompetitive as well. So it is a hard balance to try and find that.

**The CHAIR:** In terms of the situation that you articulately explained for us about the state of council's finances, what led council to be in that situation?

**SACHA THIRIMANNE:** I'm not too sure exactly. I've only been at the City of Ryde for a year and a half. Thinking about the whole long-term intergenerational equity concept, I think that's something that the previous CFO has brought in. I'm not too sure of what's happened in the past. But I started shortly after she did and, pretty much, bringing in this culture of best practice financial management, looking at things really closely like that and obviously finding things before it got to a point where it was too late is where we've stepped in. I'm unsure about what has led council to that point, but we are now revised and looking forward. We've tried to fix everything and we've implemented a cash reserve policy to make sure that things like this don't happen again. In terms of how over time it became like that, I'm not too sure.

**The CHAIR:** In terms of the best practice accounting or management that you talked about, I wonder whether or not that has started to look now at any of the other revenue sources for Ryde council and whether you've got any investments like property that could possibly generate a return for the council.

**SACHA THIRIMANNE:** Like I said, a lot of the property investments that we have, whether they be commercial leases and things like that, are obviously on fixed contracts and you'll get your 3 per cent market increase over time. We have a bus shelter advertising contract that's currently in play at the moment. Depending on the number of bus shelters that are rolled out, we will get advertising income from that. But council operations are council operations. Usually, there are the normal sources of income that we do have because we are trying to complete council business and provide those services to the community. We do try to look for opportunities and they do come but, obviously, we have to be focused on providing our core services too.

**The CHAIR:** In terms of looking for opportunities, do you have the capacity to invest in assets that might generate a return if that opportunity, as you say, arose?

**SACHA THIRIMANNE:** We do. We have, obviously, internal reserve for purchase of investment property. Often the purchase of property is sometimes for a strategic purpose too. Sometimes you might purchase a property not due to the rental income that you'll receive from it or the return that you'll receive from renting it out but it might have a future purpose, whether it becomes open space or something for the community. Those purchases are done like that too.

**The CHAIR:** In terms of the services that City of Ryde has, the City of Ryde area grew by 5,000 residents in the last 12 months. How much of an impact does that have on your bottom line?

**SACHA THIRIMANNE:** We do obviously get supplementary levies when there are additional properties coming on board. Coming from a council which was a high-growth council to the City of Ryde—we are growing very quickly, but the growth is not as much. Sometimes I think there is a bit of a mismatch. People assume that because you're getting that extra growth in population you are getting those supplementary levies. On the other end, the expenditure side is increasing at a much bigger rate. We are capped by that rate peg. That is the maximum that we can increase the rates by.

Often council, again, can take up to the maximum of the rate peg. We've had an instance where council voted not to take the maximum; they took underneath that. We almost have to justify taking the maximum, which is good. I think the councillors are on board. They have taken the maximum last year and this year. But I think the expenditure side is the focus because I think that's where there's absolutely no control. The rate peg, as you can imagine, last year was—well, this year was 3.7 per cent, but inflation is way higher. You can imagine construction costs after COVID, to try to actually complete capital projects. Things like that are completely mismatched.

**The CHAIR:** Will the new rate peg methodology account for a lot of what you've just said and the issues, do you think?

**SACHA THIRIMANNE:** I think the new rate peg methodology, which is being introduced from 2024-25, is a good step forward in terms of how it was before. In the past, like I mentioned, the local government cost index was often very backwards-looking. It was looking at two years worth of data, two-year-old data, and it created a very big lag, and that lag is compounding over time. That compounds and makes it very difficult to catch up. It's similar to not taking the full rate peg—if you take less than the maximum, that will compound over time.

The new methodology, I think, is lot more simplified, looking at the three main cost components of council, looking at the category of council. Obviously giving us the ESL factor, I think, really helps. The ESL factor does help, but it obviously sometimes doesn't match up to what the actual increase is. Again, that's something that is completely out of our control, depending on what is happening in the insurance industry and in terms of claims and things like that too. It's those kinds of left-field costs that do surprise us. We would like to give funding for things that we want to do and growth and things like that, but sometimes we have to make those difficult decisions to scale back on certain things or stage things out in a way that we can afford it.

**The CHAIR:** When you look at the example of the 5,000 additional residents in the last 12 months, I'm interested in whether or not they increased the service requirements for council more than they would, say, bring in the rates to provide those services.

**SACHA THIRIMANNE:** Yes, definitely. It's hard to look at how much does one resident bring versus how much they spend. But you can imagine, with a population, you do need the infrastructure, and to construct infrastructure is very expensive. It is a bit of a mismatch. Obviously it does help. Especially with an apartment complex, it would help if you have 500 dwellings and they're all separately strataed. We do get extra funding from there, but it is hard to equate those two.

**The Hon. SCOTT FARLOW:** Can I pick up from this for just a second? Is this partly because there's a cross-subsidisation that has always existed when it comes to local government, with business, commercial and industrial rates effectively offsetting residential rates somewhat, and then when you're changing that component the rate base for council gets stretched much further?

**SACHA THIRIMANNE:** That's correct. Like I mentioned with the BTR, the rate in the dollar for residential is a lot less than your business. We do have a weighting between business and residential. Business, obviously, pays more of the pie, you could say, the weighting, and that's because, in terms of the residential ratepayers, you don't want to put stress on the residential ratepayers, whereas the business ratepayers actually have more capacity to pay. So, yes, that is true.

**The CHAIR:** Good question. I want to turn now just briefly, with the time we have left, to talk about expenses of a council. How much is spent each year by your council on consultants?

**SACHA THIRIMANNE:** I'll have to take that on notice, in terms of multi-year expenditure on consultants. But at the March review, which went to council last night, about $1.3 million has been spent to date on consultants, but that would include all council operations, whether it be anything to do with infrastructure and all around the building. It's not just one area. I think it's pretty normal, I would say, but I'll have to get back to you in terms of how much we spend each year on consultants.

**The CHAIR:** Sure. And also, how do you ensure you're getting value for money from these consultants?

**SACHA THIRIMANNE:** Yes. One more thing I'd like to add about consultants. Another thing, as well, since the previous CFO and I have started here, we've actually brought back a lot of practices internally, in terms of getting staff to move away from taking jobs out to consultants and getting a lot of the jobs and work done in house. I think, in my first year, when setting the draft budget, which was 2023-24, I actually found savings of about $1.2 million in consultancy because year on year budgets were essentially given to department managers, and there was no analysis of how much they were actually spending each year. Sometimes, if you give someone a budget and you CPI it each year, they're going to assume that they can spend it and it's theirs. Coming in, that was one of my first things.

I started at a time where we set the draft budget, and I pretty much got my team to look at every single account, and consultancies was one that was actually raised. And, obviously, agency staff as well was another one and pretty much getting business managers to really rethink how they work and not relying on consultants and building talent in house. We've actually made a lot of improvements in that respect to managers as well. They might have had external staff budgets, and then they might've had a full complement of staff and doing that as well, and we've slowly scaled that all back and said, "You should use your in-house staff. That's what you've got a team for." That's where, I guess, the financial management comes in, even at that lower level, before the CFO. I'm acting now, but I'm actually the financial controller, and that's really my job, to be on the ground and then make sure that is monitored and kept.

Your question about value for money: procurement is really important in local government. Since coming in we've obviously really re-raised the importance of procurement in local government and making sure people always receive value for money. We have procurement guidelines, an internal document—a lot of councils do—which really outlines the steps and makes it really simple for every person who's procuring for the organisation, how many quotes they need to get, depending on the value, depending whether it's a panel with pricing, a panel without pricing, whether it's a State government contract. It pretty much gives them a matrix to make sure that they go out and they get value for money and they test the market—even, say, contracts that we have with IT.

A lot of them are long-term contracts, but we've tried to really bring in and change that, whereas, in the past maybe they might have just been signed off. And, yes, maybe that provider might be the best provider. But, if you don't test the market, you don't really know if you're getting value for money or you're getting a good price or you're getting the best product. That's been a big reform as well within the organisation, where procurement is actually quite important. We have a procurement team that does a lot of that checking and people are becoming more aware in the organisation of their responsibilities as well, as managers, to make sure that they follow process and do the right thing. Obviously, we always drill in, "You have got ratepayers' money. This is not your money. It's ratepayers' money. You always have to try to get the best outcome out of it. Spend it carefully," pretty much.

**The CHAIR:** Thank you very much, Mr Thirimanne, for your attendance at today's hearing and for giving evidence to this inquiry. The Committee secretariat will be in touch regarding any questions on notice also.

**(The witness withdrew.)**

**Mr GRAHAM SANSOM**, Individual, affirmed and examined

**The CHAIR:** Good morning. Welcome and thank you so much for making time to give evidence to this important inquiry. Would you like to make a short opening statement?

**GRAHAM SANSOM:** Yes. I am currently adjunct professor at UTS, was previously a director and professor of the Australian Centre of Excellence for Local Government, and I had a stint at the Australian Local Government Association before that. Just a few quick points—re-reading my submission this morning, I thought, "That goes around a bit in circles," so I've tried to crystallise what I really wanted to tell you. I think the most important starting point is that there hasn't been a comprehensive review of local government sustainability in New South Wales since 2012-13, when the Treasury corporation undertook its analysis, and that was part of the work of the independent review that I chaired at that time. I start the submission by talking about the legislation because I think it's really important. The Parliament, through the Constitution Act and Local Government Act, has made it clear what its broad expectations of local government are, and the Local Government Act then fills in some of that detail.

The biggest gap in the legislation in New South Wales in terms of this inquiry, in my view, is that, unlike Victoria, we don't have any objectives for rate pegging. We've had rate pegging for 50 years, but the Parliament has never actually said precisely what it's supposed to be there for. The Victorian Act does that quite well, in my view. Related to that, there are a lot of policy gaps still that need to be filled and, with my colleagues, back in 2012-13, we weren't all that happy with the level of liaison between the key agencies involved in oversighting local government. I think that's pretty much still the case, but I'm not in any way an insider anymore. I have, as I say in the submission, some particular concerns about the direction IPART took in relation to the rate peg in its latest report. My key concern there is that it overlooks just how crucial integrated planning and reporting ought to be in the whole set-up. I don't think the whole set-up can work unless everyone is taking integrated planning and reporting seriously, particularly when it comes to special variations.

Two other final points—first of all, as I say in the submission, one of the real issues for this inquiry and for the State Government is that, intentionally or otherwise, rate pegging and the other limits that are placed in legislation on local government revenues actually are depriving the whole of the State public sector of resources to do the things that need to be done. Rates are a good source of revenue. Inquiries over the years have said they're a good source of revenue. They're a tax—okay, they're a tax on wealth, and some people don't like that, but they could be used better. Finally, as I say, if the Government wishes or the Parliament wishes to maintain rate pegging, I think there are other and better ways of doing it than the method at present.

**The CHAIR:** Thank you for your detailed submission, which went to some of this as well.

**Dr AMANDA COHN:** Thank you also for the written submission and the attachments, which have been really helpful. I particularly appreciated that you have spent some time looking at what happens in other jurisdictions in Australia and, in particular, you have commented that the South Australian and Tasmanian models appear to offer the best way forward. I was hoping you could describe in more detail what happens in Tasmania and South Australia and justify the position that it is the best approach.

**GRAHAM SANSOM:** I do qualify it, I think, by saying the "proposed provisions" in Tasmania, because Tasmania has been having a few political complications lately. But South Australia has empowered their Essential Services Commission, the equivalent of IPART, to do reviews of each council's long-term financial planning at not greater than three-year intervals.[4] It's at the commission's discretion whether it's every three, four, five years or whatever, and they look at the revenue and expenditure mix of the council against its stated long-term plan.

They offer a judgement publicly to the council on whether any modifications to that plan might be needed, which could include, for example—to pick up on one of the things you asked the previous speaker—whether they're relying excessively on business rates rather than residential rates. The commission could pick that point up and give public advice to the council that it needs to make an adjustment, or it could state to the council that it's not convinced of the level of efficiency and effectiveness in its operations and so on. So it's not an Auditor-General exercise, but it is a kind of performance audit exercise.

**Dr AMANDA COHN:** In trying to summarise my own understanding of that, it sounds like it's much more qualitative and individualised, rather than a statewide benchmark or meeting ratios et cetera.

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[4] In correspondence to the committee received 24 June 2024, Mr Graham Sansom, provided a clarification to their evidence.

**GRAHAM SANSOM:** Yes, they're not attempting to come up with a kind of magic number or, under IPART's new system, three magic numbers that cover everybody. They're focusing much more, yes, on a qualitative approach, suggesting to councils publicly—and the council has to respond publicly to these recommendations—that some things could be done better; your financial settings may not be as good as they should be et cetera.

**Dr AMANDA COHN:** You just mentioned the IPART's new rate methodology. I'm sure you were probably watching the previous hearing where we heard from IPART, but I asked them about their three ratings categories and whether, in their opinion, they took into account the really unique circumstances of some councils that have totally different service provision than other councils. I think, from memory, I used the example of Uralla council, which runs an aged-care facility.

**GRAHAM SANSOM:** Yes.

**Dr AMANDA COHN:** They told the Committee that they were confident that the methodology does take into account that kind of variation. From your written submission, it sounds like you disagree with that. Could you explain in more detail?

**GRAHAM SANSOM:** I don't have the level of expertise in the dark arts of economics to flat out disagree, but I am concerned in two or three respects. Firstly, I'm not convinced that even that approach that they're now suggesting to find a rate peg number can possibly take all relevant factors into account. I've never been one to say that every council is unique. Local government people often do, and I used to work in a council and probably said the same thing at the time. But, broadly, you can categorise councils. But when it comes to financial management, there will inevitably be significant strategic differences from one to another because, according to the Local Government Act, they're there to reflect the needs and aspirations of their local communities. So they are required, in a sense, to be different, and I just don't see how crunching a whole heap of numbers can actually pick all that up. My other big concern—

**The Hon. MARK BUTTIGIEG:** Given the variance created by the demand side of the equation, which is the community across different councils, if you wanted to distil the main deficiencies in the current system in terms of catering for that variance, what are they? What would you do? Currently, if I was the devil's advocate, I'd say, "Hang on. We've got a rate system; we've got a rate-pegging system. You've got special rate variations. There's enough flexibility in there to deal with what you're talking about."

**GRAHAM SANSOM:** Theoretically, there is, yes. The key words there are "special variations". My underlying concern with the way things have gone with IPART recently is that the rate-pegging system has two components: setting a peg and processing special variations. They've gone flat out to come up with what they regard as a very accurate peg, but their report said very little about how we can make the special variation process work effectively.

**The Hon. MARK BUTTIGIEG:** That's interesting. Your view is that because the analysis of the peg in their mind is so surgically accurate, less emphasis has been put on the ability of the special rate variations to work.

**GRAHAM SANSOM:** I think what it will do—and we've seen this already over the years, and this was mentioned again by your previous speaker. Councillors, not unreasonably, are disinclined to put in a special variation, to say to their community, "That rate peg level won't meet our needs. We're going to ask you to pay a bit more than that." The more scientific the rate peg looks, I think, the less councillors will be inclined to go above it, and that cuts right across the integrated planning and reporting system which was introduced in 2009 for the precise purpose of making councils talk to their communities about their particular needs and how those needs can best be met. So if that's working properly, you would expect a lot of special variation applications. But in practice we get very few, mainly because of the political signal that the rate peg sends. I'd rather have a vague rate peg and more special variations.

**The Hon. MARK BUTTIGIEG:** But doesn't that imply—the degree of scientific accuracy on the rate peg, in one sense I'd imagine the theory is "Yes, but that's necessary," because then when you do go for a special rate variation, it's based on a specific community need which you've gone out and campaigned on and got the community's buy-in, and therefore it kind of complements each other. I imagine that's the theory.

**GRAHAM SANSOM:** I think the problem is that it's someone else's assessment. It's IPART's assessment of the direction of travel of a council. That direction of travel ought to be a matter for debate, discussion, agreement between the council and its community, and things come out of left field that you can't necessarily plug into even a very scientific, if you like, rate peg. I just think it's getting the balance wrong. Certainly when we did our review, which is more than a decade ago now, we were most concerned at how few councils were lodging special variations, and IPART at that time responded with a streamlined special variation process linked to integrated planning and reporting. Whereas, in the most recent report, IPART seems to have moved right away from that and barely mentions special variations and gives only a fairly dismissive reference to integrated planning and reporting. So IPART has changed its position very considerably since around 2014-15 to today.

**The Hon. MARK BUTTIGIEG:** If you were of the mind that the rate peg should stay, then the increased utility to the system is to look at the special rate variation.

**GRAHAM SANSOM:** Absolutely, to basically—and I made a submission to IPART saying this—go back to the way IPART was doing things from around 2012-13 until—I'm not sure exactly when it all changed—maybe around about 2016-17, that four- or five-year period in there when they were very explicitly saying to councils, "Do your planning first. Talk to your community first. Work out what you need. Then come to us if you need to go higher than the rate peg."

**The CHAIR:** The IP&R frameworks that you mentioned in your submission, do you think these are being successfully utilised in local governments to meet their sustainability challenges?

**GRAHAM SANSOM:** It's very patchy. Some councils are still very thorough with their IP&R; others, I think, have let it slip. With the discussion we've just been having, I think rate pegging is part of the reason why they've let it slip. It's a kind of a "Why bother?"

And it is resource intensive. There is probably a need to look at the IP&R framework and find ways in which the relevant State agencies can more firmly require councils to abide by it, but, at the same the time, to try to find ways to make it a bit less resource intensive and a bit easier to implement.

**The CHAIR:** You talked about SRVs, previously, at length. Do you have a view about what the easiest way would be for the SRV process in New South Wales to be streamlined so that councils aren't intimidated into making an application?

**GRAHAM SANSOM:** Exactly as I said a moment ago, the evidence is there. Go back to the streamlining that IPART introduced around about 2013. They didn't make this a firm position, but they put out a message that, essentially, if you weren't looking to go more than 2 or 3 per cent above the rate peg and you had a good case from your IP&R documentation, IPART would—I won't say tick and flick, but they would not be putting you through the mill.

**The CHAIR:** If it's the case that they've let the IP&R framework slip somewhat—or become patchy, as you say—how much of a problem is that going to be?

**GRAHAM SANSOM:** I think it's a serious problem. And I have to acknowledge that I was heavily involved in putting the IP&R framework together originally, so I've got a bit of a position on it. But, picking up the fundamental terms of reference of this inquiry, the whole idea was to find a mechanism by which councils explore the issues, the needs of their community, look at their financial position et cetera, and come up with a coherent mix of long-term plans and shorter term delivery programs to operate in an effective and sustainable manner. That was where the people involved at the time were coming from. The fact that, by all accounts—and I'm not close enough, again, to be absolutist in saying this, but my strong impression is that the attention to the framework has slipped in many cases, as I say, partly, not unreasonably, because it is resource intensive. I think the various State agencies ought to be having another look at it, ought to be agreeing. We really need IPART, the Office of Local Government and the Auditor-General—at a minimum, those three—to reach an agreement on what they're trying to achieve by using such a framework, and then tailoring it appropriately.

**The Hon. SCOTT FARLOW:** In terms of your perspective on grant allocation, how reliant councils have become on grants and grant funding—do you think that's a good model, or do you think that's something we should be looking at transitioning away from?

**GRAHAM SANSOM:** The answer is going to be pretty different in every case. There are a number of councils—the City of Sydney, for example—that could trash it, transition away from grants quite rapidly, in my view. It would need a change to the rating provisions around apartments to capital improved value, which would generate very significant sums of additional revenue. But it could be done, and there are a number of councils in that category. If you look at the grants commission allocations—I think I've got the figure in there. There are 20 or so councils that are not very dependent at all on the general purpose grant components and, in most cases, could transition away over a period of time. You don't shut the door tomorrow, but I think that could be done. Then, on the other hand, we've got a very large number of smaller rural and remote councils in New South Wales that inevitably will remain grant-dependent indefinitely, to a very high degree. There's only so much money in the kitty, so we've got to find ways of giving them more help, which I think does mean that we've got to shift the balance.

**The Hon. SCOTT FARLOW:** Is part of that answer transitioning those 20 or so out and then having a bigger pie for those other councils that rely on it?

**GRAHAM SANSOM:** Yes. This wouldn't be removing all grants. On the numbers that I checked when I put the submission together—I can't remember exactly what they are, but they're in there somewhere—I think $70 million, or thereabouts, is going to those councils that could, over time, adjust their finances to live without that general purpose grant. That would go a long way out in the bush.

**The CHAIR:** You estimated 23 councils get $76 million?

**GRAHAM SANSOM:** Yes, $76 million.

**The CHAIR:** I found that very interesting.

**GRAHAM SANSOM:** As I say, that's not suggesting for one minute that those councils cease to receive any grants. There would still be special purpose grants. There would still be Roads to Recovery from the Feds. There would still be the roads component of the Financial Assistance Grants going to those councils. I'm just talking about the general purpose money.

**The CHAIR:** The 2013 TCorp report that you mentioned earlier in your evidence, which was also mentioned in your report a number of times, anticipated the current financial sustainability issues that obviously plague the sector. The report also found operating deficits that were understated due to some of the accounting tricks that were being used in relation to FAGs, primarily. Are you aware of any of these sorts of financial tricks being used today to either overstate revenue or minimise expenditure in their financial reporting?

**GRAHAM SANSOM:** Not personally, but I had a quick look at the Auditor-General's summary report on local government audits for the 2023 year and that report does indicate a number of areas where the financial reporting is not as good as the Auditor-General would like it to be. In fact, one of the reasons why we recommended bringing the Auditor-General into local government audits was because of the findings that you've just mentioned that TCorp made. Previously, every council appointed its own auditor. Some appointed very good auditors, some appointed not so good auditors, and there was a lot of pressure to engage low-cost auditors. So there was a need for more stringency.

The Auditor-General over the last however many years—a decade—has progressively tightened things up on the reporting side. But we still don't know—at least I couldn't find any evidence in the Auditor-General's report or anything else that's come out recently—just how sustainable or unsustainable every council is, which is what TCorp was challenged to do back in 2011-12. A lot of people complained about methodology and said, "You haven't got it right. You've been unfair to us." But, on the whole, we had lengthy discussions with TCorp and a very close look at their methodology. My colleagues on the review, who knew much more about this stuff than I do, were confident that TCorp had got it pretty close to right.

**The CHAIR:** Interesting. In your submission you highlight a revenue problem for New South Wales councils and that they provide ratepayers with "excessive rating exemptions and concessions". I invite you to elaborate more about these concessions and exemptions and what we could do.

**GRAHAM SANSOM:** The councils don't voluntarily provide those.

**The CHAIR:** No, that's true.

**GRAHAM SANSOM:** The legislation requires them to provide them. These are things like pensioner rates, concessions for charities, concessions for religions, concessions for State government agencies, in one famous instance concessions for oyster farmers—there are a few very odd ones in there—and concessions for the SCG et cetera. There's a whole raft of this stuff, and it does mean a lot of revenue foregone. Some of that is justified. It's up to the Parliament and the government of the day to decide whether to put these things in Acts, but there's good evidence that the consequences are quite serious, so it would be great if the Committee suggested that the Parliament and the Government have another look at some of those.

**The Hon. EMMA HURST:** Sorry, I did leave for a moment, so I hope I'm not repeating something. In your submission you talked about the cost shifting, and that's something we've talked a lot about throughout this inquiry. There is obviously this real dispute around State Government responsibility and local government responsibility, and who is expected to pay for certain aspects. Do you think that it needs to be better identified, potentially in something like the Local Government Act, where those clear boundaries lie?

**GRAHAM SANSOM:** That's an issue that all around the world, to my knowledge, keeps coming up. Who does what and can we be more definitive about who should do what? The position adopted in the current Local Government Act is agnostic. We don't really know because we've told the councils that they're to respond to their community's needs. We don't really know what they're going to put their hands up to do, and we don't want to unnecessarily restrict it. I haven't come across anywhere—not that I've been everywhere—where a precise distinction has been made to work, and I'm not sure that it's desirable, in the final analysis, to do it. We're all very conscious of rapid changes in society and the environment we are operating in and so on. Today's definitive distinction could be tomorrow's problem. We just don't know enough.

Others might come up with something much better, but I suggested there could be three tests on cost shifting: Is it something that is appropriately done at the local level? Is it reasonable for the local community's ratepayers to meet part or all of the cost? And, if necessary, are State and Federal governments willing to provide supplementary grant support and make sure that, in the case of rate pegging, the council has access to enough revenues to do the things it needs to do? If those three tests were applied, then I think we could make progress in the endless debate about cost shifting.

**The CHAIR:** We might finish there. Thanks so much, Professor, for giving time to be here today and for all your work in putting together your submission. The Committee secretariat will be in touch if there are any questions on notice.

**(The witness withdrew.)**

**Mr ANDREW CARFIELD**, General Manager, Camden Council, sworn and examined

**Mr PAUL ROFE**, Chief Financial Officer, Camden Council, sworn and examined

**The CHAIR:** Welcome to our next witnesses for this inquiry. Would either of you like to start by making a short opening statement?

**ANDREW CARFIELD:** Sure. Thank you for the opportunity to discuss council's submission. I would also like to commend the Committee's work on this important issue. There are several things about Camden local government area that are particularly noteworthy. Camden is the fastest growing local government in Australia. In the five years that led into the '21 census, Camden's population grew by 49 per cent. The next highest growth rate for a Sydney council over the same five years was the Hills, at 18 per cent. By comparison, New South Wales at the same time grew by just 4.9 per cent. The pace of growth we are experiencing in Camden is unlike anything else in Sydney or New South Wales.

The demographic profile of Camden is also a contrast to other parts of Sydney. Camden has a young and rapidly diversifying community. The median age of a Camden resident is just 33, and there are more nought- to four-year-olds than any other age cohort. Today Camden's community has a population of approximately 135,000 residents. Over the next 10 to 15 years our community will again double in size to more than 250,000. We are committed to delivering not just housing but also the infrastructure that's required to support our growing community.

I have to highlight that the common planning assumptions being used to estimate future growth by all State government agencies are significantly underestimating the pace of growth in our local government area. This is leading to some unacceptable delays and poor outcomes in the delivery of essential infrastructure, including water and sewer, schools, and public transport. Just to illustrate this point, when the first primary school opened in Oran Park, it opened with 21 kindergarten classes. The second primary school that opened in Oran Park, which opened in 2021—the Barramurra Public School—has only been open for some three years and today its playgrounds are already being covered by demountable classrooms.[5] We now have temporary primary and high schools in Gregory Hills. The land to deliver the new permanent high school in Gregory Hills is only going through the process of being acquired by School Infrastructure NSW. That land is being acquired in a commercial precinct—we would say at a premium price.

In our growing communities of Oran Park and Leppington—our future growth areas—we are committed to delivering housing, jobs, local services and high-quality urban precincts. Managing the delivery of local infrastructure to support our growth represents the biggest financial challenge for our council. We'd welcome the opportunity to further discuss our recommendations for changes to development contributions planning that would support greenfield development, as well as our recommendations relating to the rate peg. Thank you for the opportunity to provide evidence. We'd welcome the Committee's questions.

**The CHAIR:** Thank you for appearing today. You talked a bit at the start about the population of Camden. Obviously you are a massive growth council, which we've heard from you has doubled over the past decade. We often hear that the rapid population growth inhibits financial sustainability. Has that been the case for your council?

**ANDREW CARFIELD:** Firstly, I'd just say that we have been through pretty rigorous assessments around our future financial sustainability and we believe that our council is in a sound financial position. We have huge risks, looking forward. If I could talk about population growth and the challenge that presents us today, we have two very different growth fronts. One, for example, in Oran Park is being controlled by a single land owner, Greenfields Development Company. They are delivering, largely, the local infrastructure that's required to support that part of our future community. They are doing it in a coordinated way through a voluntary planning agreement with the council. That agreement is worth some $200 million and is delivering not just roads and parks but also community facilities such as the $65 million leisure centre, which will open later this year, as well as a community centre, library, sporting fields and improvements. That's been a very successful part of our growth story at Camden.

Another quite different growth front exists in Leppington. We've been through a rigorous planning proposal process and we're presently within that process for Leppington. It's ambitious. It's looking at a further 10,500 new dwellings in the Leppington town centre and 11,000 new jobs into the future to accommodate a

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[5] In correspondence to the committee received 24 June 2024, Mr Andrew Carfield, General Manager, Camden Council, provided a clarification to their evidence.

community in that precinct of more than 25,000 residents. Unlike Oran Park, Leppington has fragmented land ownership, so there are several hundred landowners and stakeholders involved in that future development process. As a result of that, council needs to act in some ways as the lead developer by acquiring land that is required to support new, improved roads. At present in Leppington, if you went through there today, you would see rural-type roads with 10-metre road corridors that need to be expanded to much wider roads that will accommodate urban growth as well as new drains and riparian corridors, precincts for sporting fields and playing areas and other infrastructure. Council, as the lead developer, will have the task—which we've already estimated—to acquire some 323 parcels of land at a cost of $1 billion.

Our challenge there is that the funding that we will receive through development contributions occurs after the fact and it will be piecemeal. Without a much more coordinated up-front effort to delivering that local infrastructure, there will be delays, there will be challenges and there will be escalating costs. What we're trying to avoid, looking forward at the Leppington growth, is situations like we've seen with the Oran Park primary schools where we're not able to provide infrastructure in a timely way, but certainly well after the time that it's demanded by our community. A billion dollars of land acquisitions is beyond the capacity of any council to deliver. That's something that we are confronting today, and we certainly have some ideas and recommendations for change in that space.

**The CHAIR:** I'd invite you to make those. Obviously there's some that are alluded to in your report, but any experience that you've had from that, particularly if there is a role that State government can play in avoiding some of that.

**ANDREW CARFIELD:** We think that the State could have a much more significant role to the rollout of infrastructure demands in, for example, the Leppington precinct. Landcom, as an agency, were involved early in the delivery of Oran Park. They're no longer involved in the Oran Park development. An agency, such as a Landcom, that could help to undertake the land acquisition process for those 323 parcels of land, could help to streamline the local infrastructure and State infrastructure that is required to support that community, would certainly accelerate the development process. If we are to tackle this piece by piece it will be slow, it will be clumsy and it will have much greater financial risks for our council.

**The Hon. PETER PRIMROSE:** On that point, a section of your submission states:

> **Community facilities (Leisure Centres, Libraries and Community Centres) should be included in the Essential Works List that determines what a contribution plan, reviewed by IPART, can collect for**. It should not be the responsibility of general rate income to provide infrastructure needed by new communities.

Can you expand on that, please?

**ANDREW CARFIELD:** Sure. Through the process of preparing a contributions plan for developers, we have to determine an essential infrastructure list. That essential infrastructure list precludes things like buildings for community facilities. It actually even precludes some improvements for sporting fields. I think we're only able to have grass playing surfaces but not more substantial drainage and other improvements that can help more extensive utilisation of those playing surfaces. We're finding that, even as we acquire new sporting fields, we're having to upgrade them straight away. But, certainly, not being able to collect contributions for things like libraries, leisure centres, community halls and buildings is a significant financial impost onto our community into the future. We were able to secure those kinds of outcomes through a voluntary planning agreement process in Oran Park but, unless we can secure the equivalent arrangement through some other voluntary process, it would be up to council, through grants or other means, to attempt to create those facilities in a community like Leppington.

**Dr AMANDA COHN:** Thanks so much for being here today. We've had a lot of discussion in this inquiry about the particular unique needs of councils. The overview of the demographics that you're dealing with are a really excellent example of that. I'm interested in your written submission. You talked about community facilities not being included in an essential list that determines what a contribution plan review by IPART can collect for. I think most of the community would probably agree with your assertion there that leisure centres, libraries and community centres are essential community infrastructure. Do you have particular examples of that need? What difference, specifically, would it make at Camden if that change was implemented?

**ANDREW CARFIELD:** If the change was implemented, it would mean that we could collect greater contributions from developers, so that we could fund not only the acquisition of land for those purposes but also the land and the buildings. In fact, the buildings that are required, or those additional improvements, are actually a fairly small component of the overall cost: some five per cent. It's like asking for an additional five per cent so that council can not only acquire land but also make improvements on the land, such as building a library or community centre.

**The Hon. PETER PRIMROSE:** In addition to capital, you also mentioned recurrent expenditure. Can you please talk about how you would see changes being made that would allow for that to occur?

**ANDREW CARFIELD:** Our council has been doing a lot in terms of increasing the level of capital expenditure to support our growing community. If you look at our four-year capital program, it's a billion dollars. We're a council serving a community of 135,000 residents. I don't think you would find another council of our size with such a large capital works program. In terms of our operations—and funding our operations—for that expanded set of local infrastructure, we're relying on growth. Our rate peg amount has been set by IPART for the next financial year at 8.2 per cent, which includes a growth factor. IPART have had a growth factor in play now for several years. We have the privilege of being named in the media, often, as having the highest rates increase of any council in the State.

It's a little bit misunderstood in the community. It doesn't necessarily mean we're passing on 8.2 per cent to every resident in terms of their rates increase. But, if we look in the future, how will we be able to afford this infrastructure? It relies on our growth and also our good financial management. We're in a good financial position today. We're projecting our growth realistically. Our growth projections are much higher than the State's equivalent growth projections for our local area. But, with that growth and the growth in our rates revenue, we will be able to afford the infrastructure that we're building.

**The Hon. PETER PRIMROSE:** What about the recurrent expenditure? Can you comment on that? I don't have to tell you that every time you open a leisure centre, swimming pool or whatever, even a playing field, there's always ongoing recurrent expenditure—staff and other on-costs. That will come out of your general rate?

**ANDREW CARFIELD:** Yes, it will. We're opening a new leisure centre later this year. We have a contract in place for the operations of that leisure centre, but you're right: We'll have to operate that leisure centre. We also have to depreciate the building assets and do the maintenance and other work that's involved each year. I'm not sure if Mr Rofe, our CFO, would like to comment further, but our increasing rates revenue as a result of our increase in rateable properties each year, as well as our IPART rate peg with the growth factor—you know, on our next 10-year projections we are in a sound financial position.

**PAUL ROFE:** We've made a very deliberate decision that, from a capital perspective and to building capital, it is to be built effectively from contributions plans or effectively from State Government grants. If they don't arrive, then we effectively won't be proceeding with the capital. That effectively means that general funders are funding the operational side of things, and we ensure those recurrent costs are in our long-term financial plan and they are effectively planned that way. If, over that period of time, or over that 10-year time frame—and we are effectively moving to a 20-year time frame on the basis that we have so much growth—it may require a special rate variation in the future. But over the next 10 years, with the growth factor included, it's identifying that we are financially sound, providing we keep to those principles that I just spoke of.

**The Hon. SCOTT FARLOW:** Apologies that I was out for a moment, so this may have been asked already. In terms of Camden's particular unique scenario—and being a growth council and, as you put it in your submission, forward-funding infrastructure, and how that facility is assisted by the State Government, effectively—is there any assistance for you in being able to forward-fund that infrastructure such as low-cost loans and the like? Is there something that you believe the State Government should be doing to enable you to deliver more housing and forward-fund that infrastructure?

**ANDREW CARFIELD:** Yes. Again, we feel there needs to be a different mechanism so that we can forward-fund the acquisition of land in a new growth precinct like Leppington. With the fragmented land ownership there, it makes it very difficult to acquire all the different parcels of land we need. If that's deferred in the future, the costs will increase. In many ways, as the land is rezoned and starts to be developed, it becomes more valuable and the task gets more and more challenging for our council to acquire the lands we need to expand roads and drains and create playing fields. We think that there needs to be a stronger mechanism to do that upfront acquisition, whether that's through interest-free loans or whether that's through a State agency intervention like a Landcom sharing the cost and the risk associated with that growth in the future. But I think the task for our council—the billion dollars of land acquisitions—before we can receive any income from the development is too great.

**The Hon. EMMA HURST:** My question goes to a practical example relating to our inquiry into the pound system. I'm aware that Camden is one of quite a few councils that don't actually have a functioning pound. They have got a temporary set-up—I believe that's now happening through a vet practice. That has been happening for some years. This morning we heard about a cost-shifting example from another council to do with companion animals. We heard this the other day as well. More people have companion animals, which means that there are more companion animals being lost and dumped, and there is a significant cost increase on councils to run that service. Just on that real, practical level, from your perspective, what needs to change and what needs to happen to ensure that councils can actually run a proper pound or rehoming service, but can also afford to pay for the essential services that the community needs? We have heard a lot today about how councils prioritise the small amount of money that they have got. How do we deal with that when it's not meeting community expectations?

**ANDREW CARFIELD:** Some good news—while we are operating today out of that small facility in Rossmore, we do have plans now to build a new companion animal facility which will be in Smeaton Grange. We received State grants through the WestInvest program to do two things: to build a companion animal or pound facility, as well as a nursery. We are combining the two into one building. We will have a community nursery and pound together. The costs of our management of companion animals are increasing. If I talk to anyone in our industry, they have a similar view that the costs are really quite significant in terms of our rangers, the responsibilities we have, the rehoming of animals, the impact of COVID and the implications of households no longer being able to keep their animals is real.

I'm aware that in Queensland there is a different model, where there is an annual fee for animal registration. In New South Wales it's a once-off fee. The fees that we receive for animal registration would go nowhere near the cost of delivering that service. Unless we are to go back into general revenue for rates, which is competing against other service areas, we are not going to go near the actual costs of the needs of that service. The needs are growing, certainly in a community like ours. With new homes and new residents, we also have new companion animals.

**The Hon. EMMA HURST:** What are some of the solutions? What should we be recommending from this inquiry to deal with that?

**ANDREW CARFIELD:** I think the first part of our challenge in providing a permanent and suitable home and place for companion animals has been resolved through the grants that we have received. We will commence construction on that new facility very soon and it will be a great facility for our community. Our bigger problem is the recurrent operating costs. I don't think that can adequately be resolved without revisiting the registration income or other income streams that could help support that service. Without that, I think you may find that there will be variable service provided by different councils. Our council takes its responsibilities in this space very seriously. We care for our animals. We are a no-kill or very low-kill type of facility when we impound our companion animals. But I think you'll find a lot of variability across our industry, given the very limited revenue streams that are available.

**The Hon. EMMA HURST:** I've lost my train of thought. I might come back to you. I had a follow-up question, but I've lost it. I will come back.

**The CHAIR:** I wanted to ask a further question around your references to the community facilities that you were talking about earlier which aren't in that essential works list. I know you mentioned the one at Oran Park that you are co-constructing. It's a $63 million leisure facility, is that correct?

**ANDREW CARFIELD:** Yes.

**The CHAIR:** You are co-constructing with the developer. Will the developer help to fund the ongoing costs of that facility?

**ANDREW CARFIELD:** No.

**The CHAIR:** Should they?

**ANDREW CARFIELD:** The developer has provided the funds—the $63 million cost of the new facility—to build the asset. However, its operations and its depreciation and those costs are passed on to council. The way that we will need to pay for those ongoing operating costs is through increased rating revenue from more properties that are subdivided and more rateable properties. We think that that can work in our circumstance. We certainly think that facility is necessary. We would not have been able to build it as early in the development cycle without that funding coming online. Had we not been able to reach the agreement that we did through that voluntary planning agreement with this developer, it would have meant that we would have been limited to just acquiring land and then searching for grants and other opportunities to build a new facility.

**The CHAIR:** Are there specific measures that are put in place by your council to uphold the quality of services in the face of the significant change that you are going through?

**ANDREW CARFIELD:** Yes. Our chief financial officer may have views on this too. I would say that we set our standards quite high in Camden. We are a proud community. We deliver quality services to our residents. We had a random survey of residents, which we undertook late last year. It showed us that our residents are very satisfied with the services we deliver for them. I think each community has to have a say in the standard of service that they expect. Again, it's probably not a one-size-fits-all in terms of a service standard and the cost associated with those services for every council. Certainly, our work through our integrated planning and reporting and our work in understanding the community's needs today and in the future is to try to help us understand those service levels and what's the most important to our community.

**PAUL ROFE:** I'd just like to say that obviously we do a lot of planning around those operational costs as to when they are coming online and how we are effectively funding those. Also, part of the integrated planning and reporting process is that we effectively have, obviously, in place a resourcing strategy which identifies our asset management plans and policies, and all those things have been consulted with the community, which sets the standard which links back into the long-term financial plan which tells us how much it's going to cost to maintain it and keep it.

**The CHAIR:** Wonderful. It sounds like you're using the IP&R framework in quite a robust way.

**PAUL ROFE:** Absolutely, yes.

**The CHAIR:** We heard earlier about the fact that some may or may not be using that quite so much.

**PAUL ROFE:** I have a bit more faith in my colleagues than that.

**The CHAIR:** Do you think councils regularly get the best possible value for their tenders and infrastructure costs?

**ANDREW CARFIELD:** I might ask our CFO to respond to that one.

**PAUL ROFE:** I'm happy to. We obviously have appropriate procurement processes in place in relation to policies and procedures and how we use those. It's getting harder to get contractors and get people for work these days in relation to, I suppose, cost of living and the way things are. From our perspective, we go through thorough tender processes, which are completely independent and reviewed, and I still think we get value for money. If we, effectively, get to a process where we may only have one tenderer, then we would go back out to the market again. The issue there is that you would expect that the professionals that are viewing those tenders would understand whether they believe they are getting value for money or not, and we have some very experienced people in our organisation around capital projects and things to understand. I suppose the issue for us is that we've got a lot of history in relation to building things and doing things, so we know very well where, effectively, the value for money is.

**The CHAIR:** You mentioned about the staff. Do you have the staff and the skills to perform all the extra work that you are being required to do?

**ANDREW CARFIELD:** I would say, unlike other councils, we're growing in terms of our staff complement each year. Each year we would typically grow by 20 to 30 staff members. We are having to prioritise, "What are the areas of our service under greatest pressure?" But our growth in residents, our growth in rateable properties and our growth in revenue means we are growing as an organisation as well. Rather than going through the exercise of looking for cuts or rationalising staff each year, we are actually focusing on where we grow.

**The CHAIR:** Do we need to ensure that there is a pipeline of skilled workers in Camden to meet that growing need and make sure that workforce can grow fast enough? Is there anything that you are currently doing?

**ANDREW CARFIELD:** Yes. One is being an organisation that people want to work for.

**The CHAIR:** That's a good start.

**ANDREW CARFIELD:** We would like to think we've got a very good culture at Camden council. We seem to compete very well in terms of attracting staff to our organisation. Again, through our employee surveys, we are getting very strong results around our culture as a council. In terms of building the skills and capability in our community, I think there are great opportunities. We have, as I was expressing earlier, a very young community. We've got lots and lots of nought- to four-year-olds and primary school- and secondary school-age children in our community. How we are able to keep the local talent and give them opportunities to work in things such as local government creates real good opportunities for us.

We should be, and we are, partnering with the university of Western Sydney and other institutions to help create the skills that are needed to get local work. While we have a very low unemployment rate in Camden, we have the largest growing jobs deficit in our region. We are the fastest growing council, but we do not have enough local jobs. Council is just one employer locally. But we need to do more in terms of attracting local employment in our space.

**The CHAIR:** Taking into consideration all you've just said, how is the increase in Camden Council's operation impacting your ability to recruit staff? Or is it the case that it isn't?

**ANDREW CARFIELD:** It is creating opportunities. As I said, we're taking on board new staff each year and each quarter. We are looking at opportunities to provide entry-level roles for people who are graduating from high school and also graduates from university. We are looking to create traineeships, apprenticeships and cadetships and those styles of roles that will attract the younger talent within our community. That's very important to us, looking forward, being able to grow local talent. But it's a competitive market. All councils and some other employers are competing for the same individuals. But we'd like to think that we're doing a lot in this space to attract people to really good roles in local government.

**The CHAIR:** Is there a role for apprenticeships, you would say, in that, when you talk about—

**ANDREW CARFIELD:** Yes, and we've got mechanical or whether it's landscaping and a whole range of different spaces that we can offer apprenticeships.

**The Hon. EMMA HURST:** I think I've remembered my question. We're throwing back to pounds; I just had a couple of follow-up questions. You mentioned the companion animal registration fee. That does come to councils. We have heard, on the other day of this inquiry, that that can range from a million dollars to a few dollars, depending on which council it is. I'm just wondering if you had a rough idea of—and I'm happy for you to take it on notice—a percentage of how much it covers, of the costs that it requires to run companion animal services, particularly the pounds and rehoming services. Also, how much of it actually goes directly into that pound service? I know that that money can be used more generally—and whether or not it's 100 per cent going into the pound and it only covers 5 per cent of the cost, for example, if you could give me some kind of idea on that.

**ANDREW CARFIELD:** I can confidently say that we would be subsidising the cost of that service. However, it might be a good thing for us to take that on notice and come back with some information on the actual income that we receive from registrations, and the cost of the services that we have to deliver in that area. We'd be happy to do that.

**The Hon. EMMA HURST:** That'd be really useful. Thank you.

**The CHAIR:** I'll go back to my questions now. In terms of cost recovery, I'd asked our colleagues a similar question today. Council charges, obviously, for a broad range of services—child care, sporting, libraries—that we've mentioned, which are all services that your community would expect. Do you make any money from these?

**ANDREW CARFIELD:** I might ask our CFO to talk about some of the areas where we do derive commercial revenue and maybe explain that as well.

**PAUL ROFE:** Most of the fees and charges that we would charge for things like leisure facilities and those types of things are not on the basis of, effectively, cost recovery. They're more on the basis of considering what others are also charging, in relation to ensuring that the community's not paying so much more elsewhere than in one local government area. There are some that are on the basis of cost recovery. So we obviously work out what it is that it will cost for the year, and then we look at the fees and charges that would be applied. When you go through, effectively, our fees and charges, it identifies separately those that are cost recovery, those that are, effectively, legislative and those that are, effectively, determined by council.

**The CHAIR:** Is there any capacity to invest in assets that might generate a return for council down the line?

**ANDREW CARFIELD:** Yes. We have a couple that are doing very well in that space. We moved our council administration building to Oran Park around 10 to 12 years ago, but we retained the original council building assets—they're in Camden—as well as our administrative functions, in Narellan. Those buildings are now under a commercial lease, and I think the CFO might be able to give us some rough numbers on what revenue streams we derive from those.

**PAUL ROFE:** It's around a million dollars a year.

**The CHAIR:** Great. That's fantastic. Does Camden Council outsource any services and, if so, which ones?

**ANDREW CARFIELD:** A good example would be our leisure and aquatics. We have just been through a tender process for those services. That's delivered by others who are expert in that space and who have a skill set and also very capable staff that can deliver that service. That's one example.

**The CHAIR:** When you talk about the decision to outsource, I am assuming it is because of, as you say, the skills and expertise. Are there any other reasons as to why it has been outsourced?

**ANDREW CARFIELD:** We haven't directly provided those services for a considerable time in our history. It's been outsourced for at least 10 years, but we have recently been through a refresh tender process, which is, again, looking at the competition in the marketplace to get the best outcomes for our community. If we had to grow the skills and the employees to deliver that service, it would take some time to do that.

**The CHAIR:** What role has a cap on council's limitations to collect revenue—effectively, the rate peg—played in the outsourcing of services, if any?

**ANDREW CARFIELD:** I'm not sure it has played a strong role. In terms of the rate peg and in terms of the growth factor that's applied in Camden's context, we are working within our means to make that work in the future. The difficulty we have with the rate peg and the new methodology that's being introduced by IPART is it doesn't reflect the years that we missed out on that income. The growth factor has only been in play for two to three years, but there is no catch-up.

**The CHAIR:** So what does that mean for you?

**ANDREW CARFIELD:** What it means, in our context, is we have been growing rapidly across the last 10 years, and only more recently has a growth factor been applied to our rate peg. So it means that there is still a gap in the funding that we didn't receive earlier than that additional part of the rate peg was introduced. In our context, as a growing council and growing community, if we were to seek a special rate variation from our community to help us finance our growth areas, it would be a very difficult proposition to introduce.

**The CHAIR:** Why do you say that?

**ANDREW CARFIELD:** Because the established parts of our community would feel it's not their responsibility to pay for the growth infrastructure of another part of the community. As our CFO explained earlier, we have taken a view that development contributions and grants should be used to fund the capital costs of new growth areas. The revenue that we will derive in the future from rating stream or from rating revenue will be used to help operate those new facilities and to replace the assets in the future.

**The CHAIR:** I will just talk quickly about the rate pegging. In your submission, you say:

> … the cost-of-living pressures in our communities are real and have to be factored in how and when the community is burdened with the rate increases. This is something that the sector should be able to determine in their own context based on a set of transparent criteria.

Should the rate peg change, in any form, can the State Government ensure that councils will charge rates that the residents are able to pay?

**ANDREW CARFIELD:** Again, Madam Chair, that's quite a complex question. From my perspective—and I'd be interested to know the thoughts of our CFO as well—the risk, if councils are to set their own rates without a rate peg amount, is that some items such as the depreciation and replacement of ageing infrastructure may be deferred in the future. So those costs may be hidden until we have got failing infrastructure across our local government area, and then it's like the next generation are having to pay for the lack of funding that was put towards the maintenance renewal of infrastructure for a significant period of time. There's a risk that if council set their own rates they won't properly estimate the future costs of some of the depreciation and renewal requirements of infrastructure.

**The CHAIR:** Did you have any thoughts?

**PAUL ROFE:** I think where the rate peg is—I don't think there is anything wrong with the rate peg per se. I think the issue is around the process of increasing through special rate variations, the complexity around that, and the time it takes for that to effectively happen. I think councils have adopted strongly the IP&R framework, and I think that there needs to be more autonomy in relation to councils having a say in their future—from my perspective, that a council can make a decision to, say, increase rates a couple of per cent above what, effectively, the IPART decision is, which means that, long-term, they have small increases versus effectively being stuck with a rate peg and in 10 years or 20 years time having to put a 50 per cent or 40 per cent or whatever increase through. That's what hurts people.

I just think there needs to be more work done in understanding how it is that you can effectively say—there could be a tiered system whereby it says, "If you want to do an extra 0 per cent to 5 per cent then you've got to do this and this is the criteria; 5 per cent to 10 per cent, this is the criteria; 10 per cent to 15 per cent, it's a full application to IPART." We have a thing called a capital expenditure review, which goes through what you're required to do in relation to when you construct capital. It has some very specific criteria around what's required. There's no reason why the same type of framework couldn't effectively be applied to the process of the rate peg as to how the autonomy could be introduced to local government.

**The CHAIR:** You talked about the population factor and the fact that there is a lag there, specifically for Camden, of approximately seven years, if you use the example where you've been growing for 10 years. Based on what the growth factor now is, have you done any work to model what it is or how much it is, in fact, that you are behind, if that makes sense?

**ANDREW CARFIELD:** I might ask our CFO if he's able to respond to that.

**PAUL ROFE:** From that perspective, not on the past but effectively, obviously, forward looking as to the growth factor being included as it is—what would be the percentages required to remain financially sustainable. But I suppose, in general, while over the last two years IPART has done some incredible and very good work in refining, effectively, the way the rate peg is done, there's still this catch-up factor, from my perspective, for the whole industry. The issue here is that the base amount of revenue that most councils are receiving is below what it should be. It's okay to continue to add the right rate peg on top of that. But if your base is wrong from the start, you're never going to win; it's never going to happen. You need to correct the base.

**The CHAIR:** How big would that increase need to be?

**PAUL ROFE:** That would be different for every council, to be perfectly honest with you, and it'd have to be a review that IPART would have to do of each council. I think our previous presenter talked about IPART doing financial sustainability reviews.

**The CHAIR:** There was a Treasury Corp—TCorp—review.

**PAUL ROFE:** That's right.

**The CHAIR:** If there was that major adjustment in the short term, how could we be sure we don't end up in this place in another 10 or 20 years, for example?

**PAUL ROFE:** That's a difficult question, on the basis that it really requires sound financial management and ensuring that, effectively—I can't comment for every practitioner at every council because every council is different and every council has different needs.

**The CHAIR:** Did you have anything to add to that, Mr Carfield?

**ANDREW CARFIELD:** No. Again, Madam Chair, as our CFO said, the community needs to have a role as well in terms of what are its priorities and the service levels that it would like us to deliver in our context. It's pretty hard to standardise that across our region or our industry. I think that any application of a rate peg amount just needs to be nuanced enough so that communities can have an influence in that process as well.

**The CHAIR:** I know the baseline increase that you referred to would be different for each council. What would it be for Camden Council? What would that look like for Camden?

**PAUL ROFE:** It's a difficult question to answer, on the basis that we're experiencing so much rapid growth that our projections change all of the time in relation to timing around things. It's a difficult question; we'd have to go back and have a look at the best way to apply it.

**The CHAIR:** Is it something you're happy to take on notice and have a look at?

**PAUL ROFE:** I'm happy to take it on notice, yes.

**ANDREW CARFIELD:** Yes.

**The CHAIR:** Thank you so much for making time to be at this inquiry today. We really appreciate the time that you've taken to give evidence and to make your submission. The Committee secretariat will be in touch if there are any questions on notice. That concludes our hearing for today.

**(The witnesses withdrew.)**

**The Committee adjourned at 13:00.**