



**INSTITUTE
FOR
REGIONAL
FUTURES**

***The Advantages and Disadvantages of Amalgamation
and Federation Council's Financial Sustainability Journey***

Recommendations

3/11/2023

The University of Newcastle acknowledges the traditional custodians of the lands within our footprint areas: Awabakal, Darkinjung, Biripai, Worimi, Wonnarua, and Eora Nations.

We also pay respect to the wisdom of our Elders past, present and emerging.

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Recommendations

Council engaged the team – professors Drew, Miyazaki, and Ferreira – to provide world’s best independent advice on the financial sustainability of Federation Council. Throughout the process we have jealously guarded our independence and employed cutting edge empirical techniques and robust economic theory to set out a plan for meeting the complex challenges before Council. Moreover, from the outset we made it clear that it was unlikely that all of the disparate stakeholders would be happy with all of the suggestions – we are not consultants engaged to please, instead we are professors engaged in the business of truth-finding.

Below we set out a lengthy list of recommendations that warrant examination in relation to Federation’s quest to become the best council that it can be. We have ordered the recommendations according to the categories of ‘tier 1’, ‘tier 2’ and ‘tier 3’ tasks. The categorisation is not solely about priority – some tasks are clearly pre-requisites for others, and some will have extensive lead times.

All recommendations are consistent with the evidence and theory presented in the report – although it might be noted that not every recommendation is stated explicitly in the aforementioned document.

We do not expect Council to slavishly adopt all of the recommendations and feel that doing so could be interpreted as a perversion of the democratic process. However, we – and the community – are looking for clear communication around which recommendations will be adopted as well as good reasons in the event that the democratically elected Council decides not to proceed with a given suggestion. The Audit Risk and Improvement Committee have an important role to play in monitoring Council’s responses to the recommendations and progress on same. We note that it will take time for Council to articulate responses to each matter raised and ask for all to be patient in this regard.

We also remind Councillors that the situation is both serious and urgent. Moreover, there is no one simple solution – this predicament has developed over many decades and is the result of a number of complex problems. The situation therefore calls for decisive action whereby all remedies warrant serious consideration in view of the circumstances. We note that had matters not been so serious, then perhaps less radical measures might have been warranted.

We stand ready to advise Councillors further on the following matters.

TIER 1

1. Provide better price signals. Full cost recovery should be targeted according to long run marginal cost for all non-regulated prices except where a clearly articulated subsidy is in place (see next point). Even where a subsidy is in place, resident consumers need to be advised of the full cost of the good or service. We suggest Council divide non-regulated fees and charges into four equal lists. Each year, the relevant Director or Manager should be asked to accurately cost each item on a given list. Revised prices should then go to the Council for a decision. This task is not about getting more revenue – it is about improving economic efficiency, ensuring taxes are spent for the purpose that they were levied, and also dispelling deeply embedded fiscal illusion.
2. For merit subsidies, Council should clearly articulate: (i) what is the merit inherent in the good or service, (ii) what the goal of the subsidy is (and how this will be measured), and (iii) the date on which the merit subsidy will be reviewed.
3. A renewed focus needs to be made on the core remit of Council. All services should be classified as either ‘core’ or ‘discretionary’¹ and priority given to the former. Otherwise stated, the practice of Council should be to satisfy ‘needs’ first, before ‘wants’.
4. Establish a stronger focus on maintenance – especially road reseals and clearing of table drains. We are very concerned that the backlog is not known with sufficient accuracy. Moreover, it is clear to us that if essential maintenance is not carried out on road infrastructure in a timely manner that Council will not be able to regain financial sustainability.
5. Related to the above, service levels for roads need to be renegotiated. It may be the case that some roads need to be changed to ‘dry access only’, or that some need to be changed to restricted use. Indeed, it might even be appropriate to convert some sealed roads to unsealed, or closed roads. These conversations need to be had in the context of willingness to pay – if we can’t get sufficient grant and tax revenue then the reality of the situation is that we simply won’t be able to maintain current road service levels.
6. With respect to the above, it is necessary to clearly define and record what is a satisfactory standard for all asset classes. Photographic evidence should be used where appropriate. These definitions should be thoroughly reviewed during the term of each Council to ensure that they are consistent with contemporary community expectations.

¹ Defining these terms precisely is a vexed matter which probably explains why the legislation has demurred from doing so. What is ‘core’ and ‘discretionary’ is something that needs to be negotiated each council term with the people elected to make decisions on behalf of the community, as expectations and needs will change over time. Mandatory services – as per the Act (1993, NSW) are clearly ‘core’. In addition, services provided by most similar councils are likely to be deserving of the categorization ‘core’. Indeed, redress of market failure or government failure are core in small rural communities (Drew, 2021). Finally, where good moral arguments can be made – consistent with the *raison d’être* of government described in the aforementioned report (especially public goods and merit goods) – then it would be reasonable to label a service ‘core’. Clearly there is scope for genuine differences to emerge on a small number of services – but we believe in the main it is quite clear what is core to most people. It is the services that might be subject to debate that form a principal locus of political inquiry consistent with our democratic system.

7. Council needs to provide greater assurance on the cost to bring assets to a satisfactory standard. We are concerned that recent asset management data was largely based on figures compiled in 2019. Moreover, it is not at all clear that the work done in 2019 involved actual inspections of the assets. Assurance needs to be conducted as quickly as practical – commencing first with a sub-sample of the road and other infrastructure, and then progressively rolled out to the entire stock of assets². A SRV cannot be formulated until sufficient assurance is had on this matter. We note that this work is currently underway and that the continual review of these matters is a task for all councils. We also note, with some concern, that the Asset Management Co-ordinator role is currently vacant, and urge continued efforts to secure a suitably qualified person as soon as practical.
8. We also have reason to doubt the veracity of the ‘required asset maintenance’ figures. Looking at the last three financial years’ data for the asset maintenance ratio, it is hard to see how maintenance shortfalls in a given year were correctly imputed in the following period. (For instance, there was a shortfall in maintenance of \$1.218m in 2021, but the required maintenance figure only increased by \$1.077m in 2022 despite a high inflationary environment). Moreover, the actual state of assets suggests that the true maintenance backlog may be far higher. There is a clear role for ARIC to perform with respect to ensuring that these figures are logically expressed from year to year.
9. We doubt that Council can obtain sufficient revenue and efficiencies to allow for all assets to be maintained at the desired levels. We therefore recommend that Council identify assets which will be placed into managed decline until matters improve.
10. As we demonstrated in the main report, there is some reason to doubt the accuracy of depreciation accrual practice in the past (as evidenced by shifts over time and also an extraordinarily high number of accounting adjustments on disposal). Staff need to carefully review practice and thus assure that the depreciation accrual parameters are indeed appropriate to the conditions and use patterns of assets at Federation.
11. The Ball Park Caravan Park business needs to be divested to relieve the pressure on overstretched staff, eliminate distractions from core service provision, reduce local economic distortion, and better manage risk³.
12. Consideration needs to be given to outsourcing the Corowa Aquatic Centre for similar reasons.

² A suitably experienced staff member should be sent out to randomly selected assets to estimate costs. Only after the estimate has been made should figures be compared to extant records. If the sample is inconsistent with current data, then the process will need to be repeated on a much larger scale.

³ The Urana caravan park is a slightly different matter because of the market failure that we wrote of in the main report. If a suitable operator could be found in Urana – whereby there was little risk of losing the business for the community – then it might be possible to also divest council of this northern facility.

13. Service levels need to be reviewed with particular emphasis on (i) services harmonised during the amalgamation process, (ii) the potential to reduce services to ease the burden on the local government taxpayer, (iii) differentiated services to reflect the significant heterogeneity evident in the community (where standardised provision is not required by law). We hasten to add that this is a different task to regular service reviews already conducted by Council as per best practice (service levels need to be carefully defined, reviewed and communicated at least every Council term). What we are interested in here is identifying inefficiencies created by the amalgamation process that might be reversed.
14. A firm commitment needs to be made that all new discretionary projects must satisfy the following minimum requirements: (i) be fully funded according to whole-of-life cost over the current LTFP, (ii) have need unambiguously demonstrated through a *randomised* survey, and (iii) confirm community willingness to pay the full whole-of-life cost through an appropriate *random* survey. It is critical to start using random surveys instead of the biased samples used in the past. Moreover, a quid-pro-quo needs to be established as quickly as possible after the discretionary project has been approved – fees, charges or rates must go up promptly to reduce the potential for further exacerbation of fiscal illusion.
15. Decision-makers need to clearly convey to the community that financial sustainability concerns dictate that, in future, ‘needs’ (as well as ‘mandatory’ services) must be prioritised over ‘wants’. As we note in footnote 1, this is something that is negotiated in the political process, and constructive arguments should be based on good moral reasons.
16. Council should consider writing to the Minister for Local Government requesting his assistance in investigating whether the post-amalgamation protections to general component grants were indeed respected. Indeed, it might also be reasonable to write to the Treasurer of the Commonwealth Government, who is ultimately responsible under the Act (1995, CTH).
17. In separate correspondence, Council should consider writing to the Minister for Local Government to ask him for an extension of protections on general component FAGs into perpetuity. Reference should be made to the clearly skewed data and its effect on the FAG allocations.
18. In further correspondence, Council might ask the Minister for Local Government to investigate how current road grant allocations accord with the horizontal fiscal equalisation (HFE) principles in the Act (1995, CTH). Attention should be drawn to the fact that heavy grain trucks and farm equipment do far more damage to roads than light vehicles and motorcycles. Specific inquiries should be made to clarify whether this fact is indeed being sufficiently taken into account by the NSW Local Government Grants Commission.
19. As an entirely separate matter, Council should write to the Minister to request a *minor* boundary review to look at economic spillovers and other inefficiencies associated with the current boundaries. In any such process, it will be important to put measures in place to ensure that political voice is preserved.
20. In separate correspondence, Councillors should write to seek compensation for the failed amalgamations. Notably, this was the single most common response from the community surveys. In all likelihood the request will be ignored, however it is important for Council to be seen to be pursuing a more just outcome. Compensation could take the form of an ongoing untied grant, or financial assistance in pursuing some of the recommendations noted in this report.

21. Formal processes need to be established to ensure that grants provided to community groups are both sustainable and also accord with the concept of subsidiarity. Grant application forms should ask potential recipients to detail: (i) the wider community benefit that they provide, (ii) the contribution of the group towards meeting its own needs, (iii) what other funding options were explored, and (iv) the group's plans to reduce reliance on grants in the future. These forms should then be publicly available to assure transparency and accountability. *All* support provided to community groups – such as in-kind support like mowing football fields and the like – should be the subject for a grant application (with the value of the in-kind support clearly articulated). We direct people to take particular note of our preference for groups to make a material contribution to meeting their own needs – this could be a financial or in-kind contribution. Over time, the expectation should be established that contributions are a requirement, and that preference will be given to matching grants wherever possible.
22. Key Performance Indicators (KPIs) need to be established for relevant staff around adherence to budgets. As a general rule, KPIs should always be: (i) specific, (ii) measurable, and (iii) verifiable. No suggestion is being made that KPIs don't currently exist – rather we merely assert that KPIs might be tightened up somewhat.
23. Specific, measurable and verifiable KPIs should also be established for all citizen-consumer facing positions specifying appropriate response times and resolution times. Responsiveness is a major concern for many in the community and improvements in this area may improve willingness to pay as well as confidence in Council. We acknowledge that current data systems are not sufficient to deliver this recommendation. As a result, additional resources will be required, and this is likely to impact on the timeframes for delivery.
24. The rigour of the monthly budget reconciliation needs to be improved. Deviances from budget need to be explained and a path forward established to mitigate over-runs. A central register of causes and solutions needs to be kept to inform future budget preparation. We understand that some progress is being made on this front at present and note that this recommendation has implications for all management reporting to MANEX
25. The Quarterly Budget Reviews also need to be improved. The reasons for deviations in excess of *five percent and \$10,000* need to be given and the proposed method to mitigate any overrun stated clearly for follow-up. Readers should note that the state government only requires reporting for variance of ten percent – thus, the standard we propose here is much higher than the standard set by the NSW government. In view of the need to improve performance in this area, QBR should be extended for all four quarters. The ARIC should also be encouraged to become more involved in monitoring budget deviations, investigating their causes, and making recommendations to establish entity-wide measures to minimise future events and thus assure ongoing organisational improvement. We understand that some progress is being made on this front at present.

26. Survey evidence suggests that there is strong support in the community for reductions to tourism expenditures. In FY2021, expenditure in this category was \$356,000, in 2022 it was \$170,000. Many debate whether tourism is indeed a legitimate role for local government in the first instance. In addition, it is clear that tourists place a significant burden on council but provide very few opportunities for direct additional revenue in a land-based taxation system (in FY 2021 \$18,000 of revenues were collected, and in FY2022 just \$12,000). In view of the significant challenges facing Council, it may be prudent to pare back tourism spending even further, within the constraints of current obligations. Preference might be given, in the future, to matching grants provided to tourist-orientated businesses in the local area (limited to a certain quantum). There may also be opportunities for sharing the cost of the tourist information services with businesses in the local area. We understand that Council has already commenced a review into various options related to tourism expenditure.
27. Councillors and staff should vigorously engage on the long list of tasks that need to be dealt with prior to being in a position to lodge a compelling SRV application (please see the final section of this appendix).
28. Council should consider establishing a Community Liaison Officer position to: (i) better co-ordinate with s355 committees⁴, (ii) liaise with progress associations and the like before significant capital projects are executed, and (iii) assist in communication with the community around SRV outcomes and the financial sustainability journey. Most s355 committees expressed frustration to us around navigating the larger bureaucracy at Federation. They have also advised that community willingness to participate is diminishing. A key part of the financial sustainability puzzle is for Council to become a 'facilitator' rather than a 'provider' – Federation simply could not afford to take on the work currently performed by these valuable community groups. It may therefore be deemed appropriate for the liaison officer to have an open channel of communication with the Councillors.
29. Indeed, Council needs to clearly articulate its shift in mindset from 'provider' local government to a 'facilitator' local government. The role of government is to help people to co-operate for the benefit of all. Government simply does not have the capacity to do everything that benevolent foundations and volunteer groups used to do. Indeed, Pius seems prescient in his (1931, paragraph 78) declaration that 'with a structure of social governance lost, and with the taking over of all the burdens which the wrecked associations one bore, the State has been overwhelmed and crushed by the infinite tasks and duties which it has needlessly taken on'. Moreover, when government takes over the functions rightly belonging to associations, people miss out on the opportunity to generate the collaborative goods which come about through striving for a common goal – what most of us refer to as community building (Drew, 2022). We must therefore concentrate on re-invigorating our community associations by helping to facilitate and promote their important work.

⁴ It has been suggested that we could form a new Federation Reference Group or the like. This isn't a bad suggestion; however, we feel that the diversity of existing s355 committees have better reach and geographical presence in the vast local government area. Moreover, if council does engage more with s355's it will reinvigorate these bodies and lead to more community participation and thus ultimately better outcomes for the communities that they serve.

30. We need to consider whether it might be advisable to remove the long-term risk and distraction posed by the saleyard business. One option would be to sell the saleyard business in its entirety (subject to the terms of recent grants or other constraints). In all likelihood, physical saleyards may continue to lose volume to online and direct options in the future and Council could ultimately be left with an unsaleable asset. A second option is to outsource the business on a long-term basis to delay the realisation of risk. Notably, the saleyard situation is slightly different to the caravan park and aquatic centre and needs to be treated with care.
31. Steps should be taken to increase the number of Councillors to twelve – either with the help of the Minister or through the extant process (referendum).
32. More broadly, continued profound political disenfranchisement cannot be allowed to go unchecked – apart from any other concern, it is inconsistent with the intent of s 263(3) of the Act (1993, NSW) and could therefore be seen as potentially unlawful and it might ultimately represent a risk to the sustainability of Federation Council (the establishment of a tiered system, as per the report, is also something that warrants further investigation). Accordingly, we suggest that Council makes further investigations around the potential for a tiered system of local government to mitigate disenfranchisement and also improve efficiency. We are willing to assist Council in this endeavour with advice and help as appropriate (*pro bono* at the initial investigation phase). Once Council has completed its investigations, we suggest that they consider writing to both the Minister for Local Government and Premier to garner political support for what might prove quite an elegant solution to a very pressing problem.
33. If neither of these proposals can garner sufficient support, then it may be appropriate to either relocate a director to the Urana office, or even establish a new director level position at Urana. It is absolutely essential that in the absence of reasonable political voice that some kind of permanent executive-level voice exists as a partial mitigator. We note that similar positions – tied to former amalgamated centres – occur at other rural councils⁵. It would be appropriate for any position description to clearly indicate its northern location and role in assuring efficient and effective management of the Urana office and depot.
34. Council needs to establish succession planning for all positions of senior management and above. This needs to be a formal process whereby a person is identified, their training needs met, and sufficient opportunities provided to develop the requisite skills and experience. Staffing continuity is one of the largest sustainability risks for Council and we suggest that ARIC actively monitor implementation of a suitable program.
35. Council needs to ensure that it has an up-to-date staff retention plan and put this into practice as soon as practical. We also need to ensure that other HR policies – such as staff grievances and the like – are also in-place and appropriate for the current structure.

⁵ It might be argued that Howlong and Mulwala would warrant similar consideration. However, this would be establishing a *new* precedent. Urana previously had political voice and the law – had it been observed carefully – would have made appropriate provision for continued political voice. Furthermore, there were executive positions located in Urana in the past and it is not unreasonable to argue that this ought to have been preserved post-amalgamation.

36. Certain positions need to be funded and approved for the Planning and Development Team as soon as possible. Fixed-term positions need to be created for a plumbing inspector and an additional administration assistant until the backlog becomes more manageable. New trainee positions may need to be funded and filled. It may be appropriate to fund the plumbing inspector – and potentially other positions – from the water or sewer fund. This matter has been allowed to go unresolved for too long and it is now evident that the stress of the situation is feeding on itself and having serious implications for the health and welfare of staff. Perceived staff shortfalls represent an important sustainability risk for Federation.
37. Similarly, the Human Resource Department is clearly under-staffed, and this is affecting other important areas of the organisation.
38. Staffing gaps exist in other areas of the organisation and service reviews may further add to staff needs. New positions need to be justified carefully in terms of what they are expected to achieve and how we might measure success. Moreover, any recruitment needs to be affordable in the context of significant financial sustainability challenges.
39. Attention should be given to ensure that there are sufficient reserves for plant and infrastructure replacement. It is quite likely that additional funds will need to be transferred from unrestricted cash to internal reserves. Indeed, it is possible that Federation does not currently hold sufficient unrestricted monies to properly provide for known future needs (which should be internally reserved).
40. There is an important gap in knowledge between finance and engineering staff, consistent with just about every council in the country. Accounting staff are experts in what they do, but usually only have the most rudimentary knowledge of construction and maintenance. By the same token, engineering staff are experts in their field but often do not fully understand the intricacies of accounting practice. We understand that council has recently commenced fortnightly meetings between these two groups, and they should be commended for this rather unique initiative. We would like to see these meetings continue to be prioritised and also better management accounting information provided – tailored to the needs of engineering managers – as resourcing allows (see recommendation 66).

TIER 2

41. Council should consider appointing some support and mentorship for the leadership group. The support person would help the MANEX group to make and communicate timely decisions and also help members to gain the skills necessary for future career progressions. What is anticipated here is independent advice and help in surmounting the unusual challenges facing senior staff confronted with the fallout of the ill-advised amalgamation – not dissimilar to the work done by Professor Drew and his team. The appointment of a suitable support person may also provide implicit assurance to the community and relieve some of the pressure on senior staff.
42. All decision-makers – Councillors and senior staff – need to be clearer about the priorities and direction of Federation Council. Ideally, it should be communicated that the priorities are maintenance, selective asset renewals, and delivery of core services. The direction needs to be clearly articulated in terms of measurable and verifiable improvements to financial sustainability with specific tasks and outcomes monitored and reflected in the context of Integrated Planning and Reporting guidelines.
43. Several community survey comments brought our attention to the desire for more forthright communications from Council to the community. We agree wholeheartedly with this sentiment. However, the community needs to understand that in order for senior staff and councillors to provide this kind of information, they need to feel safe and supported. Personal attacks need to stop. By all means criticise a decision or an outcome but be mindful that it is not appropriate to attack individual people. For the shared aspiration of the community, Councillors and staff to be realised – the best Federation Council possible – dialogue needs to be respectful, constructive and based on verifiable facts. Indeed, all stakeholders should be mindful that everyone is doing their best and that three independent professors were unable to uncover any compelling evidence otherwise.
44. Council needs to establish a dashboard of robust financial sustainability metrics for communication with staff and community. Moreover, benchmarks need to be logically sound and appropriately dynamic. ARIC should be involved in constructing these metrics and advising Council on how to improve performance against same. Metrics should include *inter alia*: length of reseals as a proportion of sealed roads, length of drain clearings as a proportion of total road drainage, gross depreciation rate, a weighted measure of efficiency, a robust debt ratio, a measure of combined internal and unrestricted reserves expressed as a proportion of cash expenditure, staff turnover rate, budget accuracy (revenue and expenditure), and other measures proposed in this document and the full report. Ideally, this dashboard would appear prominently on the Council website, Annual Report, and be included with annual rates notices.
45. Council should ask the General Manager, Directors and Managers to set a firm goal of 25 days per annum work in the Urana office. This goal should be imputed into job KPIs, and a report made to the community regarding the achievement of the goal in annual reports. We note that this recommendation is consistent with s218CA of the Act (1993, NSW).

46. It appears that there may be scope to reduce the number of airstrips at Corowa from two down to just one. Stakeholders should be engaged on this matter as well as the need to reset fees and charges so that they better cover the long run marginal cost of the airport infrastructure. Where subsidies are being imputed, the size of these subsidies need to be conveyed clearly to the recipients of the services. Moreover, it might be prudent to investigate the potential for future re-development adjacent to the airport to offset the burden of its operation.
47. A thorough review of fleet and plant for further potential rationalisation (ensuring fitness-for-purpose) should be made and acted upon. However, care must be taken to maintain sufficient plant capacity to respond quickly to community needs and natural disasters. Vehicle tracking might improve decision making in this regard, as well as health and safety with reference to the vast distances involved in traversing the local government area. We note with approval recent progress in this area of concern.

TIER 3

48. Establish the mantra ‘every dollar counts’ and add this to both internal and external communications. Some in the community and staff cohorts doubt that all decision-makers fully grasp the gravity of the financial sustainability predicament. By saying the mantra, acting on the mantra and reinforcing the mantra, we should be able to quickly redress this concern.
49. Inform and brief staff on financial sustainability and actively employ workers as community emissaries. A cleverly constructed dashboard (recommendation 36) should prove helpful in this regard.
50. Councillors and relevant staff should be encouraged to complete a course on financial sustainability with a tertiary provider. A course that offers an assessment item should be preferred. This recommendation has two objectives: (i) to improve understanding regarding financial sustainability, and (ii) to provide additional assurance to the community. This is a recommendation that applies equally to every council in the state.
51. It may prove useful to establish capital advisory committees for all projects over 1% of revenue. A capital advisory committee uses locals and independent experts to ensure that the design and execution of a project meets community needs, responds to local conditions, and runs according to budget. We have seen committees of this kind employed with great success in other geographically large and diverse communities. However, careful constraints need to be employed to make sure that the advisory committee contributes in a positive and productive way.
52. Council should consider conducting a carefully designed citizen satisfaction survey on an annual basis. The survey should be randomised, consistent between years, and free from common source bias. We note the plan to have four-yearly satisfaction surveys but caution that infrequent surveys of this kind will make it difficult to observe trends and be sufficiently responsive to emerging problems. Ideally a survey of this kind would be conducted on a statewide basis as is the case in Victoria.
53. Council ought to communicate in the Annual Report regarding citizen satisfaction, response times, and resolution times.
54. Council should consider conducting a simple staff satisfaction survey *annually* and report on same.
55. Council should consider conducting an annual staff efficiency survey (including suggestion scheme). This could be linked to recommendation 47.
56. ARIC (Audit Risk and Improvement Committee⁶) provides an important function albeit within the context of a surprisingly broad remit. We respectfully direct ARIC to redouble its focus on a number of areas of particular concern to the Federation sustainability journey: ARIC should be encouraged to more clearly measure and report on the financial sustainability challenges, sustainability risks, and also monitor the progress towards the implementation of adopted recommendations from this report.

⁶ ARIC roles and responsibilities can be found at: <https://www.olg.nsw.gov.au/councils/governance/risk-management-audit-and-internal-controls/risk-management-and-internal-audit-framework-for-local-councils-in-nsw/>

57. ARIC could play a valuable role if it were to ensure that the terms of SRV instruments are fully complied with. Failure to do so may imperil future SRVs, decrease community trust, and ultimately put financial sustainability in jeopardy.
58. ARIC has an important role in communicating and monitoring the sustainability risks associated with a neglect of staff succession and retention.
59. Many Councils have found it helpful to establish Finance Committees with a dedicated remit orientated towards investigating the potential for efficiencies and supporting the process of budget cuts. It will be important to be mindful of the legislation when establishing terms of reference for bodies of this kind.
60. Senior managers should be tasked with finding specified efficiencies with respect to the 2024-25 budget. Efficiency goals should be set in response to the realistic potential within each budget and in accordance with the adopted recommendations contained in our report. Otherwise stated, efficiencies need to be plausible within operational constraints and regulatory requirements, and also care should be taken that efficiencies do not result in unintended side-effects (such as the deferral of essential maintenance). In general, because of regulations and other constraints, there are far fewer potential efficiencies to be found in government than most in the public are willing to concede. Indeed, as we demonstrated in the report, relative technical efficiency is close to optimal. Nevertheless, any and all possible efficiencies must be pursued with the utmost vigour. Efficiencies should be measurable and verifiable, and specific staff should be made accountable for their delivery. We are aware of nascent endeavours in this area and acknowledged potential overlap with ARIC. There may be a role for the finance committee to play in supporting this process and we note that this has indeed occurred in other councils with great success.
61. A merged local environment plan (LEP) seems to be still outstanding and needs to be completed as soon as practical.
62. As we have already noted, there is scope for divestment of non-core assets and services. It may be useful to explore the possibility of divesting some assets to community groups where risk can be appropriately managed.
63. Council should investigate the potential for Riverina Water to take over the water supply business for the whole local government area, in view of the significant capital constraints facing council.
64. Council should investigate opportunities in the renewable resource area as long as they do not involve additional material risk or distraction from core activities.
65. There may be some value in continuing to outsource construction activities for potential efficiencies. We understand that this is already in train. However, we need to be mindful of the potential for this strategy to cause problems in the longer term, as evidenced in the scholarly literature (see, Drew 2021; Brown and Potoski, 2003). It is absolutely essential that we maintain competence and capacity – if we fail to do this, then future efficiency may be imperilled as well as our ability to respond to disasters and the like.

66. Council needs to work towards providing real time unit cost data for the infrastructure division. Unfortunately, this task will be resource intensive and take some time to complete. Moreover, it might be noted that we know of only one council in the whole state that currently of the kind we envisage available to managers. Otherwise stated, what is happening at Federation is the norm – but we, the Councillors, community and staff aspire to be better than the norm (resources permitting).

67. It may be helpful for the community to have more of the political debates conducted during open council meetings. We know from firsthand experience that Councillors are actively engaged on substantive issues and commonly exchange different ideas and perspectives in constructive ways. However, there is a perception that the community may not get as many opportunities to witness the political process as some might wish. We are well aware that the workshop and council meeting practice followed at Federation is consistent with most councils. We are also aware that the current chambers and gallery are not really conducive to providing a safe and appropriate environment for Councillors to engage in extensive debates. Nevertheless, we encourage Councillors to prioritise more open debate as far as current facilities and workloads allow.

SRV SPECIFIC TASKS

68. Vigorously report on mandatory SRV conditions as per earlier IPART instruments.
69. Demonstrate that Council is making *substantial* progress towards financial sustainability in terms of the conditions imposed with the temporary SRV.
70. Conduct a robust and competent assessment of capacity to pay. The work performed by private consultants in the past was not fit-for-purpose.
71. Council needs to develop ways to mitigate capacity to pay – such as by changing the rate structure (base rate), reducing reliance on taxation revenue where possible, pursuing greater distributive equity, and also developing a more responsive and practical hardship policy.
72. Conduct a robust assessment of debt capacity.
73. Articulate which recommendations from this report will be actioned and monitor the progress and outcomes associated with same.
74. The LTFP needs to be revised to reflect the aforementioned recommendations, current central bank projections on inflation, required staff, changes to grants (if any), as well as changes to revenue (arising from a better pricing of goods and services). We are also concerned that the current LTFP does not appropriately reflect the lower likelihood of capitalising staff costs in the future.
75. An appropriate expert needs to be engaged to work with Council from February 2024 onwards to progress through the substantial list of tasks that need to be done prior to applying for a permanent SRV. This should be formalised quite early in 2024 and fortnightly meetings established shortly thereafter. Council and staff will need to be fully engaged on the task, flexible, strategic, and responsive for a future SRV to ultimately meet with approval by IPART.
76. The Councillors need to contemplate a revised strategy regarding the SRV that takes into consideration sophisticated, independent advice proximate to the application.
77. The community has made it clear in the surveys that they want a future SRV to focus on (i) maintaining core infrastructure, (ii) improving financial sustainability, (iii) measuring and verifying goal setting, (iv) communicating in a way that responds – as far as practical – to community concerns, and (v) making a more accurate assessment of capacity to pay. We strongly recommend that Council takes note of the priorities of the community and tailors their approach to a SRV accordingly.



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