## Investigation of Council Financial Model in NSW

Given recent upticks in the cost of provision of services by Councils, and general cost increases caused by inflation and resultant supply side shortages and price increases, it is timely for IPART to be reviewing the provision of services by NSW Councils.

### 1. Visibility of Councillors and the community over the financial and operational performance of their Councils

If, by this jargonistic title, Govt wishes to know whether or not Councillors and community feel they have clarity over the decisions – especially financial – of their Councils, then the answer is a vehement 'no'!

Most Councillors have no real understanding of the complex and convoluted process that is known as 'Australian Accepted Accounting Practice' as required by the OLG and LG Act for Councils to use to record, measure and report their financial operations.

One of the principal issues is depreciation, which I know Councillors on my local (Kempsey) Council, have had described to them in several different ways, none of which they fully understand.

Perhaps more importantly is that the 'ordinary citizen' has zero chance of understanding the reams of guff produced by Council seemingly on a daily basis, much of which is allegedly being produced in the interests of 'informing' or 'engaging' with the public, but which usually fails completely to do so for one or more reasons.

The most common of which is that the documentation consists of motherhood statements, unrealistic claims, and what amounts to platitudes and wish lists. All of which Council is required to produce by OLG or IPART in order to pass under some ever-lowering 'bar' of documentation aimed at 'transparency' which is, sadly, never achieved.

Councillors, and to an extent the public, are completely beholden to the executive officers of Council, who are not always honest, or truthful, and can be conniving, manipulative and [redacted] – yet still act within 'the Law'.

We in Kempsey have seen several instances of all of the above in recent years, the net result of which is that NO-ONE trusts the Council officers, and barely trusts any of the elected Councillors. [Although the current lot are somewhat better than the politicised 'bloc' that dominated Council for the previous 10 years].

***Yes, there would be considerable advantages moving to a more collegiate and inclusive decision-making model, including dedicated budget and expenditure review committees or Advisory Groups.***

One of the Kempsey Councillors has formed several 'community liaison and advisory groups' to advise and to assist in tapping into the expertise available in the community, but also thereby catching more of the community sentiment of what is or is not 'acceptable' to the community. He reports that some of these are very well attended, but that all are providing him with additional insights into community thinking and priorities, plus providing alternative viewpoints to the – often limited – viewpoints of Council staff and executive officers.

This idea should definitely be explored in depth by IPART.

**2. Whether the current budget and financial processes used by Councils are delivering value-for-money for ratepayers and residents**

The short answer is 'no'. They are not. And the sheer number of Councils applying for (and most often being awarded) Special Variations should indicate to IPART and the State govt that the funding model, and service delivery model, currently monopolised by Council is no longer fit for purpose.

How do I justify that claim? Simple. When Councils were formed originally, in the UK, in the 11th Century, society operated very differently to today. While there has been some modernisation, the essential 'model' of local government as 'service delivery provider' was firmly established in the mid 19th Century off the back of advances in public health pioneered in the UK such as provision of reticulated potable water, and the provision of reticulated sewers, which drastically reduced common health ailments caused by pathogens and unhygienic conditions prevalent at the time.

In Australia, while reticulated water supplies were effected fairly early in the establishment of most towns, sewers really did not appear until the country had grown affluent enough to afford to better manage its effluent. [Pun intended].

The problem for today is that the provision of those services was set up as a State monopoly, and has, for perhaps obvious reasons, remained so.

There is a general acceptance, politically, of the notion that communal provision of such services is the most cost-effective methodology for their provision. And the Act reflects this belief, carrying provisions for an 'access fee' to be charged to any Lot that is within a set distance of either water or sewer lines.

The clear assumption from this provision within the Act is that you may not seek any alternative solution, as this would undermine the cost structure of the monopoly provider of the service.

On the surface, this makes sense. To a goverment bureacrat. In order to ensure the desired health outcomes (potable water and bodily waste disposal), all who CAN take advantage of the communally provided service SHOULD do so, should therefore be required by Law to do so, and in so doing, provide the minimal cost per lot, achieved by spreading the cost over many hundreds or thousands of Lots within an LGA.

Which would be fine, if not for one glaring anomaly..!

Thanks to the march of time and inflation, the cost of providing these services has also risen dramatically, and there are now alternative methodologies for providing these services that, due to the Council monopoly, are not effectively available to ratepayers.

Advancements in water filtration and waste disposal now mean that the old model of service provision is not cost-effective PER LOT as it once was. Or, at best, it is LESS cost-effective than it once was.

How do I justify this claim? Simple. Take my own residence in Kempsey. Both Council water and reticulated sewer are available, so I must (by Law) avail myself of them. The cost of the two 'access fees' for water and sewer is almost $2000 per annum.

Over a ten year period, that equates to $20,000.

Alternately, I could buy a (Council acceptable) composting toilet for about $3600.

I could buy a 25,000L water tank, plus filters and pumps, for about $3500.

Water falls freely from the sky. At no cost to me. Assume a 20 year replacement cost and I am in front financially after eight years, and saving a minimum of around $12,000 over that 20 year period. Effectively reducing my cost of water and sewer management by 50% year on year. And my figures are conservative. A tank should last 50 years.....greatly reducing the cost over time, and so increasing my annual savings.

The principal point I wish to make is that if a resident – any resident – can provide the services that Council otherwise provides at a cheaper cost, then the 'communal model' is no longer fit for purpose.

But it is clear from Council's own financial modelling, that these costs will inevitably rise, with KSC projecting a 10 year shortfall of $170 million on its sewerage service alone, over the 10 year forward estimates.

That's $17 million per annum, which will need to be shared among the approximately 14,500 households in the Shire, which is a further increase of almost $1200 per annum, per ratepayer.

Pushing my personal water/sewer cost to $3200 per annum.

See why putting in a tank and a composting toilet is looking attractive...??? If this forecast is correct, and this cost is passed on (as we expect), my payback time on my 'alternative methodology' is just over two years. Saving me close to $57,000 of the $64,000 I would otherwise be paying to Council over the next 20 years.

Explain to me why I am not able to avail myself of this saving in costs..???

Explain to me why I am forced by Law to continue to pay over the odds for a system that is no longer cost-effective, or well-managed, or financially viable, on current forecast estimates..?

The community is only too well aware that KSC executives have not yet mentioned the (obvious) necessity for future increases in the Water and Sewer rates, so their seeking a 42.7% Special Variation for the General Account in no way reflects the reality of the situation ratepayers will be asked to face over the mid- and longer term.

> **The "local government authority model" of water and sewer service provision no longer works and is no longer cost-effective.**

It is NOT affordable NOW, and is only going to become *less* affordable once those eventual additional rate increases are applied to the sewer and water rates.

Council, and the Local Government Association, argue that the principle issue is Federal and State funding falling in real terms, year on year. Much is made of the reduction in the share of Federal tax receipts over the past 30 years from 1.0% back then to just 0.55% today, and while I do not dispute that all Councils would be better off financially were that funding to be restored, the underlying problem of the cost per Lot is still there.

Sadly, I don't have a single answer to this undeniably difficult problem, but it is my carefully considered view that at least some of the problem lies in the monopolistic nature of the 'captured market' in which LGAs find themselves.

In short, there is no competition, and so no real desire to innovate, nor to look at alternative models that might be more cost effective for ratepayers.

Any loss of 'income units' to the monopoly service provider sees the overall cost of the services to Council increase, and so the increase necessarily is passed on to those left in the monopoly system.

Ergo, for those operating a 'monopoly' there is no incentive to seek any alternative service provision methodology.

This must change!

This is the same situation in which firstly phone providers, and then latterly electrical energy providers found themselves, because both Federal and State govts were keen to provide reduction in costs via active competition for customers.

I do not wish to debate how well – or not – this has worked, especially in the energy provision sector, but the recent 'democratisation' of energy supply, and the subsequent rapid and ever-growing uptake of solar panels and more recently solar batteries, has demonstrated that when provided with REAL choices of service providers, customers vote with their wallets and shift to the service provider of lowest cost.

This needs to be seriously looked at in regards to the way LGAs are providing their monopoly services.

It may make sense for Councils to simply manage the treatment works, or it might even make sense for those to be corporitised, or sold off as 'waste processing facilities' that could then take the 'waste' from ratepayers as a resource, providing it could be processed into a viable and saleable product, such as fertiliser.

Certainly, the 'waste' water, or effluent, can be treated to a higher standard than at present, and so the water could be returned to the water service, OR it could be provided to industry, OR it could be sold to the (soon to be developed) hydrogen producers as raw material.

We need to get away from the old fixed mindset of seeing sewerage as 'waste' and instead treating it as a resource.

One of the problems in democratising Council services, or de-monopolising them, is that water is the easier of the two services to privatise, or enable competition by removing the LG Act 'compulsory service charges'. However, enabling water service competition has implications for measuring sewerage flows.

If IPART commissioners are not familiar with the way this system works, LGAs do not measure the flow of sewage out into the sewer in order to bill ratepayers their annual usage charges. They measure the WATER flowing into the property, apply a formula based on past usage and number of bedrooms, and so calculate a 'best guess' for how much sewage is entering the sewer from any given Lot.

So there might be a need still for Councils to * measure * water being used on a Lot, even if that Lot is not purchasing water from Council, in order to continue to bill correctly for sewage usage. This would probably just mean Council's water meter would need to be relocated to the main tank outlet, but it might also be a good time to upgrade those water meters to Smart meters that can 'talk' to Council's operations centre without the need for physical checking.

**3. Whether the current funding model will sustainably support the needs of communities**

Clearly, again, the short answer is 'no'.

Research performed as part of their justification of the proposed SV to IPART by KSC was an 'affordability study' commissioned from Morrison Low.

This report has been completely rejected by the local community, as it used questionable methodologies and non-current data to reach the conclusion that the SV was 'affordable'.

I will go elsewhere into more detail on this matter, but suffice to say that the rental figures relied on by Morrison Low were significantly out of date, and drastically understated the actuality of rental payments currently being asked by landlords in the Shire.

As a result of this, the affordability calculations were dramatically wrong, and the actual reality is that in some areas of the Shire up to 50% of the residents are already living in what is termed by ACOSS as 'housing related poverty', in that they are paying more than 30% of their household income on rents or mortgages. Even in one of the wealthier areas of the Shire, 14% of mortgagees were listed as being in 'housing related poverty'.

So even without the application of the SV, many households in Kempsey LGA are already experiencing severe financial hardship, and this will only be exacerbated by the SV if it is approved and implemented.

Their situation will be further negatively impacted when the eventual increases in water and sewer rates are passed on also.

One of the most heinous anomalies and miguided assumptions in the Morrison Low report was that "renters would not be affected by the SV".

Utter codswallop!!!

Every real estage agent I've spoken to in the district acknowledges that any increase in rates will be passed on to tenants as soon as possible by the managing agent.

Every tenant understands this will be the case.

For Morrison Low to proffer this erroneus argument, and for Council to accept it unchallenged, despite feedback from community groups such as SPADCO, who interviewed a significant number of residents of Stuarts Point district and found that most of them would be thrown into serious financial hardship should the SV proceed, is tantamount to wilful ignorance of one of the fundamental duties of elected bodies – to see no harm comes to residents and ratepayers, and to exercise a proper duty of care.

Councils CANNOT keep sticking their hands into the already distressed pockets of ratepayers to fund shortfalls in Council income that are neither justifiable nor conscionable.

If it is truly the federal govt that is responsible for reducing Councils incomes, then <u>they</u> should be responsible for making up the shortfalls.

If, as we know, much of the problem is down to poor decision-making by Council staff, and inappropriate direction by former Councils, the current ratepayers should not be being asked to pick up the tab.

If, as I've outlined previously, the lack of competition, the secure monopolistic position of the Council-as-service-provider, has led to a lack of efficiency and lack of innovation in the sector, then this, too, is not the responsibility of the captive ratepayers to rectify.

The people are not a piggy bank Councils can keep dipping into, especially when their existing practices are so lacking in transparency and realistic 'visibility'.

One additional area State govt could look at is whether or not Councils can use revenues from Crown Land for purposes other than the improvement of the Crown Land, as is currently the case. For example, my Council has several caravan parks that it is unable to develop adequately, as any profits could not be used elsewhere in the Shire.

The stupidity of this position means that Council is forced to engage a third-party manager for these revenue raising sites, and that third party operator takes the profits out of the Shire.

Yet we ratepayers are still on the hook for depreciation, maintenance and replacement of any assets on the Crown land sites.

Completely nuts..!

I know Great Lakes Shire acted as it's own developer for many years, selling off former Dept of Defence lands. While my Council has no such 'gifts' from the Federal govt, surely if there is a viable way to raise revenue from Crown lands – especially if that provides a local or state significant benefit, such as developing caravan parks or campgrounds – then Councils should be empowered to do so, AND be empowered to use any profits elsewhere in the Shire?

**4. Whether Councils (both Councillors and staff) have the finacnial capacity and capability to meet current and future needs of communities**

This is a tricky one. While I suggest no financial fraud or criminal activity, it is clear from past examples that Council staff, either alone or in conjunction with Council or some Councillors, are able to 'manipulate' matters before Council in ways that are morally and ethically [redacted].

No illegal, per se, but ethically and morally 'unsound'.

A classic example of this was the splitting into two separate DAs of a single commercial development application that, as Council was a co-sponsor, would have forced revision by the Joint Regional Planning Panel had it gone to Council as a single DA, being over the minimum threshold for such review. Unfortunately, it was also done in such a fashion that (some) Councillors voting on the two DAs were not aware there were two DAs until the second was presented at a subsequent Council meeting, by which time the legal window to challenge the initial DA had passed.

Totally legal. But totally corrupt.

Never mind that Council approved spending of $2 million of ratepayers funds on the project, which has recently been put into Administration. It was a 'white elephant' before it came before Council, but it was 'pushed' through nonetheless for political reasons. But, as it was 'totally legal' no investigation ever took place, and no-one was ever charged with corrupt conduct. The same GM is still in charge.

It is for this reason that I, and a growing number of local ratepayers, are convinced we need much greater scrutiny by the public, and more accountability for both executive and elected Council.

Changes to the LG Act to prevent the 'splitting' of DAs on larger projects would be a good place to start!

Do Councils have the internal resources to provide the services ratepayers require, going forward? Again, the answer has to be 'no'.

Presently, Councils have far too many staff working on box ticking and hoop jumping, as required by OLG and the LG Act.

How to free up their valuable time, without decreasing the already appalling transparency?

Collegiate decision making, with many more local people involved in decision making – or at least the preparatory stages of decision making – so that local people can feel there is a greater level of scrutiny, and therefore the ability to place more trust in Council and Council's decisions.

Because currently, that trust is almost non-existent. Certainly in my LGA!

As to insourcing and outsourcing, this is a can of worms for a regional LGA like mine. We don't have the volume of work that can attract big city competitors for the services Council provides, and outsourcing some of them would result in an increase in unemployment in a region where Council is the second largest employer.

But efficiencies could be sought!

For example, only a small cohort of the local community actually use the sports fields, but the responsibility for managing and maintaining them falls solely on Council's parks and gardens team. Part of this could (and in my opinion SHOULD) be shared with the community organisations that benefit from the provision of the infrastructure. Mowing, laying out the lines around the fields, maintaining code-specific infrastructure, such as sheds, goal posts and so on, could be shared. A form of 'user pays' where community groups can leverage their volunteer base to 'value add' to the services required, thereby saving money for Council that can be spent elsewhere.

But previous cost-shifting by the Federal and State govts MUST also be addressed.

The removal of the Waste Levy exemption by NSW govt is a heinous burden on local Councils, who are NOT in the position where they can avoid incurring costs. Waste has to be collected. It has to be dumped. In Council's own dump, that then pays fees to the State EPA.

Sorry, but that's ridiculous.

And as for the Emergency Services Levy – where ratepayers are paying for assets we neither chose nor have any say in the operation, maintenance or use, but for which we are now financially responsible.

No way known is that fair, equitable or sustainable, never mind financially sound!

State govt needs to accept that RFS, Ambulance, SES and other 'emergency services' are a STATE GOVT responsibility to fund.

Cost-shifting that onto the LGA and ratepayers simply means we have less money for the other services we actually need and use.

And as a result, the Council needs to apply for an SV...!!

Which WE THE PEOPLE do not want and cannot afford...!!

**5. How can better planning and reporting systems improve long-term budget performance, transparency and accountability to the community?**

Planning can mean two things. Crystal ball gazing of potential future desirables, or waiting for the developers to come cap in hand.

The former I think is well-covered by the recently implemented Integrated Planning & Reporting Framework. Sadly, much time has been lost, if not actually wasted, jumping through the hoops this Framework requires, but we can be hopeful once the Framework is in place, that updating it and checking it every couple of ears will not be the burden the initial implementation was on Council staff.

Having said that, much of the bumf produced to outline and 'report' this to the public has been typically 'marketing speak' motherhood statements, pretty coloured brochures, and uninteligible feel-good mumbo jumbo.

So pretty much a waste of space and ratepayers funds. We just want them to fix the [redacted] roads. Is that too much to ask?

The problem with 'planning' per se is that it is most often 're-active' rather than 'pro-active'.

It is effectively a 'developer-led model' of planning, rather than a 'community-led model'. While this has slightly improved in recent years, the 'community engagement' suggested by legislation and 'LEPs' is, in my experience, largely tokenistic, and based on preconceived ideas of what SHOULD be happening, or what is DESIRED to happen, and communities are simply required to tag along. This is the way things are done, suck it up.

Communities are increasingly demanding more of a say in what development and planning takes place in their LGA.

The current 'community engagment model' appears to consist of a very paternalistic "here's what we've decided for your community", and this is how we're implementing it. OK? All complaints in writing to....a waste paper basket in the basement.....that no-one ever looks at.

Completely the opposite of what the community wants. What are the issues? What are the constraints? How might they be addressed? And by whom? Where and how, and who pays?

What communities want is a more collegiate model of planning and development.

So what other 'model' could we adopt?

I don't have an easy answer for that, but one in which trade-offs occur, that are visibly an improvement, rather than the mere tokens that exist in the planning laws at present. Like planting new trees AFTER first cutting down the ancient old trees that previously existed on a site. Sheer lunacy.

Which then means a 40 year wait for hollows to develop to house the fauna that had been comfortably housed and surviving quite nicely on the OLD trees.

The complete clear felling of all building sites should be anathema to us. And illegal..!! Each tree should be assessed separately, and where necessary the BUILDING plans altered to encompass nature, not the other way round.

We need to BAN the landbanking of DAs, so-called 'zombie DAs'. DAs must have a sunset clause with teeth. No substantial development within, say, three years, the approval lapses.

We know from independent academic research that there are hundreds of thousands of pre-approved developments lying idle and NOT being developed as the owners wait for inflation to kick in and make them even more money. At the expense of the community and house prices.

This needs to be stopped.

**We need a new model of development for taller structures.**

Rather than rigid limits, we could implement an aggregation model that enabled taller buildings, if certain preconditions were met.

We made the mistake in the Sixties of limiting developments to three storeys, by making it compulsory to have a lift in any building over 3 storeys. So developers ONLY built 3-storey blocks of flats, pocketing the cost of the lift they SHOULD have installed!

Now, we have thousands of inner ring blocks of flats – I think the modern planning term is 'manor housing' – that cannot be developed because they are home to a dozen or more residents, and the '75% rule' in the Strata Title Act makes it REALLY hard for developers to target such older units for redevelopment, because sure as shit they all NEED redevelopment. New double-glazing to replace the old Sixties single glazing, insulation for walls, uprated fire safety etc etc.

But these older 'manor buildings' were built on blocks designed for a single, one or two storey detached house. Mostly these blocks are relatively narrow, being much longer than they are wide, as this 'subdivision model' way back when, enabled the original subdivision developer to claim more lots and so make more money. And left us with a piss poor legacy of overly narrow blocks that are hard to build multiple unit buildings on.

Now we need to go up more, but the blocks are too thin to enable that with decent set backs from the boundaries, so perhaps we need to review boundary setbacks, in conjunction with Lot amalgamations.

For example, a rule of thumb might be that for every 0.6m of additional setback provided, a developer could increase the building height by a floor. So starting with the current minimum side setback of 0.9m, adding 0.6m would enable an additional floor, to two-storey. Adding 1.2m would allow a three storey structure. A 1.5m addition would enable four-storey construction, so a six-storey building would require a 2.4m additional setback, for a 3.3m total setback each side of the building. Two such buildings side by side would then have clear space between them of not less than 6.6m, enough room for a driveway, gardens and large tree plantings, which is currently not feasible at all with the minimum 0.9m setback.

And if the provision of balconies not less than 1.5m out from the wall of the building was the rule, then the ACTUAL setback of the bulk of the building then would be 4.8m, so a clear 'line of

sight gap' between adjacent multi-storey buildings of not less than 9.6m. This is a shed load better than the barely 6.0m we see these days!

On a typical single block, this would be impossible, as they are seldom more than 20m wide. But an amalgamated double block could provide 4.8m of space either side of the building, which would still sit on a footprint of around 30-35m width. So potentially three apartments per floor of not less than 10m width, so around 5m width for two front bedrooms, or 10m for a decent sized living dining room. With the length being probably also 30m, this would allow six apartments per floor of 10 x 12m (120$m^2$ in total, with the balance being for the lift and stair well. Total of 36 apartments of decent size, with plenty of space for gardens, maybe even a pool.... An increase on existing of at least 50% - assuming 12 units per Lot pre-existing.

Another issue with the current 'area based zoning' is that some of the lots within the 'zoned area' might be completely unsuitable for multi-storey construction. For example, looking down on any four-way intersection in NSW, the most appropriate location for a tall building is the north-west corner of the intersection, as the path of the sun will mean the shade and overshadowing by a taller building will affect the least number of other dwellings in the neighbourhood.

So those LOTS should be slated for re-zoning for multi-storey construction, not the entire zone or area. For example, under the existing rules, the least appropriate corner to add a tall building would be the South west and South east corners of the intersection, as the shadow from those buildings would be over neighboring houses for most of the day, whereas in the previous example, most of the shadowing would be over the roadway of the intersection itself and NOT over surroundings low rise homes.

These are the sorts of changes we need to planning. PRO-active, not RE-active.

Another example is along railway lines. The northern side of the line should be preferred for multi-storey developments, as the shadowing from them will only shade the railway. Ditto major arterial roads and highways.

Utilising such rules it would be easy then to identify lots that * could * be developed, and rule out almost all others.

And any such changes should be done in consultation with local communities, not dumped on them arbitrarily as the Minns govt has recently done.

An obvious corollary of the above is that adding additional public transport, especially in the inner ring of suburbs, immediately provides areas for new dwellings to be located, along any new transport link.

Potentially every suburb with a railway station could have a smaller version of the Chatswood station development, with towers above the actual station and the rail line.

Areas currently zoned for business, should be freed up to also enable multi-storey dwellings. Let the market work out which is more affordable and/or desirable. Multi storey above existing row shops, sure, why not, but a total larger development might make more sense, with underground parking, internal courtyard, multiple use commercial offerings, not just street facing shops, but professional rooms also.

Any and all government owned land should ONLY be sold to 'not for profit' housing providers.

We desperately need thousands of new houses and apartments for the less well off, and under current land prices, this is just not viable for 'for profit' developers.

Bottom line is, the old Council as service provider model is not working any longer for the people it is supposed to benefit.

We need either more funding from government to prevent Councils constantly gouging ratepayers, or we need a totally new model that is funded more equitably, but especially more efficiently.

I am completely unconvinced that a 'for profit' model will be any better.

But Councils needed to get MUCH smarter and sleeker, and faster moving than they have to date, and I don't know how to make that happen short of threatening or creating actual competition. Or some sort of corporitisation model that enables them to raise additional revenues to subsidise ratepayers services.

**6. Any other matters IPART considers relevant**

Well, I've given you a few to chew on. Planning controls more collegiate, involving the community BEFOREHAND; additional funding for Councils to make up for historic shortfalls; undo cost-shifting exercises like the Waste Levy and the Emergency Service Levy.

Look at 'lot amalgamation' as a means to provide taller apartment buildings, with greater setbacks than are currently legislated, providing a genuine trade-off of additional floors for the developer, in exchange for additional green space around the building, and less over-shadowing for the local area.

It might also make sense for smaller and regional Councils to better utilise economies of scale by sharing equipment purchases and or labour, especially for larger and costly operations like road re-sheeting, bridge building and so on.

We need to get seriously creative and innovate, or we need to open the entire sector up to competition and see what the market is able to provide as an alternative.

As a further suggestion, if State govt were to dramatically expand the the Container Deposit Legislation to incorporate ALL glass and plastic containers, then 'processing Council waste' would then become a viable business opportunity, and someone would soon step up to provide that service. OR several adjacent Councils could co-manage such a business and reap the rewards for themselves and their ratepayers!

Sincerely yours,