13.10 Submission to House of Representatives Standing Committee: Inquiry into Financial Sustainability of Local Government

CSP Objective: Outcome 5.2: Governance is transparent and builds trust

CSP Strategy: 5.2.2 Communicate openly and honestly with the community to build a relationship based on transparency, understanding, trust and respect.

Delivery Program: 5.2.2.3 Continue to maintain strong strategic connections to develop and deliver regional and local priorities with Regional Partners and key stakeholders including: Illawarra Shoalhaven Joint Organisation; Illawarra Shoalhaven Local Health District; State Government Agencies; and the Greater Cities Commission

Summary

The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport has adopted an inquiry into local government sustainability and is seeking written submissions.

Financial implication

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 to all local governments.

It’s no secret that Kiama 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 The levers open to councils are somewhat outdated and have many caveats attached. Any increase in income eg a SRV is inevitably reduced as cost shifting and rates pegging reasserts their forces on a council’s budget.

Risk implication

Aside from the financial risks outlined in the submission there is a further risk that the Federal Government cherry picks the findings of the inquiry based on their own political objectives and Council’s time is wasted.

Policy

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

- Other relevant issues.

Consultation (internal)

Special Projects Officer

Chief Operating Officer

Communication/Community engagement

This Federal Government Committee is seeking written submissions by 31 May 2024 from organisations and individuals that provide recommendations relating to any or all of the inquiry's terms of reference.

Attachments

1 Submission to The House of Representatives Standing Committee on Regional Development Infrastructure and Transport Inquiry into ~ May 2024⇩

Enclosures

Nil

RECOMMENDATION

That Council endorse the submission to the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport Inquiry into Financial Sustainability of Local Government.

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.

The whole model to finance local government is broken and the challenges local government face won't disappear. Many councils face a cash-flow issue and will either have to drastically cut services or seek high Special Rate Variations (or both).

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.

KIAMA MUNICIPAL COUNCIL
your council, your community

Phone enquiries:
(02) 4232 0444

Reference:
JG:JH - 24/51532

Kiama Municipal Council Submission

The House of Representatives Standing Committee on Regional Development, Infrastructure and Transport Inquiry into Financial Sustainability of Local Government.

Local government (councils) is the third tier of government in the Australian system of government. Councils are primarily responsible for providing a wide range of critical local area services including planning, libraries, and waste management and for infrastructure provision (e.g. roads and footpaths, parks, sporting grounds and swimming pools) required by the local community.

Kiama Municipal Council (KMC) is appreciative of the Federal Government's enquiry into the Financial Sustainability of Local Government. Council's own financial challenges have been well documented, and the NSW State Government, Audit Office of NSW and local community is well aware and informed of the unique challenge and extreme financial pressure being faced by KMC.

- **The financial sustainability and funding of local government: KMC as a case study**

The pressures on Australian local governments are immense. 2022 for example was a challenging year for Australian councils and communities, with more than 500 disaster support declarations across 316 local government areas. Councils work hard to support our communities through natural disasters such as flooding, bushfires and cyclones but face serious financial challenges which threaten its ongoing sustainability. In this context, it is important to note that local governments collect less than four percent of national taxation.

Local Government nationally have long lobbied the Federal Government through the National Body of Australian Local Government Association (ALGA) to restore Financial Assistance Grants to at least one percent of Commonwealth taxation revenue will enable councils to build and support more resilient communities. ALGA has written countless papers on this issue and informed productivity reviews and advocacy campaigns spanning decades on the subject. ALGA has strong support from local government's nationally to pursue this issue, nonetheless the matter has largely fallen on deaf ears, regardless of the party at the helm Federally.

It is a fact that local councils have custody over a significant portfolio of urban infrastructure and an important role in housing supply. The impact of properly resourcing local governments in this task will have a significant wider impact on the productivity of the Australian economy. Importantly, local governments are also centred on the correction of market failures relating to provision of infrastructure and externalities that arise from land development. By mitigating these gaps, local governments play a persuasive role in underpinning wider economic productivity. Furthermore, local governments tend to step in when services are essential and not being delivered efficiently due to lack of coordinated policy by state/territory or Commonwealth governments. Additionally, successive State and federal Governments over an extended period have reduced, removed or transferred services (cost shifting) from an area resulting in councils being forced to take on more and more service provision at considerable cost without ongoing funding to support these services which are still required by the community. Almost always, the cost is shifted to councils without a provision of ways to increase income. This is detailed further in the submission.

KMC is a prime example of this tendency, as evidenced by its decision some 40 years ago to step into the then local void of residential aged care and highly subsidised retirement village living. Creating an asset and service portfolio of over 200 independent retirement village units, and a purpose built residential aged care service with a 134 bed palliative care beds. Over time however, private sector and church entities and NFP entered the local sector and now directly provide this service. Leaving KMC to compete against market forces, in a highly changed post-Royal Commission aged care marketplace, facing a clear Federal agenda driving consolidation and regulation.

To provide context for this investment in aged care (Blue Haven), KMC is a small regional council located in the Illawarra in New South Wales on the South Coast. Council is small in terms of area, population, and financial capacity and flexibility. In fact, of the Councils outside the Metropolitan area and to the east of the Great Dividing Range, KMC is one of the smallest. Therefore, its ability to find innovative solutions to its unique financial circumstances are extremely limited. Also, it is the only Council east of the Great Dividing Range operating an aged care facility, and in the NSW context is the largest single operator of aged care and retirement village living services in of any local government authority.

Historically the operation of the Blue Haven businesses had not been separately reported as a commercial operation and did not have a separate set of accounts maintained, with all profits, loss and expenditure being recorded in the General ledger. In 2022 Council separated the ledger and created a set of accounts for Blue Haven to establish a true costing of the profit and loss. Council also established a restricted reserve in line with Federal prudential standards and a reserve for deposits associated with the deferred management scheme for the retirement villages.

After an acute period of analysis on the financial circumstances of the Council in December 2021 the Chief Executive Officer (CEO) to the Council, self-reported the Council's financial and governance issues to the Office of Local Government, including:

- An inability to produce 2020/21 annual financial statements.
- A negative trend of increasing liabilities and trading losses.
- Council's Aged Care facility/service (Blue Haven) running at a substantial loss.
- Poor understanding of the loss, efficiency and compliance of the Blue Haven Aged Care facility.
- Concerns whether Council's Auditor would certify Council as a going concern.
- Restricted funds had been illegally applied to general use.

In November 2022 the then Minister for Local Government issued a Performance Improvement Order (PIO) on the Council and appointed a Temporary Advisor under the Local Government Act. The Council was required to address the financial issues it faced including:

- Review Council's compliance with accounting principles.
- Review Council's strategies to improve its immediate financial circumstances.
- Develop strategies to ensure its long-term financial security.

Plus, a range of requirements to improve regulatory compliance, accreditation, prudential / financial matters concerning Blue Haven Aged Care facility.

In December 2023 the new Local Government Minister commissioned a review of Council’s asset sale decisions (of which there were two) and appointed an independent reviewer to advise of the financial circumstance of Kiama Municipal Council. The findings of Mr John Rayner were made public 1 February 2024 and confirm the dire circumstances, legitimate need for aged care divestment and asset sale and recommended a range of tougher budget savings and efficiencies required in a two year window, not the planned 5 to 7 years as stated in the long term financial plan.

This situation primarily arose due to Council's historical decision to investment $58 million into a large, aged care and retirement village site. The capital costs blew out to the value of $107 million, with internal operational funds being used to fund shortfalls and inadequate public reporting to the community, to the Elected body or to relevant State agencies. Likewise, the requirement to repay a $60 million loan for the build had no specific repayment plan developed and a payment term of 5 years.

Many other matters affecting organisational performance and governance were publicly made available in the State of the Organisation document released in 2021 and the subsequent Strategic Improvement Plans created in 2022 and 2023 to correct many issues and provide transparent information to the Council and community on steps to be taken.

Of concern is that no restricted reserve of dedicated funds had been established (since the buildings were built 40 years ago) to support the replacement, renewal and upgrade of the five (5) stages of independent living units and this task remains a priority, even today. The assets are aged and require a condition (dilapidation) report to be made public so that all ratepayers can understand the condition and asset requirements for all five stages.

The 2024 PIO also requires the public to be informed about the subsidisation of independent retirement village living costs per ratepayer so that the community can understand the full set of capital and operational priorities facing council and make collective decisions more strategically about cost saving measures, or asset sales and future development.

There is a concern amongst the Elected body, staff and community members about over investment in aged care services, which are the remit of Federal Government and commensurate consequential underinvestment in civic assets such as swimming pools, sports fields, surf clubs, stormwater, roads, mowing services etc. Each flood event that Council faces, stormwater underinvestment is made ever more apparent and adds significant risk to the community and Council. Increasingly the local sporting community require upgraded and more modern assets that are fit for purpose and encourage female participation.

Likewise, many other community assets that Council owns, or operates are rapidly aging and require significant renewal, upgrades or complete rebuilds. With such limited funds, and extremely limited opportunities for revenue raising Council faces severe budget cuts, reduced levels of services, operational freezes, continued asset sale, request for special rate variations, or potential downsizing of the organisation.

Council has resolved to divest of its aged care services on one site and is currently in negotiations with a preferred tenderer. This process has been challenged by political and union campaigns. These activities have had a real and material impact on the value of asset and service and have caused significant reputational damage to the Council. That situation is a sad reflection of a Council who is trying to make deliberate financial choices, informed by data and who is trying to correct the situation without further State interventions or iin fact loss of democratically elected representatives.

The path to Councils being able to self-determine their own financial sustainability ought to be easier. Local Government must be able to operate independently and be empowered to be financially sustainable, both by the community and the State Government. Service delivery, operational composition, business efficiencies and required divestments must be allowed to be part of running the business responsibly.

Like most councils in NSW, the fundamental issue for KMC is to prepare and produce a balanced or surplus operating result (i.e., excluding capital grants and contributions in the Income Statement). This result influences the Operating Performance Ratio (OPR) that is benchmarked by the NSW Office of Local Government (OLG) at 0%. A negative result is a deficit. A trend of cyclic surplus and deficits are acceptable (e.g. accounting and timing practice induced), provided an 'average' balanced (0%) result endures across the 10-year financial period. A regular and deeper annual deficit becomes structural and requires intervention - usually by a special rate variation (SRV).

Like most councils, the revenue and expense gaps for KMC widen each year, becoming increasingly dependent on the receipt of grants. The following charts illustrate those and other key trends over the past five years.

Chart 1 – KMC Revenue Trends

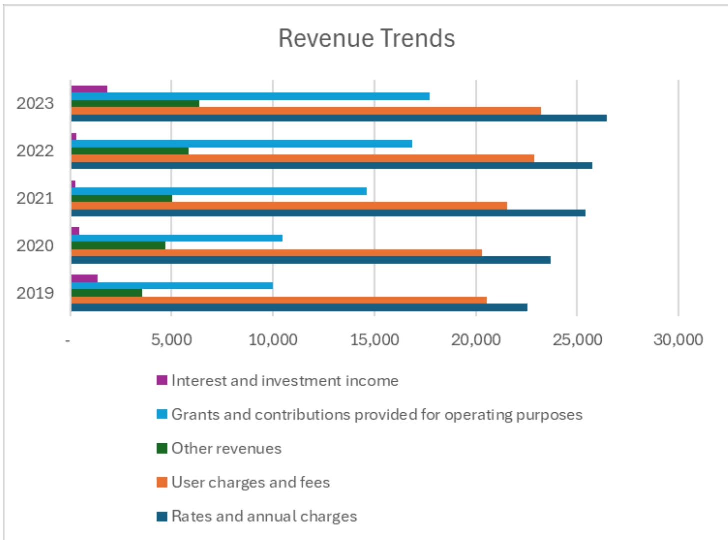


Chart 2 – KMC Expenditure Trends

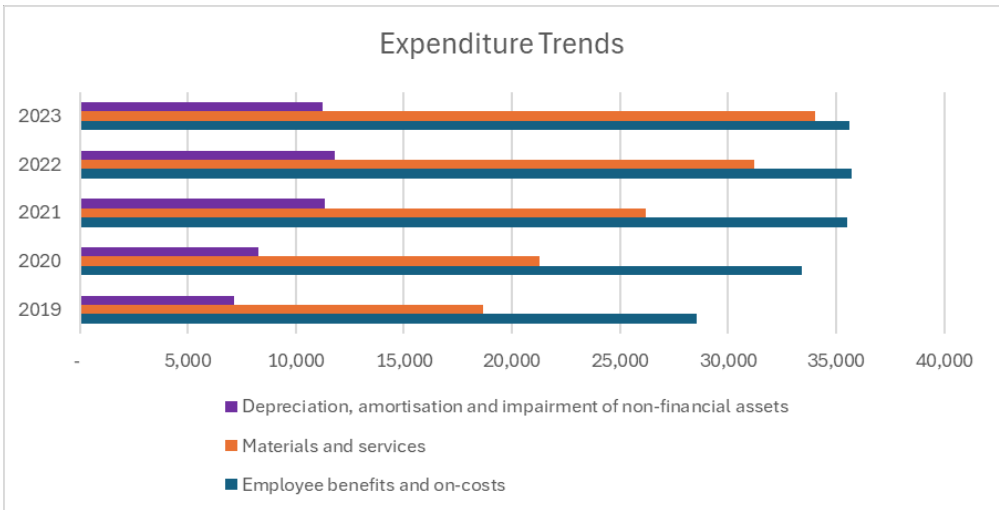


Chart 3 – Revenue vs Expenditure Trends

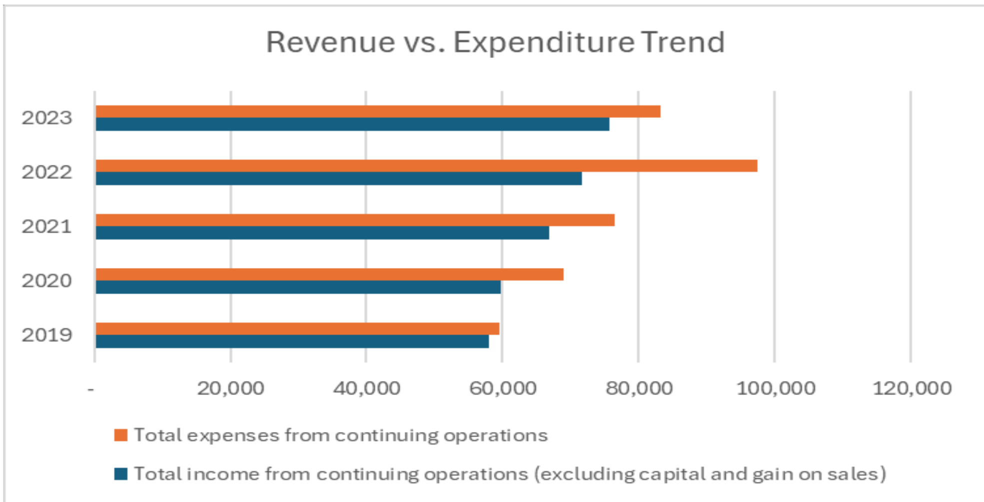
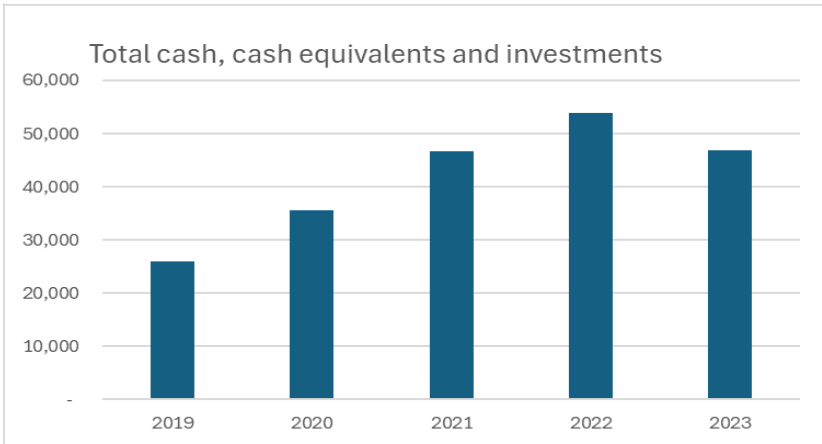


Chart 4 – Total Cash and Investments



The charts above clearly demonstrate that Council's expenses continuously exceed operating revenue (excluding gain on sale, fair value movements and capital grants). It is also noticeable that the unfavourable gap between expenses and revenue increased over the years with the operating performance ratio being significantly below the benchmark over the past 5 years.

The expenditure trends chart also highlights a pattern of materials and services costs increases along with growth in depreciation with no corresponding growth in key revenue categories such as user charges and fees or rates and annual charges. While employment growth is relatively flat there has been an extraordinary escalation in contracts and materials costs (evident also in the development and construction sectors) as the primary driver of growth in expenses.

Whilst Council's total cash position did not deteriorate over the past five years, mainly due to proceeds from sale of assets, the charts above clearly demonstrate that unrestricted cash balance of Council over past five years remains very low. In fact, KMC had negative unrestricted cash balance in 2020/21 and 2021/22 financial years.

The basic indicator of sustainability for a council is to regularly produce a balanced or surplus operating result, indicating resources are available to expend on capital (renewal / upgraded assets). In essence, the annual movement in cash and investments (and subsequent mix of reserves and unrestricted cash) is a reasonable barometer of the financial health of a council. The rigorous process and extensive documentation required to support any request to the State Government (IPART) special rate variation (SRV) application are difficult for a small council to afford and to prepare. Also there is long (lag) waiting time for a decision from IPART and for Council's in acute or dire financial straits such as Kiama, waiting an additional financial year may have meant more risk to going concern status.

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 are not their main issue, it is their ability to maintain infrastructure assets that they fail with.

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 asse 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.

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 Auditor General's 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.

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 roads, which only remains accurate until the next significant weather event, which makes the entire 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.

- **The changing infrastructure and service delivery obligations of local government**

Local government infrastructure assets include local roads, stormwater drainage and community assets such as sporting, arts and cultural facilities, parks and gardens, and public libraries. These public assets contribute to national productivity and are critical for ensuring our cities and regions are great places to live, work and play.

In many local government areas, community and recreation facilities have aged and not kept pace with demographic and population changes and rising community expectations. Replacements to modern standards and provision of additional or alternate facilities are unfunded, often relying on grant funding to be upgraded, replaced, or built. Councils are faced with the real prospect of having to retire community infrastructure that they cannot afford to renew – infrastructure that in many cases is vital to community wellbeing and cohesion.

The estimated replacement cost of these infrastructure assets is in the order of $533bn representing an investment of approximately $21,000 for each of the 25.8 million people in Australia.[2][3]

Maintenance of infrastructure remains a fundamental challenge for the local government sector. Of the three levels of government, local government has the largest relative infrastructure task in terms of asset management and the smallest relative revenue base collecting just over 3% of Australia's total taxation revenue.

Local Governments have responsibilities for funding, planning, constructing, operating, and maintaining the road network in their local areas. The local road network is critical for getting people and products door to door. Most journeys start and end on a local road.

Like most NSW councils, KMC has experienced many factors that have contributed to making a financial position unsustainable and ongoing service delivery and infrastructure provision a challenge.

The impacts of consecutive natural disasters and the COVID pandemic during the last five years have significantly depleted revenue and increased operational costs. Many of the repairs and restoration of damaged infrastructure have been undertaken by contractors and underwritten by Council, resulting in Council awaiting reimbursement for approved works through the respective NSW agencies - and often across financial years (which in turn distorts financial results).

KMC's Jamberoo Mountain Road is a critical local East – West connector, between coastal and highland communities. In the Illawarra when the two other State controlled roads, Macquarie Pass and Moss Vale Road close in heavy rain or fog or as a result of traffic accidents, the regions east west connection cease and rely on only a small local road that is not built to support heavy vehicles. This often results in road failure, landslips and traffic accidents caused by funnelling all traffic down an unsuitable road. During disasters when the road has failed, KMC is only able to use grant funds to build the road back to the same standard instead of bettering or addressing issues. This means the cycle of damage and repair continues. KMC has advocated to the State government to take control over the road, the State has routinely denied this request. This leaves a costly section of local road that actually plays a pivotal east – west connector role continually at risk. Betterment funding is core to resolving this.

In several cases, the infrastructure damaged by natural disasters was restored with funding through Commonwealth and NSW disaster grants, rather than renewed through Council funding at a later date. A reader of KMC financial statements would note several years of above benchmark expenditure on renewals, and an elevation in the condition ratings of several road and bridge assets - largely due to those grants.

However, the grants stimulus prompted by the disasters and pandemic generated several 'after shocks' for KMC and many other local councils - the future costs of operations, maintenance, repair (OMR) and depreciation of new, upgraded or renewed assets funded by grants, was more than often not adequately accounted in future budgets.

A similar picture plays out in local government areas that may have experienced significant population or development growth. Infrastructure and facilities constructed through new developments and 'gifted' to councils, also may not have adequately accounted those OMR costs in budget forecasts, nor raise adequate revenues through subdivision and associated supplementary rates.

Both the above circumstances create market pressure for scarce skills (planning, engineering, finance, environment), contractors and resources (energy, fuel, steel, concrete, bitumen). Local government is fundamentally in the business of development and construction - those costs have grown around three times the rate of the Consumer Price Index (CPI) which in turn has generally been higher than the permitted rate-peg.

Estimates (and timing delays) for infrastructure projects (the subject of competitive grant applications) have often been 'under-cooked' due to the time lag form the grant application being prepared and approved, requiring KMC and other councils to source funding to meet the cost gap, or de-scope the project - or in some cases, even return the grant. In recent years, some councils unfortunately deferred borrowing, and now face higher interest charges to fund those projects.

In addition, many councils reduced or removed development charges, deferred debt recovery, or received lower revenues as business activity quietened during Covid.

If local councils were fortunate enough to hold suitable levels of working capital, they would be able to partly absorb some of these recent "shocks." Unfortunately, KMC saw a rapid decline in its reserves and working capital over recent years due to capital investment in aged care.

Cost shifting through legislation and policy settings of state and federal government forces councils to assume responsibility for infrastructure, services and regulatory functions without providing appropriations or permitting fees to enable cost recovery. LGNSW's latest cost shifting report was released in November 2023, highlighting a total cost shift to councils of

$1.36 billion in 2021/22, which is the equivalent of more than $460 per ratepayer annually. In KMC's case this would equate to approximately $5 million per annum based on its rate base.

When the above is combined with the flatlining of the financial assistance grants below 1% of Commonwealth taxation revenues, this rounds out the general sustainability stressors in the rigorous process and extensive documentation required to support any request to the State Government (IPART) special rate variation (SRV) application are difficult for a small council to afford and to prepare. Also there is long (lag) waiting time for a decision from IPART and for Council's in acute or dire financial straits such as Kiama, waiting an additional financial year may have meant more risk to going concern status.

NSW has the added challenge of rate pegging. Set at CPI, the rate peg for KMC does not cover award increases for staff (4%) or for aged care staff (23%) and is wildly restrictive. Rate pegs also prevent localised levies such as short term rental accommodation, tourist operations, environmental matters, etc. The restrictive definition prevents local governments from tailoring taxation to suit local needs.

Kiama's rate income is approx. $26 mill per annum, so even a 10% increase in rates only yields $2.6 million dollars. With the cost-of-living pressures so high for many in the community even this small increase would cause further challenge local government.

Cost-Shifting remains a core issue affecting Council's. Kiama's own experience in investing in aged care services, the remit of Federal Government is a prime example of this. Other key examples are compliance for Short Term Rental Accommodation where private sector operators have pushed noise and complaints responsibilities down to local authorities without any commensurate ability to apply fee for service or licensing charges. State Government has traditionally used regulatory charges to has shift operational responsibilities onto councils without corresponding funding, training of consideration of operational capability and capacity for delivery. Areas such as the waste levy, emergency services levy, pensioner rebates, and the increased costs associated with burials and cremations are noted. This ongoing dynamic does place a continued financial burden on councils.

Public perception and electoral understanding of which level of government does and should fund and deliver services does not always align. If the Rural Fire Service's Red Fleet is looked at, most in the community would expect Fire Brigades, SES services etc to be delivered and funded by State Government. However the assets of the operations sit of Local Governments balance sheet, and yet the Local Government has no control over their use, replacement, renewal or operations. This creates public campaigns and only adds to misunderstandings over who is responsible for what service. This situation can potentially create negative perceptions among the public and the electoral repercussions for councillors, who are often blamed for financial decisions influenced heavily by state policies.

Federal Funding programs such as the Local Roads and Community Infrastructure Program are important to Council's like KMC have delivered significant benefits to local communities, particularly in the area of community infrastructure. It is many years since council have received this level of funding support for community infrastructure that has been subsequently left to decline and has been in urgent need of renewal. This program has helped councils build and renew libraries, sporting facilities, community and cultural centres that have delivered a substantial uplift in liveability. Ideally, the Local Roads and Community Infrastructure Program would be preserved and would help Council's like KMC continue to replace these important assets.

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

Shared services and regional delivery of operations is an emerging immediate priority for KMC. The financial sustainability of our LGA will depend on our ability to right size the organisation and live within our means. This situation drives KMC towards a need to consider each service offered and contemplate shared service models with neighbouring council's or those Council's involved in the Illawarra Shoalhaven Joint Organisation of Council's (ISJO). Areas such as payroll, rates and governance or where there are single officers employed to deliver these services are at risk and create challenging in terms of managing leave, illness or employee vacancy. Such services may be better considered as a regional or shared service and fees spread across Councils. This type of shared service model may benefit ratepayers.

Likewise considering opportunities to share the cost of regional assets such as swimming pools, airports, regional level sporting facilities, animal management centres, tourism, waste or weed management services is vital to the future of councils like KMC.

Residents of the ISJO region move and transit across LGA boundaries all the time and are often not aware of LGA boundaries. Residents may also hold an expectation of consistent service delivery levels or standards of assets / facilities across LGA's and for a Council Kiama's size there is little hope in aspiring to the standards or range of services and facilities that larger more financial neighbouring Councils can offer.

The risk of duplicating services and infrastructure must also be considered in terms of sustainability and responsible legacy decisions. Not every local authority needs a sport park with a stadium, but every community will want one. Incentivising local governments to work regionally on a shared suite of regional services / facilities would assist in making sure communities have a full range of services and facilities, but do not share the burden of over provision or duplication of infrastructure.

Current awards and individual EBAs of Council's in the ISJO mean that sharing services, or creating regional models of services is challenging and for those Council's whose finances are stronger such work may not be a priority.

The requirement for co-contributions for some Federal Government grants programs can also be problematic for many councils, like KMC. This can lead to adverse and unintended outcomes and an aversion to participating in funding programs due to varying priorities, lack of working capital and available funds. It is often the case that councils in regional and remote areas often the most in need of access to grants programs, but inability to raise the necessary funds to make a co-contribution can often leave the very councils some of these programs are targeted to unable to access the necessary funding. This issue has certainly affected KMC in the past and needs to be addressed. Structural equity in grant applications is important.

The Roads to Recovery distribution model is widely accepted within the local government sector as providing fair and reasonable outcomes. Features of the program that councils have highlighted to ALGA as being particularly positive include:

- Funding certainty over the five-year period, with flexibility to manage delivery within the cycle;
- Ability to align with the local government's 10-year road asset management plans and other strategic plans;
- Enables the implementation of safety improvements for all road users;
- Does not require a laborious grant application process.

Administrative arrangements for Roads to Recovery are streamlined and make reporting relatively straightforward. Roads to Recovery, along with all Federal government funding programs must also be indexed to ensure that the program's value is not diminished in real terms. The lack of indexation in the sub-programs to accommodate for inflationary pressures as an issue that immediately affects KMC.

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

Most councils are equipped with an in-house workforce to deliver roads and infrastructure projects, including in regional locations. Workforce capability and capacity may vary in remote locations. The biggest challenge that councils face in the current climate is the rising cost of materials and market capacity, which is felt uniformly by all councils regardless of geographical location.

Where councils like KMC do not have a sufficient workforce to deliver on projects in-house, they have been able to acquire third party contractors to support project delivery on their behalf. However, as with large scale infrastructure projects in metropolitan areas delivered by governments, the capacity of the labour market is very tight, and this is leading to delays in being able to deliver projects within certain timeframes. More broadly, however, it is well known that councils – and businesses more widely – in regional and rural areas are facing skills shortages that need to be addressed as a matter of critical urgency.

Another area for consideration to support councils where technical skills shortages (for example, access to appropriately qualified engineers), is for the Commonwealth to support councils by providing access to suitably qualified and skilled staff within state agencies who could lend their technical expertise to councils. This approach could also help with the mentoring of new council staff and ensuring the uplift in skills needed so that the regions can once more be self-sufficient.

In LG NSW overall, the median headcount total has increased by 10%, the casual and labour hire continue to account for 12-13% of the overall total headcount. In rural councils, the median number of approved positions and headcount increased by 12-13%.

For KMC, we had a median headcount increase of 15% over the 2022/23 period, the casual and labour hire continue to account for 32% of the overall total headcount (due to the high number of casuals in aged care services, lifeguards and Leisure Centre).

From LG NSW overall, the total turnover rate has now stabilised at 18%. Vacancy rates have also remained stable at 11%.

At the end of 2022/23 KMC had a total turnover of 23.80% which was above the LG rate and vacancy rate of 10.68%. KMC have since stabilised and now sitting at a 18% turnover and 5% vacancy rate which is in line with the overall LG rate. Noting that over 50% of KMC's workforce are in aged care services and this contributes directly to higher turnover.

Local government is unable to compete with higher salary offers from state, federal government, or private enterprise for similar roles and skilled employees. There is difficulty in attracting potential qualified and skilled candidates who perceive KMC as a training ground.

The time to recruit (from start to finish) across all NSW councils including KMC is under cut by private enterprise who can offer in the same day as they interview. This is a particular challenge in our aged care staff.

The LG award rigidity in entitlements poses challenges for KMC to offer competitive packages, and any offerings to potential recruits to compete with other organisations is at cost to KMC.

Offer funding for skilled training programs to allow KMC to establish career path programs for skilled positions (for example – Development Officer positions)

Continue to offer subsidies for Federal government wage increase decisions in areas like aged care where the rise by 23% far exceeds Council's capacity to fund.

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

Local government nationally employs about 194,000 Australians (around 10 percent of the total public sector). It also owns and manages non-financial assets with an estimated written down value of $457 billion (2018/19), raises around 3.4 percent of Australia's total taxation revenue per annum and has an annual operational expenditure of around $39 billion (2018/19), just under 6 percent of total public sector spending.

Nationally, local government derives nearly 90 percent of its revenue from its own sources (including rates and services charges), compared to around 50 percent for state governments. Grants from other levels of government make up just over 10 percent of local government's total revenue, however these grants are particularly important in areas with a low rate base, and/or high growth rate, and rapidly expanding service and infrastructure needs.

Research on the outcomes of rate-capping in NSW has found no evidence to support any claim that it enhances municipal efficiency. It does however place a significant burden on councils when it comes to their ability to raise revenues in line with their communities' increasing demand for services and amenities.

The connection between rate-capping and national funding issues is clear. If state governments institute rate-capping, then the proportion of rates in council revenues will either drop further, leading to a deepening demand on state and Commonwealth grants and other revenues, or councils will have to trim back infrastructure spending and service provision. Unintended consequences include excessive cuts in expenditure on infrastructure leading to mounting asset renewal and maintenance backlogs, as well as the potential shift of the cost to the next generation. Rate-capping also has consequences for productivity and liveability, which cumulatively will impact on the nation's productivity and wellbeing.

The Federal Government can play a direct role in:

- Restoring Federal Assistance Grants
- Eliminating rate pegging in states or varying the process to ensure local governments can tailor taxation/rates to suit local issues/needs and services.
- Limit legislative change that shifts costs onto local governments.
- Fund resilience projects and allow funding programs to have betterment of asset.
- Fund the renewal/maintenance of existing assets rather than new.
- Support regional funding programs for costly community infrastructure eg swimming pools, stadiums etc
- Address the depreciation issue affecting local governments (accounting standards) and eliminate its inclusion in operating performance ratios.
- Eliminate roads depreciation expenses from operating performance ratios.
- Improve upfront funding and timing of grants.
- Align grants to strategic priorities and utilize the RDA's to help with this. Avoid pork barreling.
- Genuinely engage local governments with the Federal Government.

- **Other relevant issues.**

The IPR framework used in NSW is well intentioned but is resource intensive to do it well especially in terms of assisting with budget and then ongoing financial management. IPR is also set on a 10 year timeframe which for a Council in KMC's current state is not adequately adaptive to urgent financial issues. This creates a disconnect between the aspirational and the actual of financial management. This framework differs from to State, likewise not all State use a Special Rate Variation and application process to the State Government. Queensland Council's have greater flexibility to set rates and charges. Many State governments have set caps on infrastructure charging, or development application fees in attempt to keep construction costs low and consistent between LGA's. In affect all this does in localise the shortfall of infrastructure funding to the local authorities.

The recent Rate Peg review is appreciated but it still requires further review. The 2024/25 rate peg suggests a range of Base 4.5% up to 8.2%, reflecting the increases under the new process. Interestingly of 128 Councils, 38% will receive the base 4.5%, 38% will receive between 4.5% to 5%, 15% will receive 5.0% to 5.5%. This reflects only 13% of Councils receiving more than 1% above the base. Inflation, wage increases are not being offset.

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 Local Government Cost Index (LGCI)). There is a limit to how often, and by what quantum, government-imposed *efficiency dividends* can fund the difference between the rate peg and increases in councils' expenditure (caused by inflation and cost-shifting). The limit was reached years ago.

The SRV process is appreciated but rate peg should be sufficient to render the SRV process as only required in desperate situations. Currently SRV is required for standard sustainability requirements. The work required for requesting rate pegs is too extensive and the process needs to be simplified.

Other local and population factors need to be considered. Kiama is a heavy tourist destination and municipal services are required outside normal working hours. This is not addressed by the NSW rate peg. Local demographics and economic characteristics are not considered. Kiama is also an ageing demographic so road, pathway and facilities maintenance is highly required. These should be additional factors impacting variable rate peg adjustments.

Revenue collected from Council assets located on crown land under current legislation are restricted solely for improving the associated assets on the Crown Land rather than broader community projects, limiting the flexibility of Council to manage budgets efficiently and in line with community priorities.

Federal and State Government disaster recovery and grant funding needs to be timelier to alleviate cash flow issues for Councils.

An ongoing issue of concern for local government is the transfer of responsibility for service provision – or being called upon to provide a service when the state or Australian government withdraws. This is more commonly referred to as cost-shifting. The issue was considered serious enough in 2002 to lead to the House of Representatives Standing Committee on Economics, Finance and Public Administration undertaking work to discuss the financial position of local government, as well as the drivers affecting that position. The final report, Rates and Taxes: A Fair Share for Responsible Local Government, was tabled in October 2003.

In April 2006, the Inter-governmental Agreement Establishing Principles Guiding Inter-Governmental Relations on Local Government Matters (IGA) was signed by all levels of government (with ALGA signing on behalf of local government). The principles in the IGA highlighted the need for better communication to ensure that government is more effective, efficient, and transparent. The IGA expired in 2011 and has not been renewed.

The National State of the Assets that ALGA produced in 2018 revealed that $30 billion is required to renew and replace ageing infrastructure. The amount of infrastructure requiring renewal will continue to increase over the next 20 years as structures built during the post-war "Baby boom" and the rapid growth period of the 1960s and '70s age and their condition, capacity and function declines. This infrastructure cliff is fast approaching and requires strategic management and coordination, rather than distribution among political grants / donations.

The Gratten Institute report called on the Federal Government to shift away from funding megaprojects, and instead invest in maintenance. Changing funding programs to reinvest in existing assets would assist Local Governments like KMC who have a very aged asset base and rising renewal costs.