

Comments on IPART Council financial model review

To whom it may concern,

I have read the Draft Terms of Reference, and while I think most of the issues Councils are currently facing are covered, I'm not 100% certain due to some of the 'jargon' being used.

For example, what is "the visibility of councillors and the community over the financial and operational performance of their council" supposed to mean, exactly..???

Does it mean "understand"..???. Does it mean "sight evidence of"..???

Because the answer to both is probably not.

Our Councillors are struggling to understand the vast quantity of guff that Council staff flood them with, and none of them are by any stretch an accountant, much less a forensic accountant.

And I've had actual accountants look at Council's paperwork, and they can't get a handle on what the position really is.

So, effectively, Councillors and the public are UTTERLY reliant on the honesty and integrity of the staff to provide truthful and accurate figures and responses to Councillor questions.

Which we know, from their responses having been caught out, that they don't. They tell Councillors what they want them to hear. They feed the public a bunch of 'motherhood statements' and 'marketing nonsense', designed to baffle, not enlighten. It's infantilising at best.

A recent example of this is the Council staff had to put on a 'Special Meeting' for Councillors to undo what they'd previously told them about 'depreciation' and baffle them with a pile of new [REDACTED] that most of them still probably don't understand. Certainly two of the most engaged and conscientious Councillors admit they are still uncertain as to what the impact of what they've been told is on their decisions.

People in the community are specifically concerned about depreciation of 'assets' that have been cost-shifted onto Council and for which there is no accountability for future funding or management much less maintenance. Unless ratepayers pick up the tab!

In your Rate Peg Review you highlighted one of these – the assets operated by RFS and SES which are the 'depreciable responsibility' of the local Council, but which has no actual oversight of any of the assets, or input into their selection – yet is required to 'depreciate' and replace them.

Despite Council having to pay a levy to the State govt for SES and RFS funding.

Umm, excuse me..???

Why is not the TOTAL cost of running the RFS and SES (State wide organisations controlled by Macquarie St) not also being run by Macquarie St and paid for from tax revenue...???

This is just blatant [REDACTED] cost-shifting and I know you know this.

The other one in my local Shire, Kempsey, is the "Boeing 737-friendly" aerodrome that was 'bequeathed' to Kempsey Shire Council (i.e. cost-shifted) by the federal govt 30 years ago. And the [REDACTED] Council at the time said sure why not.

The ISSUE is that WE – Kempsey ratepayers, are now expected not only to MAINTAIN something we get [REDACTED] all benefit from, but we have to DEPRECIATE this humungous lump of concrete and bitumen that we neither need nor can afford, and when it's regulator, CASA, says jump, we are supposed to 'jump' and pay for whatever new 'upgrades' or recalibrations CASA demands.

We have a local flying school and a few hangars with local light aircraft in them. None of them need the massive, expensive, concrete runway. A simple grass strip would be fine for their needs.

But CASA and the Fed govt want our “large wide bodied aircraft capable emergency runway” kept up to date and up to standards.

Well, how about they pay for it then...???

This is part of the problem we are having at the moment with KSC wanting to apply for an SV, because we have all these “assets” that have been cost shifted onto us – like the airport, like the former Pacific Hwy (now Macleay Valley Way) that, until the bypass opened, was the responsibility of TfNSW (Roads NSW).

So apart from the hundreds of km of gravel roads and minor bitumen coated roads in the Shire, we now have about 20k of High Grade, high impact, highway grade roadway we are required to maintain to that “highway and B-double capable” standard.

Without, as far as we know, any additional funding from Macquarie St to do so.

We are also concerned about the apparent necessity (so we’ve been told, according to “accounting standards”) for KSC to include all these ‘assets’ that we are stuck with ‘managing’ in our calcs for income and expenditure.

Surely, in the case of the airport, we aren’t REALLY being expected to fund the entire replacement cost of the aerodrome in 50 years time or whenever that strip needs replacing...???. Surely to [REDACTED] that will be the subject of a “tied grant” – a Financial Assistance Capital Grant – from the Fed govt...???

Because basically no Councillors really want to accept responsibility for it, and nor do the ratepayers.

Yet, due to accountancy rules, our staff have to include this massive “liability” (i.e. not an asset really) on OUR books, and so we have to show IPART and OLG we’re “properly managing” the “depreciation” of a \$25 million dollar aerodrome no-one in their right mind would ever expect us to replace from ratepayers funds.

Sooooo, the corollary of this “accounting rules” and “IPART rules” and “OLG Rules” is that our Council’s financial position looks a LOT worse than – we argue – it really is. Or arguably should be.

And so our staff now “need” an SV to “balance the books”.

If it was not “necessary” to capture the depreciation costs of these “assets” on KSC books, we probably would not ‘need’ an SV at all...!!

But if we ARE expected to keep them on our books, and replace the [REDACTED] things when they are due for replacement, at some humungous and horrendous expense, then govt needs to acknowledge this somehow by providing us with the financial ‘backstop’ or some sort of agreement that means the ‘depreciation value’ of the aerodrome is not dragging Council’s books into the red.

The latest amount I’ve seen for the aerodrome in Council accounts is an annual depreciation of \$550,000 dollars. This is for an ‘asset’ that brings in barely \$100,000 in actual revenues.

So that’s my first gripe.

The second major gripe I have goes to the heart of the reason for this Review – the financial model.

So here I am on steadier ground.

Councils are there to provide services that it is either impossible for individual ratepayers to provide for themselves, or that we collectively agree they should provide. The principle is the ‘collectivist principle’, or the ‘common weal’.

In other words, the greater good of the whole.

Which was fine, 300 years ago when Councils were first invented. Especially with regard to the state of hygiene, water supplies and sewage disposal at the time. Which were, no pun intended, pretty ██████!

Today, those concerns are not as robust as they were back then.

But due to the monopolistic nature of local Councils, there is really no room for any kind of ‘competition model’ to be implemented.

It is mine (and many others contention) that this lack of competition, like the ‘tariff protectionism’ of the Fifties and Sixties, has led to Councils being a bit blasé about improving their performance, or innovating, or seeking more cost-effective solutions.

Short of replacing ageing iron water and sewage pipes with plastic, the entire “infrastructure system” and the provision of the “services” is never really challenged.

The “orthodoxy” of the current “Council service delivery model” is sacrosanct.

THAT needs to change.

Why?

Fundamentally from a cost and efficiency perspective. Which in turn leads to (in line with the Draft) a more cost-effective solution for local people, and rates fit for purpose.

How might we go about determining this?

Benchmarking.

State govt needs to determine what is the most cost effective way of providing *the services residents are required to have*.

Note my emphasis..!

As I’m sure you’re aware, the LG Act has provisions for council to charge a resident/ratepayer for water and sewage services that are “available” even if the landowner does not require them.

This is fundamentally abhorrent, from a human rights perspective. But there you have it. It’s Law.

What do I mean?

The most basic bedrock of the “Council service delivery model” is that it must be COST EFFECTIVE, but also AFFORDABLE..!!

So if the annual fee Council (needs/chooses) to charge to provide a particular service is greater than the individual ratepayer could provide themselves with that same service, then logic tells you, the ‘collectivist model’ is broken, and so needs a fundamental overhaul.

So, 300 years ago, composting toilets were not understood. Today they are. And Councils accept them as an alternative, especially in rural areas, but, there are examples of even inner city Councils being forced to accept them there also.

Then there’s the older system of pump-out septic. This is still potentially a viable option, in place of fully reticulated pumped sewage, with all its attendant costly piping, pumps and treatment works.

But competition is not allowed.

So let’s say a large composting company wants to capture all the human waste from a given Shire, it could feasibly install tanks, pump them out on a monthly basis with a pump truck, anaerobically extract methane from the waste to sell to industry, then use the same methane to dry the resultant sludge and bag it for sale as fertiliser.

OK, so that's an over-simplification of what would be a much more complex system, but it's possible.

In my own home, for example, I could fit a \$3000 4-chamber composting toilet and never need the Council's sewer again. But they can 'legally' still charge me for it, as it runs past my house.

Ditto, I can add a 25,000L water tank, filters and pressure pump for less than \$8000, and never need Council's reticulated water supply ever again.

But because it runs past my house, they can still charge me for it. A service I would neither need nor want.

These services are currently costing me \$1800 per annum in rates (water and sewer only). So the \$11000 I'd need to outlay to replace "Council provided services" would be amortised in less than 6 years. Replacement of the composting toilet and water tank, probably 25 years. At least. So I'm WELL in front financially.

\$11,000 over 25 years is a about \$440 per annum, or a bit less than a quarter of the cost Council is charging me to provide the same services.

See what I mean..??? No longer "fit for purpose" in the sense that it's not cost-effective or affordable.

Just like energy supply. Goalposts have shifted. I currently have 6kW of solar on the roof, and as soon as I can afford a battery I'm going off grid. The solar panels were amortised in three years. The battery will take five. Why? Because I can.

Water and sewer? Not so much. LG Act prevents me doing this. Or, at least, requires me to keep paying Council even if I do take responsibility for providing my own water and disposing of my own sewage waste.

Essentially, the "service delivery model" that requires Council to NOW charge me \$1800 a year, for a service I can provide cheaper myself, is clearly broken.

Inflation, cost-shifting, Russia, China, Trump, whoever you want to point the blame at, the bottom line is, if the poorest in the community can no longer afford the price the Council "needs" to charge, then the SYSTEM is broken.

This is nothing to do with the rate peg (although the SV on top of the rate peg is a different story) but basically, we have 66% of households renting in the northern part of the Shire can barely afford their rates now, and are paying more than 30% of their annual income in rent. That's the benchmark for 'housing related poverty'.

Stick that statistic in the 'Council service delivery model' and see what comes out the end.

More homelessness. People forced to move away. Breakdown in community. Etc etc etc....

Another example.

I live alone. I recycle everything, separating foil from foil-covered-plastic, separating thin-film plastics, separating cans and PET bottles, composting, not buying 'stuff'..... My red bin has not been out since before Christmas. My Green bin the same. My Yellow recycling bin has not been out yet this year, but was out after Christmas, six weeks ago.

So my Yellow bin goes out roughly every 8-10 weeks. 5-6 times per annum. Red bin a bit less. I could load these onto the trailer, take them to Council's tip myself, pay my \$30 a time to dump them and outlay only \$120-150 per annum.

Yet my Garbage Rate is \$485 per annum. I am effectively being overcharged at least \$335 per annum. Just on garbage.

The current 'funding model' is broken.

So who am I subsidising..?? The [REDACTED] who put a 10% full bin out every week, and the huge families putting out an overflowing bin every week. Thanks, neighbours. And Council.

The bottom line MUST be, if a service can be provided cheaper elsewhere, then ratepayers SHOULD have the choice to go there. Not be forced to stick with an over-priced Council-provided service.

It's fundamentally against everything govts say they are on about – fair play, competition-driven lowest cost, and so on.

How about we ask the ACCC to look into the 'monopolistic nature' of the "Council service provision model"..?? Why stop at IPART...???

The issue is we have a "culture" where the "status quo" is never challenged.

What I'm suggesting is effectively heresy!

I'm saying we should SCRAP the entire "Council service provision model" and come up with something less costly, fairer, and more fit for purpose.

Final point.

We both know that funding for Councils from State and Fed govt has been sliding in real terms. I have been told by Councillors, and I think you mentioned it in the Rate Peg Review, that Fed gov grants have fallen from 1.0% of total tax revenue to 0.55% in the past 20 years.

Well, you may not be old enough to remember this, but I was around when Hawke and Keating first cut that from 2.0% in the eighties.

All Councillors and staff I've spoken to say if that funding level was returned, we could LOWER rates, and the rate peg..!!

THAT is what NEEDS to happen.

But you and I both know it won't.

But definitely the cost per person is MUCH higher in some of the beachside suburbs around me, and lots of pensioners there are paying way more than your 3.6% of income..!!

In fact, I'm currently paying 14% of my income (it's a long story) but will soon be back on the lower rate thanks to an understanding Councillor and helpful staff at my local council office.

So I know how tough it is.

Also, on your point about having to use 2020-21 figures for the Rate Peg Review, this has also been done as part of my Council's application for a 46% SV, using dodgy older figures for real estate rentals that showed people in the Shire were 'capable of paying' when my ACTUAL (current, real-time) research showed the opposite.

I'll be doing some more on this for the actual SV review in due time, but wanted to mention that now to demonstrate that using older figures, especially in light of recent rent and cost hikes, leads to very deceptive outcomes.

As the old data adage goes: garbage in, garbage out.

So, go ahead with the review of 'The Entire Funding Model of Councils', but understand that Minns and Co. should NOT be let off the hook, much less Albo and Co in Canberra. At the very least.

But also be aware that the 'model' is basically broken, and we (the public) can all see it.

Only no-one wants to take responsibility for re-designing it, as a whole herd of sacred cows would need to be slaughtered along the way!

Speaking of which! KPIs...!!! There is absolutely no way the public can tell at a glance whether or not Councils are even meeting their own, internally set KPIs.

So let's say there's 500km of gravel sheeted road in the Shire. Depreciation rates indicate replacement of "X" kilometres per annum. That should be the KPI. Was it achieved this year? Did rain stop play? How would anyone know? Ratepayers have NO idea. Councillors have NO idea. Not even sure Council staff know, tell you the truth!

Potholes. Yep, climate change, bigger more damaging rainfall events, more potholes. But what's the KPI for 'repaired potholes'..?? How would any ratepayer know? I don't think even Council knows!

But maybe as part of the 'fixing the mode [REDACTED]' you have to jump through, how about setting some KPIs that can be measured as part of their IPR duties, that should appear in the Annual Reports, so the 25 people (out of 38,000) in the Shire who actually READ the damn reports, have some vague idea as to whether or not Council is hitting their benchmarks.

And can ask serious questions if they are not! Even our Councillors admit they have no idea.

Baffle them with bulldust. Mushroom syndrome. Fed [REDACTED] and kept in the dark. It HAS to stop.

Best of luck!!

Regards

[REDACTED]

Mark Walker

[REDACTED]

PS: Apologies for the "rant" but I am just so OVER this whole [REDACTED] show of [REDACTED] and the hand-wringing of those on \$250K per annum about how dreadful it is....

The system is BROKEN. They need to accept that. It was designed 300 years ago, and was necessary then. It's no longer cost-effective, and only it's monopolistic nature keeps it in place. All that's left is the crumbling edifice of a once proud system.

Today, it's not working. Costs are too high. There ARE alternatives, but monopoly practice prevents their introduction.

Like power pricing, and telco pricing. COMPETITION needs to be implemented, OR the powers that be accept that they need to subsidise their broken service delivery model PROPERLY.

Cost shifting onto already broke and vulnerable ratepayers/taxpayers is NOT good enough.

Have a nice day! 😊