9 REPORTS TO COUNCIL

9.1 CHIEF EXECUTIVE OFFICERS REPORT AND SUPPLEMENTARY MATTERS

9.1.1 HOUSE COMMITTEE ON REGIONAL DEVELOPMENT, INFRASTRUCTURE AND TRANSPORT – INQUIRY INTO LOCAL GOVERNMENT SUSTAINABILITY

File Number: -

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RECOMMENDATION

That Council makes a submission to the House of Representatives Standing Committee's on Regional Development, Infrastructure and Transport's inquiry into local government sustainability.

BACKGROUND

The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport has commenced a new inquiry into local government sustainability.

As part of the inquiry the Committee will examine financial sustainability and funding frameworks of local governments, alongside changing infrastructure requirements and service delivery obligations.

The Committee is seeking to understand the challenges faced by local governments in servicing infrastructure requirements across regional, rural, and remote locations.

Workforce shortages across Australia relating to infrastructure and other service areas more broadly, particularly in regional, rural, and remote areas, will also be a focus of the inquiry. The Committee will also inquire into issues relating to skills development and job security, along with labour hire and retention trends and practices to identify barriers and opportunities to support job security and local government service delivery obligations.

Submissions to the inquiry are due by close of business Friday 3 May 2024.

DISCUSSION

Terms of Reference
The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport will inquire into and report on local government matters, with a particular focus on:

A. The financial sustainability and funding of local government
B. The changing infrastructure and service delivery obligations of local government
C. Any structural impediments to security for local government workers and infrastructure and service delivery
D. Trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices.
E. The role of the Australian Government in addressing issues raised in relation to the above
F. Other relevant issues.

Murray River Council's Responses to Terms of Reference:

A. The financial sustainability and funding of local government

(1) Cost shifting.

Successive State and Federal governments over an extended period have reduced, removed, or transferred services, even though communities still required them. This encouraged disaffected and desperate councils to delve into non-core businesses to make up financial shortfalls. Often with mixed success.

Subsidies related to services for aged accommodation, medical, early childcare/education, youth, and community transport – which assist to maintain the social fabric of communities – have become commonplace on council's balance sheets.

Those with a more astute knowledge of local government may suggest that as these are peripheral type services why don't councils simply charge at cost-plus? I put it to the Standing Committee that the State or Federal Government wouldn't have walked away and passed the responsibilities onto councils, by default, if the fees were able to be recovered in the first instance.

Secondly, if there was a dividend to be made private enterprise would already be supplying the service and neither the federal, state, or local government would have (originally) needed to step in. Add the tyranny of distance found in country areas, and even more community pressure is placed on local government to fill the gaps after abandonment by the other two tiers of government.

The NSW Local Government Association recently published a report on cost shifting which tabled the amount at $460 per rate assessment. Providing the aforementioned (non-traditional) services wouldn't be so challenging, if at the onset, local government was given the financial powers to raise revenue to offset the expenses (in a timely manner).

Almost always, the cost is shifted without the provision of ways of increasing the income.

Also, 'silent cost shifting' is occurring additional to this, via legislative changes where Local Government is forced to take on more and more areas of service, which is adding considerable costs to non-recoverable items such as staffing, insurance etc and also the spin-off costs. This is further touched on in the section on small grants.

If State Government is cost shifting to NSW councils, then there is zero justification for them to impose a rate cap.

(2) Federal Assistance Grants (FAGs).

In addition to the reduction of services, which in effect, is cost shifting (now named 'risk shedding' by some executives in federal government bureaucracies), the percentage of the Federal Assistance Grants (FAGs) as a share of federal taxation revenue is now a little over half a percent. (FAGs have declined from one per cent of federal taxation revenue in 1996 to just 0.5 per cent in 2024.) Whilst it doesn't seem significant, it is. Murray River Council's FAG is circa $10.8 million. If the FAG were raised to 1% the extra income would be a further $10.8 M.

(3) Legislative obligations.

The NSW Local Government Act in 1919 was 344 pages long. The Act, as it stands now, is 749 pages long, excluding Schedules. There is a true and genuine cost to comply with twice as many legal requirements. This is a point not often acknowledged by those introducing the never-ending stream of amendments.

What was once the domain of the old ‘Shire Clerk’ (pre-1993 Act) is now far too onerous for a General Manager/CEO alone to keep abreast of and manage. The risk of non-compliance, and any resulting reputational damage or other fallout, is very real. Some larger councils now employ a qualified legal counsel by necessity. (As does Murray River Council.)

There are many other legislative examples of increases in responsibilities (costs) harboured by councils, a few of which are as follows: Crown Lands, Internal Audit & Risk Committee (changes in costs), centralised auditing through the Auditor-Generals office, membership of Joint Organisations (previously Regional Organisations of Councils: free), pensioner rebates etc.

(4) Rate Capping

While NSW had employed a form of rate-pegging between 1901and 1952, which was discontinued due to its ' impracticality', the genesis of the modern method of rate-pegging may be found in the 1976 state election campaign. Under the Local Government (Rating) Further Amendment Bill, an interim type of rate-pegging was re-introduced by the victorious Wran Labor Government in 1977 and further refined into its contemporary form in 1978.

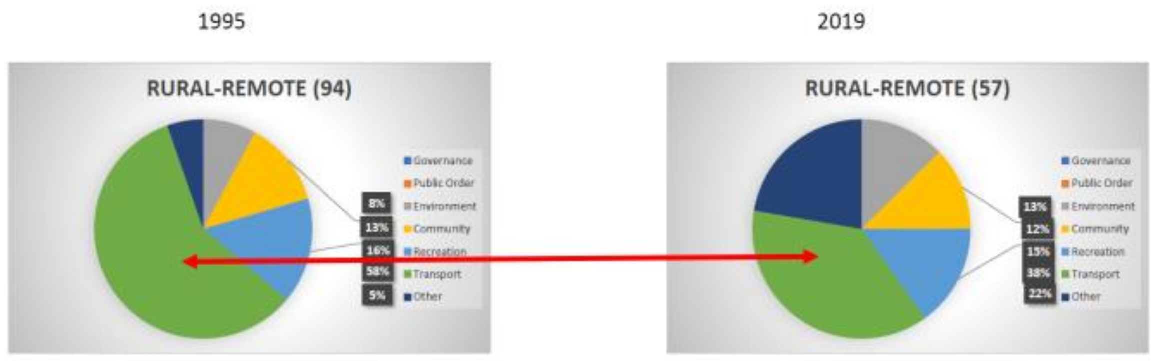
Whilst rate pegging achieved some of what it was initially designed to do, historically except for few occasions, the cap was set below inflation. Moreover, the discrepancy is even larger than it might first appear if one considers a true measure of local government inflation rather than the Consumer Price Index, which is currently erroneously employed (by IPART and as a key component of the LGCI). There is a limit to how often, and by what quantum, government-imposed *efficiency dividends* can fund the difference between the rates cap and increases in councils’ expenditure (caused by inflation and cost-shifting). The limit was reached years ago.

On a macro level, the drive for assets via grant opportunities from State and Federal governments have added to the disparaging disconnect with the rates cap not keeping up with cost shifting, asset depreciation, and in general the overall cost of operation and capital delivery.

This limit is now measured by a rise in the council infrastructure backlogs (unfunded depreciation) and (largely) a reduction in road maintenance!

Subsequently, given the removal of services by other governments (a), the effective halving of FAGs (b), the more onerous compliance and legislative requirements (c), and the gap between rates caps and inflation (d), there is little wonder that rural or remote councils, over the last thirty years, have <u>balanced budgets by reducing their largest expense</u>: <u>transportation (roads)</u>.

The following pie chart indicates this exactly. In 1995 rural or remote councils spent 58% of their budgets on transportation. Yet in 2019 that had reduced to 38%. Murray River Council spends 34% of our budget on transportation.



Yet the amount expended on 'other,' and 'environment,' has risen from 13 to 35% - with 'other' having the biggest increase (5 to 22%).

Council contacted the ex-President of the NSW Institute of Public Works Australasia (IPWEA) who provided council with a startling figure confirming the apparently ubiquitous use of transport budgets to maintain solvency. The NSW Roads and Transport Directorate recently published a report tabling that the annual shortfall on transportation expenditure in the ninety-four (94) regional and outer metro council areas in NSW was $681 million. It can (and has) been argued that councils should use the Special Rates Variation (SRV) provisions to negate continual reduction in their 'biggest bucket' (transportation budget) to balance their ledger.

This may be technically true. But if the system of financial governance weren't so broken, firstly, there wouldn't be a requirement to **spend even more money** to go through the Special Rate Variation process, and secondly, the applications (as a percentage increase in rates) applied for by councils to IPART for wouldn't be so huge a percentage increase.

There have been at least three 'investigations' into local government sustainability in the last thirty years. **But there have been countless scholarly papers written about financial and infrastructure issues within local government (see appendix)**. Council found twenty in a quick Google search, there were many more webcasts, YouTube videos and other media on the subject.

This begs some questions…

Question one. If there have been hundreds of scholarly investigations and well-regarded papers, webcasts, or video clips produced already, with little action by any government, why do another?

Why not just review and combine the points of the top 20 or 30 articles? Technology certainly has changed in the last 31 years (since the '93 LG Act), but the sustainability problem hasn't, nor has the lack of political will and the ability to remain in denial.

Question two. Or is the answer the government is seeking likely to be at odds with what a great many academics and experienced local government practitioners recommended over the last thirty years?

It has become the norm for councils to intricately assess Terms of Reference, and subsequently recommended actions of (especially State) government, as frankly, the level of trust is zero.

Many in local government become despondent and stop listening to speeches by Ministers at events when the words, “collaborative, collegial, cooperative, or partnership,” are used, knowing full well that they are superficial.

And further to this the sheer number of ‘consulting’ attempts by State government that conveniently occur with tight time limits or are combined with multiple requests: not to mention some quite important ones occurring right before holidays, long-weekends or after 4pm on Friday afternoons.

Question three. Is the new study designed to ensure <u>proper</u> consultation with councils?

A non-cynical observer may say that the government wants to consult properly with the industry. That would be fabulous. Recent history (early April 2024) shows that suggestion to be almost laughable, as NSW councils discovered about the new tax on internment (cemeteries) without consultation.

Councils didn’t hear it from the government, we heard about it by reading a press release from the NSW Local Government Association. Less than a month ago, again without any consultation, changes were made regarding waste management, not only without consulting councils, but not speaking to waste industry providers either.

LG Grants Commission Report (1977)

- the property tax is an inadequate source of revenue to meet all the demands to provide services that extend far beyond those relating to property
- increasing trend for communities to look to their councils to provide a range of social, cultural and recreational services that are far in excess of what a rate on land can support
- Government foreshadowed intention to pay rates on certain crown lands
- introduced per capita component to ensure all councils received FAG (min 30%)

Inquiry into the Financial Sustainability of NSW Local Government (2006)

- relationship with higher tiers of government
- huge backlog in infrastructure renewals
- devolved government social and environment agenda
  - no or low $ recompense (cost shifting)
- expectations of higher standards of service, and public assets, that people increasingly demand of their councils
  - retirees moving to coastal and inland regional centres
  - sea- and tree-changers used to city standards
- maintaining existing service commitments, yet manage huge infrastructure bill
- rural councils will only survive with increased grant funding
- constraints on rate income
- restoring public faith in the development control process
- overcoming skills shortages
- greater resource sharing
- tools such as performance benchmarking

In reviewing the table above, it seems obvious that the government of the day **cherry picked the recommendations**. The only two that have been genuinely implemented involved local government doing all the heavy lifting: greater resource sharing evolved into the forcing of councils to join (and pay for) Joint Organisations, and now we benchmark.

In addition to the two-enquiries summarised in the above table, there was the Local Government Boundaries Commission investigation (NSW: circa 2016). This precipitated the amalgamations, which were going to solve everything. The savings never eventuated, as the tyranny of distance wasn’t taken into consideration at worst, or at best, the savings were less than the travel-time-distance-costs incurred over larger footprints.

The QLD experience with amalgamations resulted in the same. (Many in local government, and at least one academic, would say it achieved quite a few objectives of the State governments though.)

In addressing the first dot point provided by *The House of Representatives Standing Committee*, it gets down to basics and remarkably simple mathematics.

A council's income must be adequate to maintain services and also fund asset consumption (in the form of depreciation). Most councils cash position indicates that services aren't their main issue, it's their ability to maintain infrastructure assets that they fail with.

Putting cynical observations, a predicable lack of genuine consultation, previous inaction after investigations, subterfuge, and the disregard of scholarly papers aside, optimists within local government hope the new NSW Government with a new Minister (who is very experienced in councils) will listen – and not cherry-pick findings to suit political agendas. It is also hoped that the Federal Government will also listen to our pleas.

Unless the state government introduces a genuine financial mechanism for incremental, ongoing, and timely maintenance (of the mechanism) which leads to financial sustainability of the industry, the time authors took in responding to the House of Representatives Standing Committee, will be valueless.

B. The changing infrastructure and service delivery obligations of local government

(5) The dilemma of the 'Modern Standard Equivalent (MSE).'

Every time there is an accident that precipitates a change in a code or national standard, or there is a technological breakthrough, or anything that causes obsolescence, whatever the improvement is will inevitably cost more.

Whether it be the BASIX requirement for new buildings (now up to iteration number 5), or the width of new bridges, or specifications for pedestrian and cycle paths etc, not only does the initial cost rise, but the new assets also get added to the register at the higher capital value.

(6) Flawed depreciation model.

The methodology used to calculate depreciation is fundamentally flawed.

General purpose financial statements for both commercial entities and local government councils determine depreciation expenses in accordance and compliance with AASB 116.

AASB 116

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation can be described/explained as follows:

"*Depreciation is a planned, gradual reduction in the recorded value of an asset over its useful life by charging it to expense. Depreciation is applied to fixed assets, which generally experience a loss in their utility over multiple years. The use of depreciation is intended to spread expense recognition over the period of time when a business expects to earn revenue from the use of the asset*."

It is also accepted that in the commercial environment depreciation expenses are integral in determining the profit distribution through dividends, this however is not afforded to councils as there is no taxation offset or benefit.

In view of the above and from a practical perspective there are stark and fundamental differences between the relevance of depreciation expenses in a commercial environment as compared with a local government council.

In a council environment:

- There is no distribution of profits.
- Most Council assets are not intended to generate and/or maximise revenue or create a return on investment.
- Numerous assets are externally funded (partially or fully) through grants and contributions. Note: Assets are added to councils' portfolios, due to growth driven by communities, and election commitments, but no grants provided by State and Federal government for maintaining the asset/depreciation.
- Some councils have brought to account and depreciated assets which they neither own nor control, nor have any financial obligations for asset maintenance or replacement (e.g. Rural Fire Service 'Red Fleet' assets).
- Arguments persist that certain asset categories e.g. roads, do not lose value should maintenance be adequate.
- Assets of councils are subject to rapidly changing demographics, global trends, changes in Community Strategic Plans, legislation, and technology.
- In some cases, council determines that assets will not be replaced at the end of their useful life e.g., community halls due to changing demographics, community expectations etc.

Consequently, it is apparent that depreciation expenses as defined by Australian Accounting Standards and adhered to by commercial entities are not necessarily compatible nor applicable for local government assets.

<u>**This situation was recognised as far back as 1922**</u> when a Committee of Enquiry into Local Government Accounts stated:

"In Local Government Accounts a charge for depreciation means a provision for replacements. What local government bodies are concerned with are the cash and funds available for expenditure, so that unless depreciation written off is actually set aside in a special bank account no advantage is gained by writing it off."

This statement has some relevance today – "*depreciation means a provision for replacement."*

For the reasons enunciated earlier most councils' assets have been externally funded (partially or fully) through grants and contributions (roads/sewerage/water) and council will never be in a position, nor expected, to fully fund these assets when they are fully depreciated.

Additionally, some assets will never be replaced, and the A-G Office is claiming that 'assets' such as Rural Fire Service ('Red Fleet') are required to be depreciated even though councils have neither control nor obligation to fund nor replace. These factors are unique to NSW local government and need to be accounted for as such.

This situation was recognised and addressed by the NSW Local Government Electricity County Councils in the late 1980's when their financial statements (audited by the NSW Audit Office) **effectively only depreciated the equity** that County Councils had contributed to the asset. This was achieved by amortising capital grants and contributions against the annual depreciation expenses.

Based on the NSW Local Government figures for year ended 2019/20 the State average for depreciation expenses as a percentage of Opex was 20.8% with significant variances between regions, particularly between rural and urban councils.

Councils with highest depreciation as a % of Opex

- Liverpool Plains Shire Council 41.2%
- Carrathool Shire Council 36.6%
- Bland Shire Council 36.1%
- Balranald Shire Council 34.3%
- Lockhart Shire Council 34.0%

Councils with lowest depreciation as a % of Opex

- Council of the City of Ryde 8.9%
- Waverley Council 10.82%
- The Municipality of Kiama 11.96%
- Penrith City Council 12.04%
- Inner West Council 12.12%

It is no coincidence that the councils with the highest depreciation percentage to Opex are generally rural councils with extensive rural road networks (sealed and unsealed).

Councils' depreciation expenses are of course made up from a series of different asset classes however in most cases road depreciation is often the largest single component and largely responsible for the considerable variances as illustrated.

Obviously then, one size doesn't fit all, yet no allowance is made for these depreciation variances when important ratios such as the Operating Performance Ratio are prepared.

No figure in local government financial statements is subject to greater uncertainty and variability than roads depreciation which is constantly subject to climate events (excessive rainfall/flooding etc), road transport regulations, grant funding, condition assessments etc. thereby making it potentially a most unreliable and misleading figure.

(It is an expensive exercise to complete an asset valuation on thousands of kilometres of unsealed roads, which only remains accurate until the next significant weather event, which makes the whole process somewhat academic!)

Added to this depreciation scenario is the fact that many other assets of council are subject to vastly different factors than those of a commercial entity.

This then begs the question. Why are all council assets depreciated 100% based on cost or revalued amount when council has not financed (nor expected to have financed) the full cost of the asset?

Is there a better way?

As councils' financial statements are prepared in accordance with Australian Accounting Standards there is no scope for amendments to the depreciation expense as disclosed in the Operating Statement. (Amendments can be made to the Statement of Performance Measures (Notes G5 & H) and in particular the Operating Performance Ratio.)

Councils Operating Performance Ratios have been steadily decreasing over the past few years; with many councils reporting a negative %.

In the fiscal year ended 2020/21 the majority of NSW Councils (67) reported a negative operating performance ratio. This situation must be addressed as it is not truly reflective of performance.

It should be noted that with some exceptions councils' Special Schedules (7) report that most councils assets are rated satisfactory or better and only require continued maintenance work. Based on a limited sample many councils report less than 10% of their assets as requiring renewal.

Given these scenarios, consideration should be given to the following options:

1 Eliminate all depreciation expenses from the calculation of the operating performance ratio: OR,

2 Eliminate roads depreciation expenses and depreciation expenses applicable to asset equity funded from grants and contributions from the calculation of the operating performance ratio.

(7) The Stockholm Syndrome.

The average reliance on grant income, in the category of councils that Murray River Council is defined in, is circa 44%. Due to the inability to match expenses with income, almost all rural councils become dependent on grant income. This is not unique to Murray River Council, nor is this a new thing, it has been occurring for decades.

This dependency, year in, year out, of which a sizeable percentage isn't predicable (with the exception of some Federal grants), means that to survive councils are coerced to succumb to the will of whatever the 'captor' wishes – be it good, bad, or indifferent.

Mostly it's good, at least for those assets that are on the 10-year Financial Plan or sorely needed by communities. This is especially the case with large and expensive upgrades to water filtration or sewerage treatment plants, or the provision of any infrastructure related to rapid population growth.

But preceding elections past governments have circumvented councils and offered *trinkets* and *bags of silver* directed at community groups, sporting clubs, and volunteer associations. All (assets) of which are housed on either crown land or council owned operational land, on which council is the asset custodian (read: responsible for ongoing maintenance and depreciation).

As the government directly approaches these groups, councils have no say in the additional maintenance and depreciation expenses and are readily forced into supporting these applications with due regarding for adding further assets and additional depreciation costs.

Moreover, councils then get the task of delivering the project – under the stringent procurement protocols not usually taken into consideration by the community (applicant) – which often means either a reduction in scope is required, or a cost overrun occurs.

It is also a common occurrence of local government procurement paying above market rate for the delivery of projects, as providers of services know that these projects are unlikely not to proceed due to political fallout. As an election is usually imminent, time constraints inevitably also become an issue. As the grants (inducements) all arrive at the same time (pre-election), in areas where there are few specialist contractors the cost, as can be predicted, naturally rises.

Any council which refuses to supply a letter of support to the community groups' grant application will quickly bring community anger upon themselves.

The government could solve this by referring to the Community Strategic Plans. Meaning that the process and document that all councils are supposed to be following, is used to determine what grants would be assessable in the first instance. As there is a predetermined community mandate (the consultation when the Community Strategic Plan – CSP - was first commenced), the CSP could be used to determine what grants would align and therefore be approved.

(8) Small grants.

To administer a $50,000 project (SCCF - the Stronger Country Communities Fund minimum amount) often costs the same or more in staff time as administration of a $500,000 project. As multiple small value grants, strewn across a large geographical electorate, take up significantly more staff time than a larger value project in one location.

The impact and risk can quickly multiply, as the majority of low-cost projects are overseen by staff at a 'junior officer' level. This is because the charge-out rate for highly remunerated project managers in a council, which may even be external contractors (even more expensive), would quickly consume the 10% project management allowance linked to the small grant.

Secondly, a Project Management Office (PMO) usually has the responsibility of delivering multimillion-dollar projects, which often span more than a year, which are also grant funded, and therefore on their own grant induced timeline.

If the real administration and acquittal costs weren't carried by a council, many smaller projects wouldn't be delivered.

The SCCF grant allowance for project administration was only 10%. Most PMOs in councils have an internal client charge out rate of 15%. But losing 5% wasn't the biggest issue, risk, and expense. Nor is the lack of highly remunerated, and otherwise engaged, professional project managers.

The onerous and costly requirement to effectively duplicate community consultation (already done as part of the Community Strategic Plan in all councils) and further the community development was not recognised as part of SCCF. This was the Black Hole councils were forced into.

These pre-election State Government inducements fly in the face of the Act (1993 NSW), as councils spend an enormous amount of time and money to complete their Community Strategic Plans after each local government election to comply with the Integrated Planning and Reporting (IP&R) requirements of the Act.

Capital expenditure, ongoing maintenance, and depreciation expenses form part of the Integrated Planning & Reporting framework (the Act), in the form of having a 10-Year Financial Plan, 4 Year Delivery Plan and 1 Year Operational Plan.

The arbitrary capital additions (voting inducements) - once per election cycle – begs the question why The Local Government Act (1993 NSW) forces councils to spend so much time and money on astute financial planning, community consultation (during the development of the Community Strategic Plan), reducing planned maintenance, and depreciation management only for the warrant to be stood aside when it's politically convenient!

(9) Grant application complexity.

The time taken to apply for the grants has become <u>much</u> more onerous. As the complexity and amount of information sought must be in concert with the latest guidelines on how to stop *Pork Barrelling* occurring (again).

Most medium sized rural councils now employ, by absolute (financial) necessity, a professional Grants Officer. This was unheard of ten years ago, and only has become commonplace in the last five or so years. The need to employ a Grants Officer, or contract it out, has created a new profession, as each year passes the skills become more finely honed and specific to local government.

Judging by recent experience (April '24), the *Pork Barrelling* continues. This is both predictable and unfortunate, as it's how our whole electoral system tends to work (as identified by the Nobel Laurette James Buchanan).

Each Opposition castigates the previous Government for Pork Barrelling, then changes to grant criteria and assessment inevitably occurs, which drives the increase in sophistication and need for specialist staff.

This in-turn then equates to increases in the cost to apply for grants, and a greater disappointment when reading the rationale as to why the grant application was unsuccessful.

(There is some **irony** though with the increase of sophistication of grant criteria. The challenge to the bureaucrats tasked with writing the *Dear John* letter is also far greater, as it's **much harder for them to produce believable excuses on why a council missed out when the criteria** was so eruditely met.)

(10) Timing of grant notifications.

Every year councils have their budgets on display for 28 days prior to adoption, which usually occurs in May. The budgeting process takes months, usually commencing in November the previous year.

Often, a state government knows they'll be a fiscal impact on councils well in advance (prior to a state government election!) but remain silent on their plans that will financially impact councils until just prior, or sometimes even after, councils have adopted their budget. This sleight of hand is never well received and causes stalwarts to lose trust very quickly.

(11) The cookie cutter approach.

States are as geographically diverse as they are large. The more removed from metro areas, the more bespoke infrastructure development and delivery needs to become based on these simple facts.

Due to capacity and assessment constraints by the grant providers, often it is difficult for bureaucrats and Ministers alike to comprehend local factors. Or even if they do, have the capacity to adjust accordingly.

Worse still, **recently council has observed that the grant criteria have been so focused on 'metro'** that for a regional applicant the level of scrutiny is unrealistic, as are some assumptions that has led the government to think everything is fair and just.

As a rural council it cannot be helped but think that the NSW State Government has found **a new way not to be accused of Pork Barrelling**. By writing the grant criteria, with so much emphasis on the areas that a government wants to spend money in, that the end result will be predetermined. No Pork Barrelling accusations, as the grant criteria was met 100%!

To create economies of scope and scale, a one-size-fits-all grant criteria is usually the standard fare. This makes it extremely difficult for administrators/acquitters of the grants when there are time constraints caused by local circumstances. Or worse, a natural disaster.

(12) Announcement delays.

It is very frustrating for councils to be given a strict grant application due date, or else risk missing funding opportunities, only for the announcement of success to be delayed ensuring alignment with a bad news day (for the government) or linked to an election announcement (usually a photo opportunity).

A delay by the grant provider often doesn't align with the acquittal date being pushed back by a pro-rata amount. This is especially the case pre-elections. This increases cost, as the *time, cost and quality triangle* must be in equilibrium. (To decrease time increases cost or reduces quality – the rule of project delivery.)

Councils then bear the brunt of poor-quality outcomes more often than they should, as there is an election approaching, and no time for council to properly scope the project and time pressures leading to corner-cutting by the contractor.

There is a saying in the Quantity Surveying industry, "Where there is confusion, there is profit." A less than scrupulous contractor, too well knowing the scope is rubbery and council is desperate to meet an unrealistic timeframe (caused by election inducements), uses the gaps in the scope and or contract to apply for extras.

C) Any structural impediments to security for local government workers and infrastructure and service delivery

(13) The first two budget casualties.

Councils that struggle to align budgets, which is every rural council, look at what expenses can be cut in their immediate budget.

- The first casualty of fiscal constraint is <u>succession planning</u>.
- The second casualty is <u>strategic planning</u>.

(The two die from different afflictions though.)

Has anyone in government ever wondered why the supply of specialists within local government is so low, the demand so high - with the consultant fees to match?

What we sow we reap. It takes years to train a Building Surveyor, a Town Planner, a Water Filtration Plant Operator or Water Engineer, a Chief Financial Officer, a Ranger, or an Environmental Health Officer (and many more).

Although some of the skills and experiences are transferable from *private* to *public*, many are not. The guilds have become more local government orientated as the Act (1993 NSW) became more prescriptive.

Up until about the time economic rationalists convinced the world the economy would provide solutions for every demand generated, all tiers of governments were the incubators for almost every trade and guild. That time is <u>long</u> gone.

There was an extended period, in councils and state government departments, where meeting a Trainee, Cadet, or even an Apprentice, was rare. Even in those councils with a large number of staff, the ratio of trainees etc in a workforce, compared to circa the mid-eighties (1985) and prior, was low. As an industry, we're now paying for our financial incapacity to succession plan.

While councils continue surviving *hand-to-mouth*, the capacity to *grow your own* talent will always be a struggle. It's much easier to not employ someone in the first instance versus make someone else redundant. Faced with financial Armageddon, councils inexorably cut 'future' versus the 'current.'

In 2004, Planning Institute Australia brought the issue of lack of Town Planners to a head in their report titled National Inquiry into Planning Education and Employment.

In 2007 there was a plea from our Association, who articulated there was a problem with the number of Town Planners the industry was attracting and retaining.

In 2022 Local Government Workforce Skills and Capability Survey New South Wales Report was prepared for the Australian Local Government Association.

There have been other investigations and reports on workforce shortages.

The root causes of the problems are many. Of the reports council has reviewed little has been articulated regarding one of the main issues – the financial capacity to fund succession. All councils know that because many occupations we employ are so specialised we must develop our own workforce.

It's a shame that the financial asphyxiation applied to local government has now caused our costs to rise and services to reduce. It's **somewhat ironic**, as the reason rates pegging was introduced was to curb council expenditure, not coerce costs to rise!

(14) The death of strategic planning.

The second casualty a council budget sacrifices is strategic planning. This is just as much of an issue as a lack of succession planning. The difference is the industry pays for a lack of succession planning in years to come (which is now).

When human capacity constraints take effect, with things like employment freezes, the Executive (Directors) and Managers inevitably spend more time fighting fires (operational arena) than planning for the future (strategy).

The number one risk facing Murray River Council was caused by the Executive not having the time to work on 'tomorrow's requirements.' In reflection, many councils suffer or suffered the same fate. The risk caused by not spending time and money on strategy is usually related to large and expensive assets with a slow consumption rate or a slow and incremental decrease in production, such as water filtration plants, sewerage treatment works, arterial roads, water supply reservoirs, dam walls, and the biggest Achilles heel of them all: bridges.

D) Trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices.

(15) If you fail to plan, you plan to fail.

There have been many changes in where and who is targeted in attracting staff to regional or rural councils, and how we retain staff, only some of which was caused by COVID.

COVID certainly didn't assist but by <u>no means was the only driver</u>. It did cause people to reassess their life goals, with much being written about 'The Great Resignation' by others.

As well as people changing their views about work-life-balance, often choosing life over work, other forces have been at play. Bernard Salt has cleverly dubbed the exodus to regional areas as 'VESPA's,' being 'Virus Escapees Seeking Provincial Australia.'

To some extent VESPAs initially rang true and helped Murray River Council. We did employ staff looking to escape Melbourne and Sydney, but not as many as industries whose staff could easily work from home (WFH).

In summary:

- The drivers seem to have changed to those seeking to escape from the economic reality of a million-dollar mortgage in a city. But even so, those seeking a tree change are more at the higher end of the remuneration scale than lower or middle. This can be particularly attractive to individuals and families looking to own property or upgrade to a larger home without the excessive costs associated with city living.

- Regional areas often offer a lower cost of living compared to major cities. This isn't just lower housing costs, there are reduced transportation expenses, and more affordable amenities, which may attract individuals looking to stretch their budget further.

- Improved Work-Life Balance: Regional centres often offer a slower pace of life and less congestion compared to cities. This can result in a better work-life balance, with more time available for leisure activities, family, and personal pursuits.

- Employment Opportunities: Some regional centres may have specific job opportunities that are not as readily available in major cities. This could be due to industries that are prominent in certain regions, such as agriculture and tourism in the Murray region, which may offer unique employment prospects.

- Commute Times: Working in Murray River Council means shorter commute times compared to navigating the traffic and congestion typical of major cities. This can result in less stress and a better quality of life for individuals who value proximity to their workplace.

- Community and Lifestyle: Regional centres often offer a strong sense of community and a more relaxed lifestyle, which can be appealing to individuals seeking a closer connection to their neighbours and surroundings. This can include access to nature, recreational activities, and cultural events. When asked, many of Murray River Council's staff say that was one of the reasons they moved here.

- Career Progression: In some cases, individuals may find that career progression opportunities are more accessible in regional centres, particularly if there is less competition for positions or a greater demand for skilled workers in specific industries.

- In small to medium sized rural councils, you're not a 'number.' You don't get lost in a huge organisational hierarchical chart. It's both necessary for the organisation's survival, and fortuitous for staff who wish to extend their resumé, for staff to learn more than a narrow Position Description would describe in a large organisation. For those with the motivation, they can learn skills many times faster and much more broadly than metro councils.

Overall, the decision to leave a city and relocate to a regional centre for work can be influenced by a combination of the above factors, as well as personal preferences and individual circumstances.

- What is a challenge though, is that the staff from metro areas, especially those in large councils or private enterprise, expect the same remuneration when making a tree change.

- The same can be said when our younger staff, who traditionally arrive just after finishing their degree or get funded by council in their degree, who see city counterparts earing 25-40% more than regional councils can offer. As the pool of talent shrinks, there has been a couple of younger staff leave Murray River Council due to being offered much more than their skill set and experience traditionally suggested.

- Overall, the cost for staff for more home-grown and or specialist positions has dramatically increased over the last three years.

- Internal migrations augur large pressures on future financial sustainability. People that move in from the city have tastes and preferences for higher quantity and quality of local government goods and services. This will exert upward pressure on unit costs which is what research has been confirming. In short, internal migrants won't be happy to pay (usually higher levels of rates on a revenue effort basis), for lower quality services (unsealed roads etc etc).

- Lastly, it must be noted that the type of staff that leave one area for a tree change are mostly those earning six-figure incomes. When councils don't have the financial capability to employee trainees, cadets, apprentices due to budget constraints, the cost rises accordingly as it's simply a supply and demand situation.

E) The role of the Australian Government in addressing issues raised in relation to the above

(16) Stacked committees.

To seasoned bureaucrats and politicians alike this submission will appear quite blunt. This was deliberate, as past attempts have been less than successful.

It's sad to read so many reports from inquiries and scholarly articles written over the last thirty years (30), watch videos or listen to podcasts, and then reflect on the number of people who attended National and State Conventions (local government) only to conclude councils aren't any better off than when I received my first executive role in 1996.

History and past actions have shown our industry, over many different governments of all political persuasions, that local government is almost held in contempt by the other two tiers (especially by the State).

I argue that this is the case because of the huge volume of information and evidence provided by highly respected and qualified people – also of all political ilk – that hasn't been acted upon.

Except for amalgamations (which suited the government of the day), little attention has been made to what everyone knows and has been saying for at least twenty years. Local government hasn't the levers to use to raise enough funds, in a timely manner, to be sustainable.

F) Other relevant issues.

(17) Trust me, I'm from the government.

The number one thing both the Federal, but especially the State (NSW) Government, MUST do is **restore trust** between local and state governments.

Too many times has local government, partly due to not being recognised in the constitution and being powerless, been the recipient of sleights of hand. (It's happened three times to Murray River Council in less than a month.)

Maybe the duplicitousness local government is the recipient of, and the reason many feel councils are held in disdain, is because it gets down to a simple common denominator, driven by the absolute and pure ambition to get voted back in at any cost…

Does the way local government is treated boil down to an '*us, or them*.'

Because councils and councillors are an instrument of the state, based on the twenty (20) points in this paper, the answer must obviously be the latter.

All the scholarly papers, the parliamentary reviews, the networking at conferences, the think-tanks, the effort by influencers, presentations to leaders, meetings with ministers, and time spent by local government councillors and staff, will mean nothing if behaviour and attitude of politicians and senior bureaucrats towards local government remains as it is today.

(18) Real independence

One avenue that may assist to bring faith and trust back would be to set up a panel **completely independent** of the government (read: **not** IPART) populated by respected people beyond reproach, such as retired judges or current scholars (that have strong scholarly records).

This panel would report on the action (or inaction) of the government, including the views of local government if (read: when) there is a lack of consensus between Federal and State with Local Government.

Too many times, based on who holds 'the numbers,' recommendations have been crafted to suit political colours or cherry picked to appeal to popular opinion (and votes).

(19) Sitting on reports.

There have been many investigations and reports that have been suppressed and sat in Ministers' offices because they weren't aligned with the government of the days' previous statements, objectives, or promises. Also, because the truth may have hurt election chances!

Local government hasn't been immune to this charade. (While Gabrielle Upton was the NSW Local Government Minister this occurred, despite many attempts to have the report released.)

A recent example. I have lost count the number of consultants reports that have reported on the **failed integrating and effectiveness** of the **E-Planning Portal**, yet these reports don't see the light of day, as the risk of the sole planning system being brought to its knees during an imminent housing crisis is too high.

There was even a consultant appointed to review the Department Planning & Environment's own actions in implementing changes in fixing the flaws in the Portal from local government which still, to this day have not eventuated in change. Where did this report go?

(Affordable housing and associated ambitious government targets are the rhetoric used for its justification, however the very definition of affordable housing in Australia is illusive via agreement, and so too is the agreed regulations to facilitate it.)

Whilst local governments accept that given the investment the Portal (Circa $146 + million) is here to stay, the cookie cutter approach is alive and well in written form for all to see with this product. Government gossip indicates that the Portal is the test case for monitoring, reporting and service interactions/delivery for all local government business moving forward.

In concluding, somehow, which will be an enormous challenge and possibly a first in our country, there must be a <u>methodology that cannot be interfered with</u> when the report is nearing completion or completed, that ensures it sees daylight (unredacted).

(20) Cherry picking

Lastly, as has been the case with almost every review, even when (read: if) the report is fair (read: not biased), consultative (read: genuine), there has been a propensity for governments to impose on local government the recommendations that fall completely on councils, versus anything the government should address. (Do as I say, not do as I do.)

(21) Conclusion

Local government plays a critically important role that underpins all communities everywhere.

A failure at the grass roots level, which is what has been happening in NSW (at least), for successive Parliaments (over decades) to listen, understand, or act (with sincerity and integrity), has placed local government on its knees.

If ever there was a time to address previous sins it is now.

Appendix

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STRATEGIC IMPLICATIONS

2. Strategic Theme 2: A Place of Progressive Leadership

2.5 - Continue to be a trusted and ethical leader that leads by example - Leadership that is trusted, capable and collaborative.

BUDGETARY IMPLICATIONS

Although there is no extra cost to council, other than staff time to write the submission, if the government listens and acts, there may be positive benefit longer term, not only for Murray River Council, but the wider industry.

It's no secret that Murray River Council, and the vast majority of regional, rural, or remote councils in NSW, are facing extreme fiscal pressures. The levers open to councils are somewhat outdated and have so many caveats attached, that even when enacted (a Special Rates Variation), the financial improvement is likely to be short lived.

The cost shifting and reduction in the Federal Assistance Grants are but only two issues adversely effecting local government sustainability.

Even when, after an expensive and time-consuming process to apply for and enact a Special Rates Variation, the increase in income inevitably is reduced as cost shifting and rates pegging reasserts their forces on a council's budget.

Specialist consultants advised staff that their rule of thumb is that a SRV will last about ten (10) years before a council is back to square one.

POLICY IMPLICATIONS

Nil.

LEGISLATIVE IMPLICATIONS

RISK ANALYSIS

- **What can happen?**

  The risk for council is that the Federal Government cherry pick the findings of the inquiry based on their own political objectives, that the time spent by councils across Australia who made a submission will be wasted.

- **How can it happen?**

  The whole model to finance local government is completely broken, and what responsibilities councils have gained is almost boundless – as both levels of governments abandon regional areas (in particular).

  The solutions may likely be placed in the too hard basket, as have the recommendations of past reviews.

- **What are the consequences of the event happening?**

  The challenges local government face won't disappear. Eventually, with a great deal of predictability, many councils will face a cash-flow issue and either have to drastically cut services or seek high Special Rate Variations (or both).

- **What is the likelihood of the event happening?**

  High, but variable depending on local circumstances.

- **Adequacy of existing controls?**

  If the existing paradigm was OK, both the Federal and State Government's wouldn't be carrying out inquiries into local government financial sustainability at the same time.

- **Treatment options to mitigate the risk?**

  N/A

CONCLUSION

Whilst previous State Governments have used challenges faced by local governments to push their own political agendas, without sincerely addressing the real issues, it is hoped that as this is a Federal inquiry, the Federal Government listens, and uses its influence to deliver positive outcomes.

ATTACHMENTS

Nil