13.9 Submission to Legislative Council: Inquiry into the ability of local governments to fund infrastructure and services

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

This report provides details of Council's submission to the inquiry of the NSW Legislative Council Standing Committee on State Development into the ability of local governments to fund infrastructure and services.

Financial implication

The inquiry is examining the level of income councils require to adequately meet the needs of their communities and to giver consideration to the current levels of service delivery and financial sustainability in local government.

Risk implication

The associated risk is that as councils continue to experience significant financial challenges, the long term sustainability of the sector is threatened.

Policy

Nil.

Consultation (internal)

Chief Financial Officer

Chief Operating Officer

Communication/Community engagement

Members of the community were able to make their own submission through the NSW Parliament website.

Attachments

1 Submission to the NSW Legislative Council Standing Committee on the State Development⇩

Enclosures

Nil

RECOMMENDATION

That Council note the submission lodged by Council on 26 April 2024 to the NSW Legislative Council's Standing Committee on State Development inquiry into the ability of local governments to fund infrastructure and services.

Background

Attached for Councillors' information is a copy of the submission to the Legislative Council's inquiry into the ability of local governments to fund infrastructure and services.

The terms of reference for the inquiry listed the following:

1. the level of income councils require to adequately meet the needs of their communities
2. examine if past rate pegs have matched increases in costs borne by local governments
3. current levels of service delivery and financial sustainability in local government, including the impact of cost shifting on service delivery and financial sustainability, and whether this has changed over time
4. assess the social and economic impacts of the rate peg in New South Wales for ratepayers, councils, and council staff over the last 20 years and compare with other jurisdictions
5. compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff
6. review the operation of the special rate variation process and its effectiveness in providing the level of income Councils require to adequately meet the needs of their communities
7. any other related matters.

KIAMA MUNICIPAL COUNCIL
your council, your community

Submission

April 2024

To the NSW Legislative Council Standing Committee on the State Development Enquiry into the ability of local governments to fund infrastructure and services

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 State Government's enquiry into the ability of Local Government to fund infrastructure and services. 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 at the present time.

Response to Terms of Reference

(a) the level of income councils require to adequately meet the needs of their communities.

Like most councils in NSW, the fundamental issue for Kiama Municipal Council (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

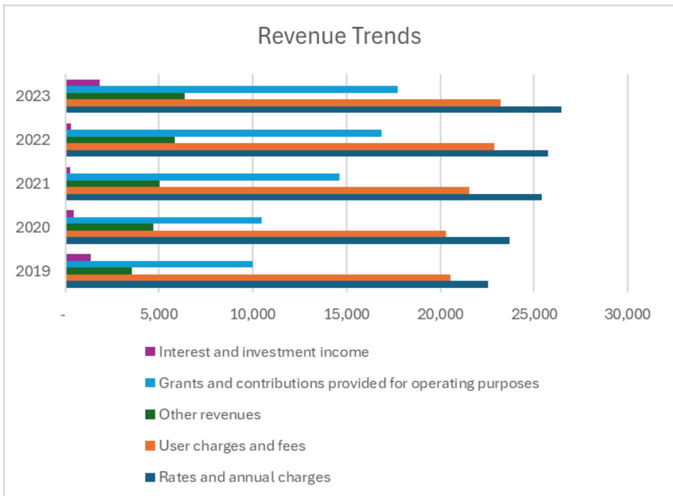


Chart 2 – KMC Expenditure Trends

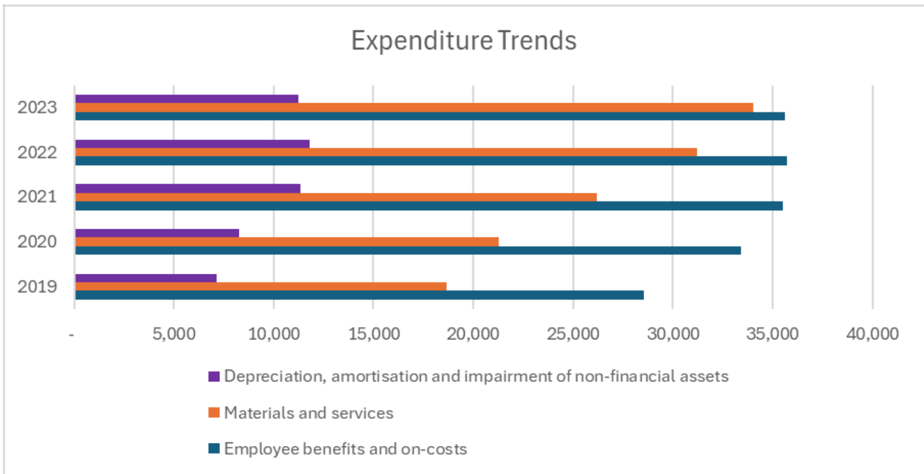


Chart 3 – Revenue vs Expenditure Trends

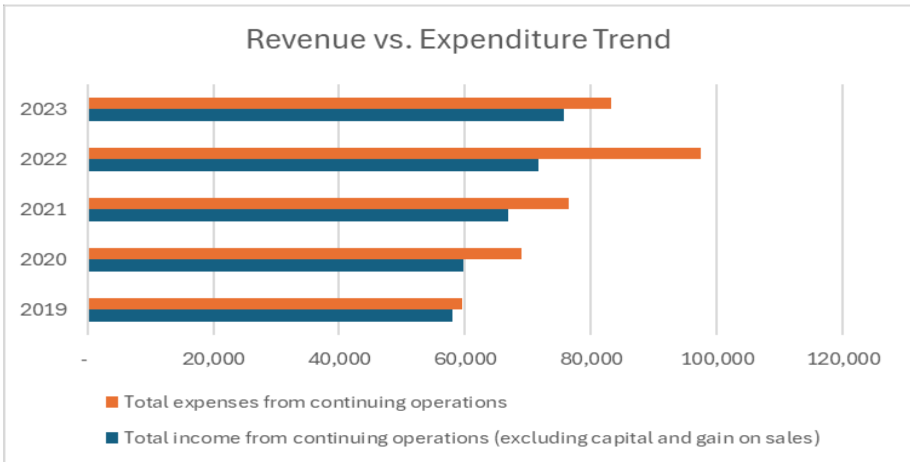
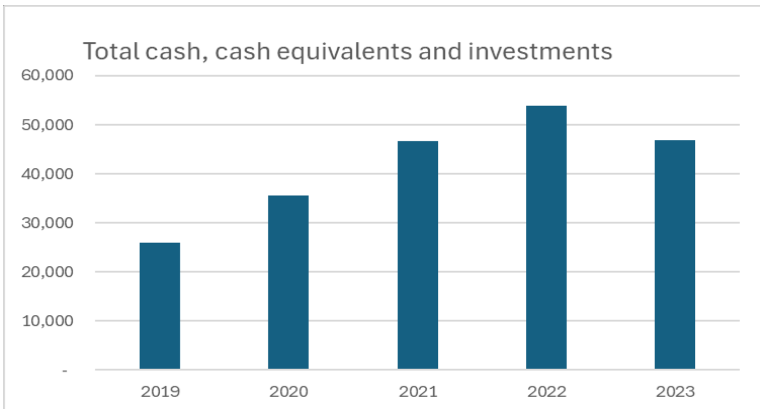


Chart 4 – Total Cash and Investments



Item 13.9

Attachment 1

Chart 5 – KMC Restricted Funds

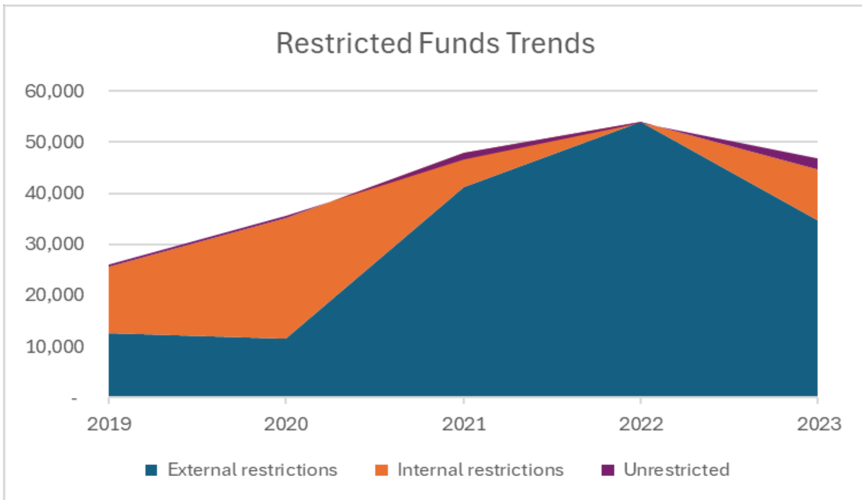


Table 1 – KMC Ratio Trends

	2019	2020	2021	2022	2023	Benchmark
Operating performance ratio	-0.29%	-13.32%	-12.53%	-13.65%	-10.01%	>0%
Own source operating revenue ratio	65.91%	69.29%	72.94%	73.49%	73.15%	>60%
Unrestricted current ratio	1.88	0.16	0.14	0.79	0.64	>1.5
Cash expense cover ratio	8.73	3.78	9.19	8.62	5.15	>3 months
Buildings and infrastructure renewals ratio	114.19%	178.35%	104.71%	43.07%	144.78%	>100%
Infrastructure backlog ratio	1.73%	4.28%	2.45%	2.23%	2.22%	<2%

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 unfavorable 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 chart of expenditure trends 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 KMC's total cash position did not deteriorate over past five years, mainly due to proceeds from sale of assets, charts above clearly demonstrate that unrestricted cash balance of Council over the 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 following table draws on the financial statements of KMC and tracks comparative annual results, using data from the Cashflow Statement and other Notes.

Table 2 - Statement of Cash Flows - Trends

Statement of Cash Flows	2019	2020	2021	2022	2023
Cash flows from operating activities					
Receipts:					
Rates and annual charges	22,507	23,976	25,199	25,994	26,358
User charges and fees	20,344	22,510	21,842	23,084	25,862
Investment and interest revenue received	1,410	472	510	115	1,047
Grants and contributions	24,859	21,290	19,894	22,118	23,915
Bonds, deposits and retention amounts received	-	16	27	200	69
Other	4,603	4,571	3,086	3,398	2,073
Payments:					
Employee benefits and on-costs	- 28,149	- 31,901	- 35,966	- 34,977	- 37,124
Materials and services	- 14,758	- 26,360	- 25,900	- 34,701	- 38,284
Borrowing costs	- 154	- 160	- 1,665	- 1,615	- 1,838
Bonds, deposits and retention amounts refunded	- 253				
Other	- 3,385	- 4,576	5,523	- 800	- 883
Net cash flows from operating activities	**27,024**	**9,838**	**12,550**	**2,816**	**1,195**
Cash flows from investing activities					
Receipts:					
Sale of investment securities	23,357	50,000	-		
Sale of real estate assets	-	-	-		
Sale of infrastructure, property, plant and equipment	455	864	588	925	28,408
Payments:					
Purchase of investment securities	- 17,843	- 44,500	- 65	- 13	
Acquisition of term deposits		-	- 19,154	- 7,346	34,750
Purchase of investment property	- 4	-	- 8		
Purchase of infrastructure, property, plant and equipn	- 84,072	- 43,659	- 13,051	- 9,810	- 11,772
Contributions paid to joint ventures and associates		-	59		
Net cash flows from investing activities	**- 78,107**	**- 37,295**	**- 31,631**	**- 16,244**	**51,386**
Cash flows from financing activities					
Receipts:					
Proceeds from borrowings	60,000	9,000	-		
Proceeds from Retirement Village (loan licence agreements)		30,417	22,086	14,530	6,176
Payments:					
Repayment of borrowings	- 893	- 15,986	- 1,395	- 1,219	- 30,923
Principal component of lease payments		- 169	- 127	- 88	
Net cash flows from financing activities	**59,107**	**23,262**	**20,564**	**13,223**	**- 24,747**
Net change in cash and cash equivalents	**8,024**	**- 4,195**	**1,483**	- 205	27,834
Cash and cash equivalents at beginning of year	10,117	18,141	13,946	15,429	15,224
Cash and cash equivalents at end of year	18,141	13,946	15,429	15,224	43,058
plus: Investments on hand at end of year	**17,510**	**12,009**	**31,228**	**38,587**	**3,837**
Total cash, cash equivalents and investments	**35,651**	**25,955**	**46,657**	**53,811**	**46,895**

The above cash flows table indicates significant growth in revenues raised and expenses incurred over the past five years notably, the net cash inflow from operating activities has deteriorated over the past 5 years with the growth in expenses exceeding growth in revenue. The table above also demonstrates that KMC has to reduce its capital expenses in order to maintain its cash balance. A reliance on sale of assets to offset a shortfall of funds from operating activities available for loan repayments and capital works can also be noted in the table above.

It is a fact that local councils have custody over a significant portfolio of urban infrastructure and its role in housing supply, and the impact of properly resourcing local governments in this task will have 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 historically step in when services are essential and not being delivered efficiently due to lack of coordinated policy by state/territory or Commonwealth governments or by private market forces.

Kiama Municipal Council is a prime example of this tendency, as evidenced by its decision some 40 years ago to step into the then void of residential aged care and highly subsidised retirement village living. This saw KMC 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.

To provide context for this investment in aged care, Kiama Municipal Council is a small regional council located in the Illawarra in New South Wales on the South Coast. KMC is small in terms of area, population, and financial capacity and flexibility. In fact, of the councils outside of the Metropolitan area and to the east of the Great Dividing Range, Kiama Municipal Council 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 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 KMC separated the ledger and created a set of accounts for Blue Haven to establish a true costing of the profit and loss.

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 ultimately resulting in a State issued Performance Improvement Order. 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 on 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.

There is a concern about over investment in aged care services and commensurate consequential underinvestment in civic assets such as swimming pools, sports fields, surf clubs, stormwater, roads, mowing services etc. Each flood event that KMC 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. As noted in the charts and financial analysis above KMC’s ability to meet the needs to existing and future community through existing budgets falls short of community expectations and need.

Likewise, many other community assets that KMC 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 KMC faces severe budget cuts, reduced levels of services, operational reductions, continued asset sale, request for special rate variations, or potential downsizing of the organisation.

(b) examine if past rate pegs have matched increases in costs borne by local governments

In the main, the rate peg increase set annually by IPART, previously the NSW State Government, has been less than the annual CPI increases as recorded by the Australian Bureau of Statistics. It also should be acknowledged that the increases to the renewal, maintenance and operations of council infrastructure and services are often substantially more than the CPI index.

For the majority of regional / rural councils in NSW, often the next single largest revenue stream after rates revenue is the Financial Assistance Grants (FAG). When one considers that the FAG revenue stream has been diminishing in real terms over many years now, one can see the importance of the rate revenue stream to councils in regional / rural NSW.

To provide an example of the budgeting predicament faced by most regional/rural NSW councils, a summary of the 2023/24 increase in rates yield for KMC based on the IPART approved 4.2% Rate Peg is approximately $800K. For the same period, the Local Government (State) Award required a 4.5% increase to wages effective 1July 2023. Utilising the salaries and wages identified from the 30 June 2023 Financial Statements, the expected increase in salaries and wages for the period 1 July 2023 to 30 June 2024 for the Award increase alone is approximately $1.6M.

The scenario described in the paragraph above is more often than not the norm, i.e., any increase in rates revenue from the rate peg is more often than not totally consumed by Award increases for salaries and wages. And, on top of this councils are exposed to a myriad of other increases in materials, contracts, insurance, electricity, fuel and other costs, all of which need to be absorbed in the annual budget process.

The end result is that the levels of service expected by our communities and the ability to renew and upgrade infrastructure is compromised, ultimately also impacting on service levels to the community.

(c) current levels of service delivery and financial sustainability in local government, including the impact of cost shifting on service delivery and financial sustainability, and whether this has changed over time

Like most NSW councils, KMC has experienced many factors that have contributed to making a financial position unsustainable and ongoing service delivery 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 KMC awaiting reimbursement for approved works through the respective NSW agencies - and often across financial years (which in turn distorts financial results).

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 CPI.

Estimates (and timing delays) for infrastructure projects (the subject of competitive grant applications) have often been 'under-cooked,' 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.

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. 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 Councils in acute or dire financial straits such as Kiama, waiting an additional financial year may have meant more risk to going concern status.

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.

Cost-shifting remains a core issue affecting councils. 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 shift operational responsibilities onto councils without corresponding funding, training or 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 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 on local government balance sheets, 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.

(d) assess the social and economic impacts of the rate peg in New South Wales for ratepayers, councils, and council staff over the last 20 years and compare with other jurisdictions.

Table 3 - Rate Peg and CPI indicators from 2005/06 to 2024/25

Year	Rate Peg (%)	CPI (%)
2024/25	4.5	
2023/24	5.1	5.6
2022/23	1.6	6.6
2021/22	2.0	2.9
2020/21	2.6	0.8
2019/20	2.7	1.6
2018/19	2.3	1.9
2017/18	1.5	1.9
2016/17	1.8	1.3
2015/16	2.4	1.5
2014/15	2.3	2.5
2013/14	3.4	2.4
2012/13	3.6	1.8
2011/12	2.8	3.3
2010/11	2.6	2.9
2009/10	3.5	1.8
2008/09	3.2	4.4
2007/08	3.4	2.3
2006/07	3.6	3.6
2005/06	3.5	2.7

As pointed out in (b) above, the simple consideration of CPI as the lone cost increase index applicable to local government is fundamentally flawed. The table above sets out the Rate Peg and CPI indicators from 2005/06 to 2024/25. Table 3 clearly sets out that CPI has exceeded the Rate Peg in many years, and the Rate Peg has exceeded CPI in other years. The reality is that the development and construction sector traditionally experiences increases over and above CPI and local government activities in many ways are more closely aligned to this sector.

As mentioned in (c) above, the development and construction sector in recent years for example has experienced increases in costs of doing business three times the CPI. And point (b) above clearly establishes that KMC's annual increase in rate revenue as permitted by the Rate Peg, is more than consumed by Award increases to salaries and wages. Over and above this, KMC is exposed to CPI, development and construction cost factors etc. on materials and contracts which are rarely, if at all, covered by the Rate Peg increase.

This scenario has forced councils in regional / rural NSW, including KMC, to review / assess its ongoing operations to create efficiency and innovation in all that we do. Our workforce is constantly challenged to find new and innovative ways of going about their business. In NSW Council's must also go through stringent requirements and a process to consider special rate variations. 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.

Other States such as Queensland do not have this IPART application process and the rating methodology and levy system is more agile and able to be aligned / tailored to the types of services that the communities require. Take for example, the Sunshine Coast or the Gold Coast rating methodology for tourist accommodation or non-primary dwellings owned by investors. These variable rating structures allow the Council to tax for services that tourist communities often need, transport, increased seasonal waste and cleaning services etc. Other effective examples include levy's for acquiring, protecting and creating green infrastructure / environmental assets in areas of high natural environmental value.

State control over other items that generate income such as waste further restricts Council's. Examples include development contributions and fees and charges also hinder Council's ability to have more responsive user pays systems.

There comes a point where cutting expenditure and constantly looking for efficiencies in an organisation that has been cut to the bone, will result in risks to staff and the community, and ultimately challenge the organisation to provide sustainable services to its community. Arguably, many councils (including Kiama) find themselves in this situation now and the difficulties will only increase into the future without radical change to the structure of taxation and the process for funding local governments.

(e) compare the rate peg as it currently exists to alternative approaches with regards to the outcomes for ratepayers, councils, and council staff.

With the exception of NSW and Victoria, which had a State Government imposed rate peg of sorts introduced in 2016/17, all other States have an approach to budget setting and application of rates to properties based on the service needs of the community taking into consideration the community's capacity to pay.

The mechanics of how the rates are set in various jurisdictions may vary, according to the use of unimproved capital value (UCV), unimproved value (UV), gross rental value (GRV) and a mix of rates in the dollar and/or base rates however, these jurisdictions maintain the autonomy to set their budgets and rates in consultation with their communities.

In NSW, the rate peg has been in place since 1976/77, introduced by the then Wran Government, and whilst the principles and application of the rate peg has varied somewhat over the years, the fact is that the NSW Government, or its appointed Agency, has unilaterally imposed a limit on the ability of local councils to raise rate revenue in line with the current and future needs of individual communities.

Other jurisdictions in Australia seem to foster a strong partnership between State and Local Government, recognising also that councils need to have strong engagement with their communities that justifies the budget and rate setting principles applied by local councils. Other States benefit from local governments that have a greater degree of autonomy and independence from State over their own finances and operations. State control over and regulating rating and financial models for councils is restrictive and creates too much interdependence between the two levels of government. At the end of the day, councillors are elected by their communities and through the ordinary election process, the community has the power to express its view through the ballot box.

(f) review the operation of the special rate variation process and its effectiveness in providing the level of income Councils require to adequately meet the needs of their communities.

In the NSW jurisdiction, if rate pegging is to continue, at least the special rate variation (SRV) process enables a council and its community the opportunity to seek an increase in rates, either temporarily or permanently, to enable the delivery of identified projects and/or improved infrastructure renewal and/or service outcomes. There should also be a suite of allowable special levies that councils can consider applying or creating for items such as:

- short term rental accommodation compliance and annual licensing
- closed circuit television / digital surveillance networks in key business / civic areas
- environmental protection
- tourism
- stormwater management
- disaster and climate changes responses.

Obviously, a strong requirement of the SRV process is engagement with the community, engagement which demonstrates criteria including demonstrated need, community awareness, impact on ratepayers, public exhibition of relevant documents, and documented productivity improvements and cost containment strategies.

In an environment where the rate peg continues to be imposed by the State Government, or its Agency, a process will be required which enables local councils and their communities the opportunity to seek consideration of increases over and above the rate peg for projects / services necessary for local communities from time to time.

The counter argument to this situation is allowing greater autonomy for local councils in NSW by enabling those councils to set budgets and rates in consultation with their communities. This may be supported by the NSW Office of Local Government, in consultation with IPART, establishing budget / rate setting guidelines, or similar, for councils to ensure some level of consistency from one council to the next.

This approach would be reinforced further by the principle that the ballot box at the ordinary election of councillors every four years provides the opportunity for communities to voice their support or otherwise for those who represent them on council.

(g) Any other related matters.

The subject of the inadequateness of the funding pool for Financial Assistance Grants has been raised over the last three decades. The situation has only worsened over this same period, and the financial sustainability challenges for local government in Australia have increased substantially, particularly for rural / regional councils.

Obviously, this is not new for local government right across Australia. With a diminishing revenue base being experienced by most Councils in rural / regional NSW and Australia for that matter, the expectations of our communities continue to rise in contrast to our ability to satisfy these community expectations. Additionally, it is common for other levels of government to place additional responsibilities on local government without any corresponding allocation of resources.

It is suggested that a review of the principles and objectives of the Financial Assistance Grants Scheme is required to ensure alignment with our constituents' expectations. In addition, it is obvious that an increase in the annual Financial Assistance Grants funding pool to 1% of Commonwealth taxation revenue would result in an injection of untied funding that would allow councils to maintain and renew infrastructure to required standards, provide essential services and respond to often valid requests for new services and enhanced service levels expected by our communities. It is common knowledge that Financial Assistance Grants were originally introduced with a platform of 1.2% of personal income tax revenue, earmarked to increase to 2.0%. This has never occurred and in fact currently Financial Assistance Grants is around 0.5% of Commonwealth taxation revenue.

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 councils or those councils involved in the Illawarra Shoalhaven Joint Organisation of Councils (ISJO). Areas such as payroll, rates and governance where there are single officers who are at risk and create a challenge 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 rate payers.

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 businesses 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 councils in the ISJO mean that sharing services, or creating regional models of services is challenging and for those councils whose finances are stronger such work may not be a priority.

Conclusion

Whilst the content of KMC's submission predominantly refers to KMC's financial sustainability challenges as evidenced through its receipt of a continued (varied) Performance Improvement Order and subsequently very recent preparation of an updated Financial Sustainability Plan, in some cases reference has been made to regional/rural councils in NSW. In broad terms, most of the financial challenges experienced by KMC would be equally experienced by other regional / rural councils, however, these challenges would in many instances be somewhat different to the challenges faced by our metropolitan counterparts who often enjoy access to a more diverse range of revenue streams.

In essence, a one size fits all approach to financial sustainability for all NSW councils would not be appropriate. Each council has a uniqueness to its community, infrastructure base and service offering requiring flexibility and autonomy in any proposed solution to the financial sustainability challenges of NSW councils.

For further information or discussion on the matter please contact the Chief Executive Officer Jane Stroud.