

Submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport's inquiry into local government sustainability



**CENTRAL NSW
JOINT ORGANISATION**

- Bathurst
- Blayney
- Cabonne
- Cowra
- Forbes
- Lachlan
- Lithgow
- Oberon
- Orange
- Parkes
- Weddin

30 May 2024

Enquiries: Ms J Bennett: 0428 690 935

[Make a Submission – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)

House of Representatives Standing Committee on Regional Development, Infrastructure and Transport

To whom it may concern,

Re: Submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport’s inquiry into local government sustainability

Joint Organisations (JO) were proclaimed in May 2018 under the NSW Local Government Act 1993. The Central NSW Joint Organisation (CNSWJO) represents over 177,000 people covering an area of more than 51,000sq kms comprising the eleven Local Government Areas of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Lithgow, Oberon, Orange, Parkes and Weddin.

Tasked with intergovernmental cooperation, leadership and prioritisation, JOs have consulted with their stakeholders to identify key strategic regional priorities. The CNSWJO Strategic Plan can be found here: [Strategic Plan & Regional Priorities - Central Joint Organisation \(nsw.gov.au\)](https://www.cnswjoo.org.au/strategic-plan)

Thank you for the opportunity to provide feedback on the inquiry into local government sustainability from the House Standing Committee on Regional Development, Infrastructure and Transport.

CNSWJO understands that 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:

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

The financial sustainability and funding of local government

In the first instance, it is suggested that there be an agreed definition of financial sustainability for local government. An example of a potential definition is;

“A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.”¹

In NSW Councils are administered under the Local Government Act and are rate capped. Under the Local Government Act Councils must use the Integrate Planning and Reporting Framework (IP&R) based on ISO 55,000.

Costs to councils in NSW are growing well above the rate cap and include:

- Costs of road building including quarrying, bitumen and fuel;
- the Emergency Service Levy;
- Costs of audit risk and improvement including the Auditor General;
- Costs of electricity including the AER determination for street lighting;
- The Local Government Award;
- The costs of local government elections;
- A review of the costs imposed by the NSW government through cost shifting;
- The costs of COVID-19; and
- The costs of disasters.

Cost shifting is a significant impediment to financial sustainability. IP&R guidelines require councils to produce 10 year long term financial plans. Unplanned financial shocks, such as cost shifting, impact council’s ability to adequately plan for the future.

Cost shifting describes the situation where the responsibility for, or the cost of, providing a certain service, concession, facility or regulatory function is shifted from a higher level of government to Council **without the provision of corresponding funding or an ability to raise revenue** to adequately fund the shifted responsibility. The rates peg is based on lagging indicators and does not take into account cost shifting in the year it occurs. In many cases, cost shifting, is never factored into the rate peg.

In 2023, Local Government NSW estimated cost shifting had reached \$1.36 billion a year. This is estimated to equate to \$460.67 for each NSW ratepayer. Cost shifting reduces the availability of Council funding to provide and maintain essential infrastructure and services, impacts Council’s financial performance, and places additional pressure on its financial sustainability.

Concurrently Federal Assistance Grants have been eroded. While the recently announced budget had some relief regarding roads the overall picture is deteriorating. It is understood that constitutional recognition is on the agenda of this government and this would help with the ongoing funding challenges.²

Then there is the sovereign risk of the withdrawal of significant change to funding streams such as FAGs and Resources for Regions which, when withdrawn, add to the level of income Councils must derive from elsewhere if existing service levels are to remain.

¹ TCORP Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations & Analysis” 2013 found [Eurobodalla Shire Council - Attachment 4 - TCorp Financial Assessment.PDF \(nsw.gov.au\)](https://www.nsw.gov.au/eurobodalla-shire-council-attachment-4-tcorp-financial-assessment.pdf)

² [Constitutional recognition of LG 'on Labor's future agenda' - Australian Local Government Association \(alga.com.au\)](https://www.alga.com.au/constitutional-recognition-of-lg-on-labor-s-future-agenda/)

This region is extremely concerned about the extent to which our communities that experience the shocks of massive industrial change such as decarbonisation. Please find in Figure One a Case Study from the response by CNSWJO to the review of the Energy Framework by what was the Department of Planning Industry and Environment at the time. As it stands, renewable energy generators are enjoying substantial income streams as part of its incentivisation while impacted communities are not being compensated. This is simply not fair and results in communities and their council representatives having to advocate with the resourcing impacts of being in a polity of growing anger.

All of the above suggests that Councils and communities need to be in control of their own financial destiny as much as possible to be able to weather the constant economic shocks of their business-as-usual operating environment.

The changing infrastructure and service delivery obligations of local government

Under IP&R every community in this region has differing needs as identified in their Community Strategic Plans. The more remote the Council the greater likelihood they are offering services as the “provider of last resort.” In this region services include airports, water and sewer, childcare, housing and aged services. Added to this in the substantial and variable impacts of climate change on service level needs through drought and severe weather events.

Further, Councils need income to provide various services as regulated under multiple pieces of legislation. These have corollary costs imposed on them over which councils have no control. Local Government NSW has documented this growing challenge and its costs.³ On top of this is the need to reserve or plan for income for those activities that the State may impose on Local Government, recent examples are Disaster Adaptation Plans that may be called for under the Reconstruction Act and the mandatory Audit Risk and Improvement Framework under the Local Government Act.

A hot topic in this region is the costs of audits where these have increased substantially since being imposed by the NSW Auditor General. The revised costs of audit were not provided to council in time to be incorporated into its LTFP or budget. Council therefore had no ability to plan for this so must consider the services it can provide, in order, to remain financially sustainable. Interestingly, given

Case Study: Compensation for communities impacted by the rewiring of NSW

At the time of writing the NSW Government is giving consideration to a revised energy policy framework. Included in this framework is guidance for voluntary compensation for affected communities. This includes a \$1050 per megawatt hour voluntary benefit sharing arrangement.

Assuming

- A 40% capacity factor for wind renewable energy generation
- The current price for Large Generation Certificate (LGC) is \$46; and
- All LGCs will be realised and they are realised annually as is the case at present.

\$1050 pa equates to just 0.7% of the annual income from only LGCs. The generator then sells its electricity at profit on top of that.

As it stands, renewable energy generation is being significantly incentivised and impacted communities are not being compensated. This is simply not fair.

Figure 1 Case Study: Compensating Communities for the Rewiring of NSW – part of a response to the review of the Energy Framework being undertaken by the NSW Government.

³ [Cost Shifting Summary 2018.pdf \(lgnsw.org.au\)](https://www.lgnsw.org.au/cost-shifting-summary-2018.pdf)

examples such as Central Coast, the extent to which this added level of scrutiny with its corollary costs and time blow-outs is making much of a difference is questionable.

Importantly, the accounting standard for Local Government in NSW (AASB 116) is confusing and not fit for purpose. This region has expressed concerns for depreciation in particular. AASB 116 depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The 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. 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 local government depreciation is not used as a reserve for asset replacements and arguably things like roads do not have a “life,” Roman roads form the road base across Europe. When disasters are added into the equation it increases depreciation’s nonsense value. Given that roads are the biggest asset class with the greatest depreciation members of CNSWJO with significant road assets have particular challenges with depreciation.

NSW Councils are judged by the OLG as financially sustainable, in part, if their operating result is at least balanced. The operating result includes depreciation expense, i.e. Councils must constrain their operating expenditure to include non-cash depreciation expense which is increasing with asset revaluations and is a NSW Government requirement to include non-controlled RFS red fleet assets.

Councils also have to resource their side of state and federal legislation, regulation and assurance. If the state is not adequately resourced to regulate to the extent its bureaucrats aspire to, then it sets

Case Study – Modern Slavery Legislation – how an under resourced State entity drives costs up for Local Government and their suppliers

Everyone supports the idea of fighting modern slavery through better supply chains. How should this be implemented?

As it stands, councils must manage the modern slavery risks of their supply chains including international businesses. Every council, every supply chain. Councils must report their compliance in a Formal Annual Report to the Auditor General, annually online with the Anti-Slavery Commission and as from 1 July, 2024 Online Reporting to the Anti-Slavery Commission for all contracts arising from any high risk procurement with a value of \$150K within 45 days from the date of contract.

Suppliers deemed high risk must be surveyed. Surveys alone are not enough, councils must also demonstrate due diligence and show what they are doing to reduce the risks including following up non respondents and offering them support in lowering their risks. All suppliers must be informed of their ratings. The total list of suppliers for Bathurst Regional Council is approximately 4,000, with over 100 currently rated as high risk. The estimate for the CNSWJO region’s members is 14,600, with a lot of overlap.

Meanwhile the advice on the Federal Attorney General’s website is that though they have a Register for Modern Slavery they do not check the veracity of the advice therein. Checking become councils’ job. The Commissioner suggests that this could include contacting business directly – hopefully councils have staff fluent in the languages of those countries viewed as high risk.

To be compliant there are 14 questions on Modern Slavery in every procurement activity the CNSWJO undertakes. Every supplier responding to Requests for Quotation and Tender must respond to these questions. The Commissioner’s guidance is suggesting these questions should be weighted between 5-10%. This competes with other criteria like safety, capability, quality, environmental, pricing and supporting local providers.

CNSWJO is undertaking this work collaboratively to try and reduce duplication both for suppliers and councils and can report that suppliers are furious.

Figure 2 Case Study: Modern Slavery Legislation

up resource intensive processes for councils to demonstrate their compliance. Water management frameworks are a case in point. Another is Modern Slavery Legislation. Please see the Case Study at Figure 2.

Not appreciating that Local Government is regulated under the Local Government Act, agencies such as the NSW Department of Climate Change, Energy, the Environment and Water (DCCEEW) seek to double regulate under their frameworks such as its Regulatory and Assurance Framework which duplicates the mandatory Integrated Planning and Reporting Framework (IP&R) under the Local Government Act. If NSW Government agencies supported the existing Local Government regulatory framework seeking to embed their aspirations into IP&R they will both get better outcomes and save everyone time, confusion, effort and money.

Then there is the cost of administering the state and federal government funding frameworks. Take for example disaster declarations double auditing where both the NSW and Australian Governments have separate concurrent audit processes councils must respond to while there is still no common sense on betterment.

Finally, Councils resource an inordinate amount of wasted time on processes generated by the other levels of government. Current examples are the more than five years of inputting into draft regional transport plans which are then dumped or five years on regional water strategies. The Transport Plan had several repetitive approaches as staff turned over/Machinery of Government changes occurred at Transport for NSW (TfNSW).

In its first iteration, the transport plan for the region undertook substantial cross agency engagement which had senior bureaucrats from agencies across the region working with senior TfNSW bureaucrats in a two day "Benefits Realisation" workshop. See at Figure 3 the output of this work. This approach to the transport plan was superseded by version two and this work was lost. The region is about to embark on version three as version two was axed with the change of government.

Another salient example is the extent to which these plans developed at the NSW Government level are ever implemented as well as their accountability. It is the CNSWJO Board's view that for plans for a region, such as transport, land use planning and water should have place-based implementation plans with associated governance and transparent accountability frameworks. **These do not exist for any agency that CNSWJO is aware of.** This means that all the resourcing applied by both all levels of government and community ultimately informs internal facing documents or becomes shelfware.

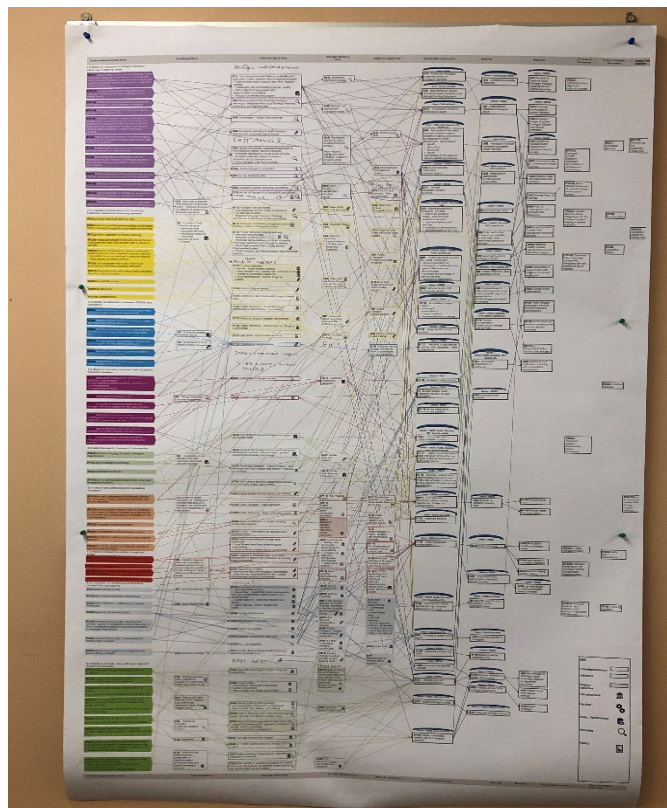


Figure 3 Table cloth sized output of a 2 day workshop of key senior staff in TfNSW and other agencies. The font is 9pt. This approach was ultimately superseded. The work was lost.

All of this builds the case for constitutional recognition.

The funding framework is another area that challenges councils' infrastructure and service delivery. Grant devolve, often from the federal level down through the state to local government. One General Manager in the region described the experience of grant funding as follows:

"I feel like there are a mob of accountants and grant funding managers standing around me and I'm the only bloke with a shovel."

The double auditing of federal disaster funding as it is then administered by the state government is just one example.

The challenges of the current funding framework can be summarised as follows:

- unrealistic timeframes for announcements and programs leading to poorer quality outcomes and reputational damage;
- significantly burdensome administration and application incurring council staff resource;
- significant financial impacts as grants come and go are successful or otherwise;
- programming being driven by funding opportunities rather than community priority;
- challenges with recruitment and retention as staff continuity is driven by ongoing grant acquisition success;
- insufficient allowance for administration and contingency;
- growing community expectation for councils to provide OPEX and/or top up funding for project completion for community owned infrastructure projects;
- poor or no alignment with Community Strategic Plans;
- community expectation that council will apply for those annual opportunities for Youth Week etc for trivial amounts;
- withdrawal of programs leaving legacy community expectations for councils to continue grant funded services; and
- metro focus.

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

In NSW the rate peg is a significant structural impediment. The IPART information paper issued with its 2024-25 rates peg announcement noted that "on average, general income (from rates) represents around one third of NSW councils' combined total income. The impact of fluctuating rates pegs can significantly reduce council's income, in its Long Term Financial Plan. Rates peg percentages have in recent times, decreased when costs are rising steeply.

Our members question whether we have reached a point where the purpose of the rate peg is to strip communities and particularly rural and regional communities, of the services and infrastructure they need. There is no question that the rate peg will force councils to either cut services and the maintenance of core infrastructure such as roads, drainage and public buildings or drive them into debt. There has been some hope with the new methodology IPART has developed however history shows that it will not keep pace with rising costs. The new methodology has improved to a certain extent but still relies on lagged costs and average costs over time. This particularly impacts councils during inflationary periods. Rural and regional councils, with static populations, do not benefit from the population factor.

Rate pegging disempowers communities and their councils and flies in the face of IP&R. Councils and Joint Organisations spend time and effort trying to get a better result from IPART and advocating for financial sustainability.

As councils struggle with their financial positions, staff experience pressure and uncertainty as with income capped, the only solution to manage resourcing pressure is to cut services including staff. Councils across this region report that their staffing structures for this term are not at 100% where vacancies across the region range from 5% to 18%. Staff turnover rates for this term vary across the region, where the median is 16% showing that staff are willing to move on rather than stay in overworked situations. While assisting with sustainability, lower staffing numbers impacts the workloads of other staff. In order to meet the significant costs of legislative compliance, many councils are forced to employ contractors, generally, at a much higher rate, than employees.

In NSW Special Rate Variation processes take up staff time and are not always successfully navigated through council. General Managers are particularly at risk as elected representatives form views on their capacity to deliver financial sustainability. At its most toxic council sustainability becomes fodder of social media with council staff having to experience the stresses associated with online pile-ons. This has knock on effects of broader community confidence with the council, pressure on elected representatives and at council election time. The more toxic the environment the greater likelihood of poor governance and corollary poor fiscal management.

As councils in NSW are financially constrained they seek funding from other levels of government with their corollary administrative burden and lack of job security. Added to this is the constant in flow of “new jobs” that councils must do for example compliance with the Modern Slavery framework.

Then there is the issue of poor succession planning. There is a lack of funds for investing in the future where once newspapers were filled with cadetship roles over Christmas to pick up school leavers. Now councils put on wage freezes as they attempt to navigate the torturous Special Rate Variations to maintain staff with ballooning expectations. Other levels of government have not invested in succession instead the state and federal bureaucracies are typified by at best machinery of government change and at worst churn.

The vocational education sector and education frameworks more broadly is a challenge for CNSWJO member councils. A case in point in this region is the training of councils’ staff in the delivery of compliant, quality and secure water and sewer services. This region has dutifully attended over a decade of consultation on improving training for water utilities staff in NSW. Concurrently, it has done its best to train staff in a very thin trainer market with few or no courses on scope for any Registered Training Organisations in NSW. Navigability is difficult and well outside what the average council HR department could contemplate for a few staff at their local water utility. Arguably, CNSWJO has the highest percentage of trained staff in regional Australia. This has only been able to be achieved through aggregation, persistence, some tears and grit.

The Local Government Award in NSW pays well below State Awards. In this region Councils must also compete with the mining sector. The Rate Peg supposedly takes consideration of the Award so where councils pay a higher amount they effectively go backwards.

Arguably all frameworks, whether they be legislative, regulatory, strategic or funding at the state and federal level make poor use of local government more broadly and regional communities in particular.

Take for example consideration of urban water for regional communities in the Murray Darling Basin.

There is a lack of recognition of the productive value of urban water to the economy at both the local and national level. This has been recognised by both the Productivity Commission and Infrastructure Australia where clearly more work is needed to understand the impact of drought on the resilience of urban communities and the social and economic implications of this.

Regional Water Strategies in NSW, five or more years in the making, are yet to be finalised for the communities of Central NSW. Implementation with associated governance and accountability is still under development. All Regional Water Strategies in NSW make the assumption that no town will run out of water and therefore in their cost benefit analyses do not include the social and economic benefits to NSW and the nation of not having to close down urban based industry and services.

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

With growing challenges in financial sustainability, succession planning for local government in NSW has been well-nigh impossible. Beyond financial constraints other significant challenges particularly for regional NSW include:

- the NSW Local Government Award not being competitive with either State awards or the mining and construction sectors;
- as grant funded positions are not for “business as usual” there is no job security for shorter term contracts of up to three years and staff move on;
- complex roles often requiring a good understanding of some type of legislation at best or requiring certain levels of training/tertiary qualifications at worst see a thin market in regional NSW;
- the training sector not being “regional council” friendly for on-the-job training with staff having to go away from home for training, this is particularly challenging for women with childcare obligations;
- the fragmentation and challenging navigability of the training and educational sector particularly for the more council specific roles, for example in the delivery of quality secure water and town planning; and
- the opacity and poor reputation of council roles – what young person says, “when I grow up, I want to be a health inspector.”

Without staff, councils engage consultancies where they are available, to provide support. This comes at a premium if available at all. At present, members are reporting that they just can’t get enough project managers to deliver the infrastructure task.

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

In the first instance increasing untied Federal Assistance Grants particularly for regional and remote councils would be very helpful where 1% of GST has been suggested by the Australian Local Government Association.

Where previous federal governments have transferred responsibility to local government, for example airports in regional NSW, effort in ensuring funding for them to be fit for purpose should be undertaken.

Then there is an opportunity to have a good look at the administration of the competitive funding sector and examine ways to reduce the resources required for councils to participate.

Some effort in improving the navigability of the training and education sector would be welcomed.

Where possible funding that needs to be local should go directly to councils without the state introducing another level of time and resource wasting step in the process. If there are barriers to this, they should be removed. A particular effort needs to be undertaken in disaster funding.

Other areas this region is keen to work on with the federal government are reducing waste emissions and supporting the roll out of distributed energy.

Finally, supporting Constitutional recognition would be very helpful.

Any other related matters

There is a significant opportunity cost to the Australian people of consistently not doing business better at the local level. The costs are ongoing and endemic and have never been effectively tackled. Concurrently innovations like Joint Organisations in NSW are an enabler the Australian Government could consider leveraging.

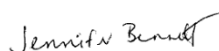
This JO delivers a conservative return on investment of 9.4:1 to its members for every dollar they spend on membership and programs. Working with other Joint Organisations it is identifying opportunities to do business better with the NSW Government. Current collaborations with the NSW government are around one source of truth for data, reducing emissions, water loss management or disaster preparedness are showing an effective and efficient way for NSW Government aspirations to be realised at the local level through a regional lens.

More mature regions with sound own source income have been able to transition into Joint Organisations and manage the regulatory burden. Others are finding it more than challenging and are stepping away from the model, undermining the overall value to the communities of NSW. The federal government could give consideration to providing direct support to regional council collaborations across Australia.

Conclusion

This region hopes the work undertaken in this review will lead to genuine change and commends the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport, and the Parliament of Australia for taking on the challenge. Please contact Ms Jenny Bennett on 0428 690 935 or send an email to jenny.bennett@centraljo.nsw.gov.au

Yours sincerely



Ms Jenny Bennett
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