

**Independent Inquiry into the  
Financial Sustainability of NSW  
Local Government**

**Submission by**

**DG & AB MAXWELL  
Consulting Accountants**



# Submission to the Independent Inquiry into the Financial Sustainability of NSW Local Government

## INTRODUCTION

We have reviewed the contents of the Inquiry's Interim Report and of the research reports prepared for, and submissions made to, the Inquiry, and set out below our comments. We congratulate the Inquiry on the Interim Report which is an encyclopaedic summary of most of the key problem areas of the Local Government industry. Unfortunately, the comprehensive nature of the Report and the limited time available for the preparation of comments will limit the number and content of submissions made by the industry, as they have limited this submission and for which we apologise.

## DILAPIDATED INFRASTRUCTURE (1)

### The Need for Asset Management Systems

We entirely concur that Local Government must develop effective asset management systems, but urge that the scale of the task not be under-estimated.

The *JRA Report*<sup>1</sup> adopts the *International Infrastructure Management Manual* (IIMM) as its benchmark reference for asset management planning<sup>2</sup>. Figure 9.1 to that report shows that the proportion of Councils fully applying *the principles* - not the IIMM procedures - does not exceed 30% in relation to any of the categories shown.

We can only repeat the recommendation contained in our earlier submission to the Inquiry -  
“... the Inquiry should seek to encourage and expedite the development and adoption of comprehensive asset management systems by all Councils.”

### The Status of the *Asset Accounting Manual*

We consider that a significant reason for the low level of adoption of an available international standard is that the *Asset Accounting Manual*<sup>3</sup> is a mandated standard with which all Councils are required to comply<sup>4</sup>.

Although we have not had the opportunity to assess the IIMM, we would support the use of an international standard in preference to a local standard<sup>5</sup>. (We note that recommendation 2 of the *JRA Report*<sup>6</sup> proposes the development of a local standard - it would appear additional to the *Asset Accounting Manual* - which suggests that the IIMM does not provide adequate guidance for the purpose.)

- 
1. *The Present Condition and Management of Infrastructure in NSW Local Government*, Roorda, J January 2006, Sydney.
  2. *JRA Report*, p 30.
  3. *Local Government Asset Accounting Manual*, Department of Local Government, current version #4, July 1999.
  4. *Local Government (General) Regulation 2005*, clause 214 & 215 (2)(c), pursuant to *Local Government Act* section 413 (3)(b).
  5. We actively support the adoption of common procedures in all Australian jurisdictions, and hence support an international standard, or at least an Australia-wide standard, in preference to a standard limited to a single jurisdiction.
  6. *JRA Report*, page 12. However, we have assumed that the IIMM standard should be appropriate, or else *JRA* would not have based their report on it.



We submit that it would be appropriate for the Inquiry to recommend that the *Asset Accounting Manual* be downgraded to advisory status, and the IIMM be included also as advisory status.

### DILAPIDATED INFRASTRUCTURE (2)

*There is NO “\$6.3 billion infrastructure renewal backlog”.*

The JRA Report is - in our view, rightly - critical of the standard of asset management planning, and figure 6<sup>7</sup> reviews the methodology used by Councils in assessing costs to bring assets to satisfactory [condition]. Overall, the most common method used is described as “estimated but not quantified” i.e. guessed. However, this has not put the authors of that report on notice that their data may contain significant inaccuracies.

The base data<sup>8</sup> for the \$6.3 billion calculation is derived from Special Schedule 7 (SS7) as prescribed in the *NSW Code of Accounting Practice & Financial Reporting*<sup>9</sup> (the Code).

The JRA Report makes no reference to the following extract from the Code at page A702:

“In determining the cost estimated to bring public works to a satisfactory condition, councils should be estimating in current dollars, the amount required to be spent on existing infrastructure so that services can be provided. The level of satisfactory condition is determined by council and relates to existing assets, not enhanced assets. For example, suppose an existing timber bridge is considered to be in an unsatisfactory condition because of surface deterioration. The cost to bring to satisfactory entails the necessary amount of expenditure to repair or replace the surface to a satisfactory level. If surface replacement entails other costs, or even complete replacement of the bridge, then those costs are included. However, all costs must be limited to providing the existing service, not an improved one. Costs of upgrading existing assets, or providing new infrastructure are not included in the estimated cost to bring existing assets to a satisfactory condition.”

Since SS7 was introduced into the Code in 2001 (update #9), the Department has been proposing to establish a working party to provide clear guidelines on assessing what constitutes a satisfactory standard but so far as we are aware this has not yet occurred.

Clearly, from the above extract, *satisfactory condition*, in relation to individual assets, is intended to reflect the cost to restore the asset to provide a satisfactory level of service.

In relation to an infrastructure network, we contend that a network in a *satisfactory condition* will contain components that are in perfect condition, and components in such poor condition that replacement is imminent, and it is the *average* condition of the network that should be assessed. Indeed, this automatically follows from the fact that infrastructure components are only replaced when they are in unsatisfactory condition - it can never be cost-effective to replace them when they are satisfactory.

---

7. JRA Report, page 27.

8. JRA Report, page 15; confirmed by email 2 March 2006.

9. *NSW Local Government Code of Accounting Practice & Financial Reporting*, Department of Local Government, updated annually, update #13, April 2005.

# Submission to the Independent Inquiry into the

## Financial Sustainability of NSW Local Government

It follows therefore that the renewal backlog of an infrastructure network must be defined as the cost required to be incurred to bring the *average condition* of the network to satisfactory. Costs to increase the capacity of the network, or to meet higher standards adopted subsequent to construction of components, may form part of an *enhancement backlog* but do not form part of a *renewal backlog*.

### Water & Sewer Infrastructure

The JRA Report<sup>10</sup> shows a “backlog” of \$955 million for this infrastructure group, largely derived from SS7 information. We doubt that the authors of the JRA Report were made aware of some of the individual figures that we assume were included in the total.

#### Eurobodalla Shire Council

For 2003/04, Eurobodalla Shire Council disclosed \$69,605,000 for water and \$27,300,000 for sewer in SS7 as the amount required to bring these assets to a satisfactory condition. This is about 11% of the State total.

However, their supplementary narrative notes - which really are quite outstanding - make it clear that this figure includes:

- the construction of a new storage dam in the south of the shire - \$22.3M
- 2 new chlorination treatment plants - \$22.75M
- pipeline and pump station upgrades (water) - \$18.1M and (sewer) \$6.0M respectively
- upgrade Bateman's Bay sewerage transport system to 2018 population requirements - \$12.7M
- sewerage treatment upgrade Batemans Bay & Malua Bay - \$6.3M

In relation to the sewage collection system the Council reports:

"Council has some 350km of gravity main sewers. These assets are up to 26 years old and are performing satisfactorily. The average remaining life expectancy for this asset is 51 years."

But the claim is still made that \$400,000 is required to bring to a satisfactory condition, despite having positively stated that the assets are performing satisfactorily.

It is clear that the *renewal backlog* of this one Council is **overstated by at least \$88.55 million**.

#### Ballina Shire Council

To select just one other Council more or less at random<sup>11</sup> - Ballina Shire - whose SS7 totals for 3 years have been as follows:

|      |          |       |          |
|------|----------|-------|----------|
| 2001 | \$30,071 | Sewer | \$0      |
| 2003 | \$56,807 | Sewer | \$16,500 |
| 2004 | \$59,748 | Sewer | \$18,500 |

We submit that it is most unlikely that a sewer system with a carrying value of some \$60 million should suddenly deteriorate over a period of two years to the point where the cost to restore it to a satisfactory condition should increase to almost 30% of the total construction cost of the entire system including treatment works. Rather, we suggest that *satisfactory condition* for the 2003 & 2004 years has been assessed in terms of the *Best Practice Management for Water Supply and Sewerage Guidelines* issued by the then Department of Land & Water Conservation in December 2002.

---

10. Figure 5.2, page 25 and text page 24.

11. The first Council, in alphabetical order, for which 3 annual versions of SS7 are held in our files.



# Submission to the Independent Inquiry into the

## Financial Sustainability of NSW Local Government

We submit that the whole of the sewer component, and much of the increase in the water component between 2001 & 2003, are more accurately described as *enhancement*, rather than *renewal*, *backlog*.

### Training Courses

Under the registered business name of *Coalface Training*, this firm has provided specialist training courses in the preparation of Council Annual Financial Statements and associated schedules since 2001. Although Finance Officer involvement in the preparation of SS7 is usually limited to ensuring that the carrying values, etc shown in the schedule match the financial information, we have many times received questions of the appropriate interpretation of “satisfactory condition”, and have been made aware that many Councils interpret this on an individual asset basis, rather than average condition.

### Summary

We have shown above that the so-called *renewal backlog* for water and sewerage infrastructure is overstated by something in the order of \$117 million of a total of \$156.653 million by just 2 Councils - an overstatement of some 74%.

If that level of overstatement applies across the board then the *renewal backlog* for water and sewer infrastructure amounts to \$250 million, and not the \$955 million of the JRA Report. While we doubt that this level of over-statement does apply to all Councils, it is clear that the \$955 million figure is *very* materially over-stated, quite probably by as much as 50%.

This conclusion does not deny that a renewal backlog exists, or that there is a danger of future increase, but it does reduce the size of the *renewal backlog* to more manageable levels of probably 100% - 200% of attributable revenues. Nor does our conclusion affect the size of the *enhancement backlog*, which on our analysis also includes the over-statement of the claimed renewal backlog.

### **Other Infrastructure Types**

We do not have the time and resources to devote to a similar analysis of the various other types of infrastructure included in SS7, and forming the basis of of the \$6.3 billion renewal backlog claimed in the JRA Report.

However, each of the factors - and examples - given above equally apply to the information contained in individual SS7s completed by Councils. We set out below a table compiled from information included in the first two SS7s completed by certain Councils based on research that we undertook in 2003 - unfortunately we have not subsequently updated that research.



**Submission to the Independent Inquiry into the  
Financial Sustainability of NSW Local Government**

| Council | Year | To bring to satisfactory \$'000 | Annual Maintenance \$'000 | Program Maintenance \$'000 |
|---------|------|---------------------------------|---------------------------|----------------------------|
| A       | 2001 | 11,216                          | 4,651                     | 5,408                      |
|         | 2002 | 10,928                          | 4,515                     | 4,434                      |
| B       | 2001 | 69,100                          | 11,600                    | 5,687                      |
|         | 2002 | 69,100                          | 11,600                    | 4,863                      |
| C       | 2001 | 14,933                          | 3,364                     | 3,093                      |
|         | 2002 | 14,933                          | 3,988                     | 3,287                      |
| D       | 2001 | 251,279                         | 33,244                    | 33,068                     |
|         | 2002 | 251,800                         | 35,535                    | 30,209                     |
| E       | 2001 | 110,765                         | 10,185                    | 7,811                      |
|         | 2002 | 115,667                         | 10,855                    | 6,582                      |
| F       | 2001 | 5,400                           | 5,187                     | 6,571                      |
|         | 2002 | 5,550                           | 9,671                     | 6,394                      |
| G       | 2001 | 10,891                          | 4,886                     | 3,464                      |
|         | 2002 | 14,860                          | 8,240                     | 4,790                      |
| H       | 2001 | 9,430                           | 827                       | 827                        |
|         | 2002 | 8,470                           | 3,030                     | 2,265                      |
| I       | 2001 | 11,179                          | 4,812                     | 3,198                      |
|         | 2002 | 9,551                           | 7,499                     | 4,223                      |
| J       | 2001 | 251,998                         | 26,107                    | 9,565                      |
|         | 2002 | 221,435                         | 26,990                    | 8,947                      |
| K       | 2001 | 29,900                          | 1,291                     | 1,412                      |
|         | 2002 | 13,068                          | 1,914                     | 2,771                      |
| L       | 2001 | 0                               | 1,207                     | 36                         |
|         | 2002 | 10,860                          | 1,083                     | 1,083                      |
| M       | 2001 | 0                               | 3,860                     | 3,860                      |
|         | 2002 | 31,318                          | 7,066                     | 2,200                      |

The quality of this information is only likely to have significantly improved for the few Councils that have established effective asset management systems referred to on page 2 above.

At the time of undertaking that research, we noted a claim that it was estimated that the cost to bring the then \$30.7 billion of Local Government infrastructure assets to satisfactory standard was \$3.7 billion<sup>12</sup>.

A 70% increase in just four years again argues definitional change rather than actual deterioration in average infrastructure condition.

Again, all the evidence points to major, *material*, over-statement of the renewal backlog, which again is much more likely to be in the order of 100% - 200% of Council annual rates revenues.

Again, this conclusion does not deny that a renewal backlog exists, or that there is a danger of future increase, but it does reduce the size of the *renewal backlog* to more manageable levels. (It must not be forgotten that the current series of attempts - in all States - to quantify the amounts of renewal backlogs are the first such attempts that have been made. Before AAS 27 required the recognition of infrastructure assets, few if any Councils had even basic records of the location - let alone the condition - of their assets.)

Again our conclusion does not affect the size of the *enhancement backlog*.

---

12. Chris Champion, IPWEA, Parkes Financial Awareness Conference, April 2003, presumably based on 2001/02 SS7 figures.



**Submission to the Independent Inquiry into the  
Financial Sustainability of NSW Local Government**

**DILAPIDATED INFRASTRUCTURE (3)**

*There is NO “future \$14.6 billion renewal bill”.*

Much of our argument follows logically from the previous section, and will not be repeated here. There may be - no doubt is - a future \$14.6 billion *renewal and enhancement* bill, but a number of the components in the calculation of the figure are subject to challenge.

**Adjusting for the Use of “Cost” Value**

We support the continued use of “cost” by Councils that do not have comprehensive and accurate asset management systems. (We have earlier stated above and in our previous submission<sup>13</sup> that Councils should be encouraged to adopt comprehensive asset management systems.) It is our experience that Councils with such systems are keen to adopt the *fair value* basis for recognition of infrastructure assets.

**As Councils establish and maintain effective asset management systems, the “cost basis problem” will disappear.** Further, the fair values reported will be far more accurate than any form of values developed in the absence of such systems. Until the problems referred to above in relation to the recognition of assets are addressed and overcome, any revaluation procedure will not provide benefits commensurate with the costs involved.

The JRA Report suggests that the error involved in Councils adopting the cost basis of recognition “are likely to increase up to 30% when asset values are updated”<sup>14</sup>, but doesn’t disclose how this figure was derived. This figure seems suspiciously like CPI compounded since 1996, and makes no allowance for the approximately \$8 billion<sup>15</sup> in new and replacement assets acquired since then, and recorded at a cost that is much nearer current costs.

Access Economics themselves have used an adjustment factor since 1 July 2000 of 15%<sup>16</sup>. The calculation method refers to the “average elapsed life of the relevant class of non-financial assets (in years)” but does not acknowledge that assets were recognised at the then current costs in 1995-1997, and is therefore likely to over-estimate the age of the cost values for these assets, and hence the amount of the required adjustment.

In both cases, the over-statement of the adjustment to cost values feeds directly into the calculation of depreciation, which is therefore also over-stated.

---

13. Page 16

14. JRA Report, page 24

15. *Local Government Finances in New South Wales: An Assessment*, Access Economics, January 2006, Adelaide, page 27 estimate 2004/05 at \$996.9 million; we assume that \$8 billion over 9 years is conservative.

The Access Economics report states (page 21) that “for the tax-supported sector of NSW councils, the only information published in their audited accounts on capital expenditure is the payment (cash) amount in the cash flow statement.” This is not correct, as the accruals basis capital expenditure is disclosed for each class of asset in Note 9 to the accounts. However, this data is not collected by the Department of Local Government data return, and hence was not included in the data set supplied to Access Economics.

16. *Ibid*, page 3 and Appendix C



# **Submission to the Independent Inquiry into the Financial Sustainability of NSW Local Government**

## **Estimated Useful Lives of Assets**

We have addressed the lack of reliable records of useful lives of assets (which arithmetically translates into depreciation rates) in our previous submission<sup>17</sup>.

The Australian Accounting Standards require that useful lives be reviewed annually<sup>18</sup>, and although Councils have not necessarily achieved this, it is fair to say that most Councils have reviewed the useful lives of different asset classes on more than one occasion in recent years. Most commonly, as exemplified in our previous submission, this has resulted in upward revisions in estimated useful lives.

As a result, different Councils are currently disclosing a range of useful lives for the same assets, and this must be expected to continue as a particular type of infrastructure may well have a different useful life in different Council areas depending on climatic and other factors. One example of useful life variations involves water mains, where the Asset Accounting Manual indicates a useful life of 80 years. Disclosed estimated useful lives in Council statements range to an upper limit of 100 years. The inferred estimated useful life of Sydney water mains is 265 years<sup>19</sup>.

These estimated useful lives translate to depreciation rates from 0.378% to 1.25%, and because of the many millions of dollars of infrastructure involved, have major financial effects.

We submit that the base data from which significant components of the JRA Report were compiled are significantly in error, to which the authors were not alerted.

We now proceed to comment, as requested, on the various options set out in the Interim Report.

## **Chapter 5 - LOCAL GOVERNMENT ROLE**

### **Option 1. - Remove Statutory Revenue Limitations**

One consequence of this option is that there would be a period - possibly two or three years - of significant adjustment. However, in other jurisdictions any rates increase above 0% has to be justified to the elected members by staff, and by elected members to the electorate at large. In NSW, the amount of the approved maximum rates increase effectively becomes the minimum rate increase, responsibility for which lies with the Minister, not elected members.

The Grants Commission has advised Councils that failure to utilise available rate increases results in a discounting of disability factors relating to rating capacity, and hence a lesser level of FAGs grants to the Council. With only a 3 year catch-up period on rate-pegging increases not taken<sup>20</sup>, Councils therefore are pressured into increasing rates by the maximum amount permitted.

---

17. Pages 13-15.

18. AASB 4, Depreciation, para 6.1; AASB 116, Property, Plant & Equipment, para 51.

19. Daily Telegraph, 6 June 2005, page 4 reported that 80 km of leaking water mains were to be renewed across Sydney "over the coming year". In addition, "18,000 km of water mains - or 85% of the network - would be inspected ..." By inference, the total network would amount to 21,175 km, of which 80 km represents 0.378%.

20. LG Act, section 511.



# Submission to the Independent Inquiry into the

## Financial Sustainability of NSW Local Government

Most other statutorily pegged fees (e.g. development & building applications) are at a level below the relevant administration costs and Councils may seek to set fees at levels which would reduce this charge on other general purpose revenues. De-regulation could result in developments being concentrated in certain areas with lower fees, rather than in accordance with regional development plans.

We unreservedly support this option in relation to rate-pegging, and support with reservations in relation to statutorily controlled fees. We also assume that some form of phase-out provisions would be required.

### Option 2. - Link to an Index

The Interim Report elsewhere refers to various factors (such as cost-shifting) that explain why neither CPI or GSP based indices would be appropriate. Attempts have been made in the past<sup>21</sup> to develop a Local Government Index, but none have been successful and there is currently no generally accepted Local Government Index. The lead time on putting this option into effect would necessarily be significant.

We do not support this option.

### Option 3. - Rate-pegging by the Electorate

A Council financial plan or budget is an extremely complex document and it is difficult to see how the merits attaching to any particular proposed rates increase could be effectively communicated to the electorate. Indeed, many Council officers report difficulty in effectively communicating this information to their elected members.

It is difficult to see how such referenda, held in conjunction with Council elections, could avoid becoming a political auction with candidates promising rates reductions irrespective of actual Council needs.

We do not support this option.

### Option 4. - Deregulate in relation to Capital Projects

This option ignores the current difficulties in identifying the share of general income that *should* be allocated to each purpose. There are significant practical difficulties in defining renewal and enhancement of infrastructure assets in such a manner that operational staff can apply those definitions in completing timesheets and other original costing sources.

We do not support this option.

### Option 5. - Recognition of Local Government

Different writers have identified different reasons for the failure of the 1974 and 1988 referenda, including the political tactics largely directed at the other concurrent referendum questions. In 1988 some local government practitioners were not comfortable with the detailed wording of the proposed amendments to the Constitution.

In other jurisdictions, most notably South Australia and Tasmania, there is a recognition throughout both State and Local Government bureaucracies that they share the same electorate, and that it is in the interest of both that services and facilities be provided to the electorate in the most seamless and cost-efficient manner possible.

---

21. And are currently being made in South Australia.



# Submission to the Independent Inquiry into the

## Financial Sustainability of NSW Local Government

That sense of common purpose is much less easy to identify in NSW, and until it is established, constitutional recognition is irrelevant. Once it is established, constitutional recognition is unnecessary.

We support the option, but suggest that it does not address the key problem.

### Option 6. - Adopt 'Minimalist' Approach

Interim Report, page 81:

“In practice Councils in NSW do not have a free choice as to which role they adopt.”

We dispute the use of the term “infrastructure crisis” in relation to Local Government infrastructure. In our view, the existence of a crisis is signalled by extensive newspaper headlines and articles providing examples of failure<sup>22</sup>, many (and increasing) letters of complaint to the editors of local media, much (and increasing) exposure on talk-back radio, many (and increasing) complaints to the Minister and Department of Local Government, and so on. This is just not happening in relation to Local Government infrastructure<sup>23</sup>, although it may be looming.

It is impractical to expect Councils to agree to a “minimalist” approach unless the meaning of the term is clearly defined. We do not support the option.

### Option 7. - Adopt 'Optimalist' Approach

We submit that this is a reasonable expression of the approach maintained by most Councils, particularly in rural areas. In the face of constant diversions of resources at the whim of the State Government and its bureaucracies, Councils strive to preserve the condition and maintenance of their basic services. Particularly in rural areas, Councils are very adept at harnessing voluntary activity, for example when they permit use of Council plant free of charge at working bees provided it is operated by a suitably qualified Council employee.

We support this option.

### Option 8. - FAGs Grants - efficiency promoting elements

We submit that the current “effort neutral” approach of the LGGC already encourages efficiencies in Councils, in that efficient Councils are able to make more effective use of the grants that they receive, and are not disadvantaged by virtue of their efficiency. Our previous submission<sup>24</sup> indicates that the total pool of funds available to the LGGC is insufficient to counteract the identified disabilities suffered by Councils, and this is supported by the Annual Reports of the LGGC.

We also have concerns that “efficiency” may be defined merely in terms of unit cost rather than “producing the desired result with the minimum of wasted effort”<sup>25</sup>. We do not support this option.

---

22. In relation to Local Government, these would most commonly be in the local press.

23. However, these signals *are* occurring in relation to State Government infrastructure - hospitals, Sydney Rail, ferries and State roads.

24. Chart, page 5.

25. Shorter Oxford English Dictionary, volume 1, page 794, definition 2 - efficient.



## Submission to the Independent Inquiry into the

### Financial Sustainability of NSW Local Government

#### Option 9. - Restrict FAGs to low rate bases.

We note that this option is directly contrary to the submission made by the Mayor of Baulkham Hills, who proposes that the whole of the FAGs grants should be allocated on a per capita basis. The counter argument is that a per capita component (\$16.68 per person in 2004/05<sup>26</sup>) should only be paid after full compensation of identified disabilities.

Estimates of resident population have a significant effect on the calculation of FAGs grants, but these have a bias in favour of Councils with large population bases, because there are larger numbers of their population using services of Councils with small population bases than vice versa.<sup>27</sup> City dwellers may do well to consider the effects on their own travelling residents were there to be a complete absence of Local Government sourced facilities in the areas to and through which they travel.

We do not support this option on the grounds that such a change in allocation of FAGs grants should occur using the existing mechanisms for periodical review of those grants.

#### Option 10. - Inter-Governmental Agreement

We support this option, but note that no party should enter the agreement grudgingly, and that all parties must ensure that all officers act in accordance with the spirit, not merely the terms of such an agreement - see our comments in "Option 5. - Recognition of Local Government" on page 9 above.

## Chapter 6 - LOCAL GOVERNMENT INFRASTRUCTURE

#### Option 1. - Inter-Governmental Agreement

We support this option.

#### Option 2. - Total Asset Management System

We do not support this option on the grounds that it is totally unrealistic, particularly as to time-frame.

It is our experience that an *effective* asset management system *only occurs* where it is maintained and used by operational staff for operational purposes, and to maintain the appropriate level of accuracy this requires that it is tied into a comprehensive GIS database with satellite positional location. Although there are a number of "TAMS" available on the market, we are not aware of any software that is totally satisfactory, and all such systems are currently in the process of major evolutionary development. The current situation is far better than 5 years ago, but there is still much work to be done.

---

26. NSW LGGC Annual Report 2005, page

27. Urana Shire Council has a population of less than 1,400 (Interim Report, page 40). It is transected by approximately 150 km of main roads, which form the main traffic route connecting Echuca, Deniliquin and Jerilderie to Wagga Wagga and the Hume Highway, and from Wangaratta via the new Murray River bridge at Corowa, thence via Narranderra to the Newell Highway and Brisbane. Throughout their period of transit, occupants access Urana Shire Council services at possibly a higher rate than locals. Based on conservative estimates of traffic loads and the non-local component of that traffic, this approximates an effective population increase of 3.5%.



## Financial Sustainability of NSW Local Government

The acquisition costs of such systems are significant, but are dwarfed by the training and commissioning costs. They will also require major changes in operational staff procedures, effectively amounting to a paradigm shift. Suppliers of financial software would also need to develop, test and de-bug interfaces to facilitate accurate transfer of the undoubtedly accurate information generated.

Even were satisfactory systems currently available, no software supplier would be capable of supplying, installing and training staff for all NSW Councils within the nominated timeframe. The Auditor-General's comments<sup>28</sup> in relation to State Government agency progress in the 13 years since their TAM policy was released does not engender a high level of confidence that their assistance (other than financial) will be of material benefit.

Introducing the element of compulsion, especially when compounded by an unrealistic time-frame, will ensure that many Councils pay lip service only to the concept and incur significant costs without obtaining an effective asset management system, or realising any of the benefits that will accrue as a result of its proper use. This was exactly the result that occurred following the original recognition of assets, and which has led us to support the ongoing use of cost as the basis of the recognition of assets by those Councils.

We repeat the estimate made in our earlier submission that even an average Council would require up to 100,000 individual asset<sup>29</sup> entries. A number of items of information would be required for every asset, and the total data capture and input throughout all Councils in the State would amount to many billions of items.

We submit that it would be ultimately far more effective in achieving the long-term goal for the LG&SA to negotiate with Statewide Mutual for public liability premium discounts for those Councils that maintain an adequate asset management system, although for the smallest Councils additional financial support and incentives will still be required.

### Option 3. - Increase Monitoring by other Governments

Until Councils establish and maintain comprehensive asset management systems, the information which would be supplied to permit such monitoring would be no more accurate than that supplied to the authors of the JRA Report. Those Councils that do have such systems will - for certain - be keeping both State and Commonwealth Governments and their electorates informed. We do not support this option.

### Option 4. - Increase Council Revenue

We consider that an electorate, through its elected representatives, is entitled to choose to drive on potholed roads and instead construct (say) a new sporting facility, **provided it is an informed decision**, based on full and fair information.

We therefore support the option except to the extent that it implies a forced re-ordering of expenditure priorities. Voluntary (or at least semi-voluntary) re-ordering of expenditure priorities occurs as part of the Management Plan process in every council every year.

---

28. NSW Auditor-General's Report, *Implementing Asset Management Reforms*, October 2005, page 2, cited in the JRA Report, page 25.

29. We define an *asset* in accordance with AASB 116.43 as "each part of an item of property, plant & equipment" that is depreciated separately.

# Submission to the Independent Inquiry into the Financial Sustainability of NSW Local Government

## Option 5. - Cash Fund Depreciation

First, define *asset renewal*.

If a 2 lane road was originally constructed (in accordance with the then standards) at a lane width of 6 metres, and is now reconstructed (in accordance with current standards) at a lane width of 8 metres, how much of this is *renewal* and how much is *enhancement*? And equally importantly, is the definition able to be consistently and accurately applied by the ganger in charge of the job, who is responsible for allocating plant hours, man hours and material costs to the appropriate job numbers?

If a 300 mm clay pipe sewer line is replaced by a 300 mm uPVC sewer line, how much of this is *renewal* and how much is *enhancement*? Or a 900 mm concrete footpath replaced by a 1.2 metre paving brick footpath?

The difficulties of defining *asset renewal* are evident, yet the option assumes that such a definition exists, is able to be accurately applied in practice, and is generally accepted. There is currently no such definition<sup>30</sup>.

We contend that there is no direct relationship between the depreciation charge and funding of asset renewal/replacement/enhancement. AASB 116.60 requires that “the depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity”, but there is also a requirement that a generally accepted depreciation method be used. Currently accepted depreciation methods “include the straight-line method, the diminishing balance method and the units of production method.”<sup>31</sup>

If a calculation method was developed that more nearly replicated the degradation curve shown in figure 6.2 of the Interim Report, and gained general acceptance, it would be open to accountants to adopt it, and in the case of NSW Councils the Local Government Accounting Advisory Group would be the appropriate body to endorse the method and its adoption. In the meantime, the generally accepted depreciation method that most nearly reflects the pattern in which the asset’s future economic benefits are consumed by the entity is “straight line depreciation”<sup>32</sup>.

It is characteristic of infrastructure that its replacement almost invariably involves enhancement. Mere funding of *renewal* is therefore inadequate. Development of long-term financial plans, their annual update and relationship with other aspects of Council’s long term plans, ***and the funding thereof***, is therefore critical.

If that funding requirement is similar to the amount of the depreciation charge, that is chance. However, the depreciation charge can only ever be a proxy - and a poor proxy at that - for a proper calculation of future infrastructure renewal/replacement/enhancement funding requirements.

We do not support the option.

30. In a similar sense, it is easy to accept that all infrastructure assets have a finite useful life. The difficulty exists in inspecting an individual asset, and determining what is this asset’s remaining useful life, and is best exemplified in the question “what is the useful life of the Sydney Harbour Bridge?”

31. AASB 116.62

32. There is also a technical argument as to whether the degradation curve reflects the consumption of economic benefits, or whether it merely reflects the manner and timing in which the consumption of the economic benefits becomes *visible*, but that debate is for another place.

## **Chapter 7 - LOCAL GOVERNMENT SERVICES**

### **Option 1. - Compact**

We doubt the success of this option for the reasons set out in the *Sydney Morning Herald* of 14 March 2006.

### **Option 2. - Triennial Surveys**

We understand that there is a considerable body of evidence that targeted surveys - as conducted in Victoria - are more accurate in assessing resident and ratepayer attitudes. Persons without experience of living in both metropolitan and small rural environments seem to be unaware of the effectiveness of the rural "grapevine" in informing elected members of general community attitudes, priorities and levels of satisfaction. For those communities, formal surveys are a work of supererogation. We do not support the option.

### **Option 3. - Shared Purchasing Arrangements**

We do not oppose the option, and much work is being and has been done in this area, generally on an *ad hoc* basis. Formalising at a LG&SA level may not necessarily be beneficial, especially near the northern, southern and western borders of the State where Sydney-centric purchasing and supply is commonly disadvantageous.

### **Option 4. - Commercialise Business Operations and**

### **Option 5. - Increase Water & Sewer Dividends**

For many - particularly rural - localities, so-called business operations including water and sewer are viewed more as "mutual service" operations than otherwise. Ratepayers in such areas prefer to receive their "dividend" by way of lower service charges.

Further, there is an equity issue in that water and sewer ratepayers comprise only a sub-set of general ratepayers, and because the General Fund of Council has not contributed any capital to those operations, the water and sewer ratepayers are subsidising the non-water and non-sewer ratepayers.

We submit that the original automatic categorisation of water and sewer operations as National Competition Policy business operations was not appropriate in all circumstances, and we oppose the option in relation to these.

We support the option in relation to all other business operations where they are of sufficient size as to compete with actual or potential private enterprise businesses<sup>33</sup>.

## **Chapter 8 - DEVELOPMENT PLANNING & CONTROL**

While Development Planning & Control are undoubtedly important Council functions, we have difficulty in accepting that the issues raised are germane to financial sustainability except to the extent that they relate to the full recovery of Council costs, and accordingly have abbreviated our responses.

---

33. Small populations may be of such size that they could not sustain a viable private enterprise operation, in which case the operation is more correctly classified as mutual service provision rather than a business operation.

## **Submission to the Independent Inquiry into the**

### **Financial Sustainability of NSW Local Government**

Option 1 - Single Planning Document - we support the option.

Option 2 - Use Land Parcels or Locality - we express no opinion.

Option 3 - Establish Independent Panels - such panels should make recommendations to Councils who would not be entitled to ignore the advice without enumerating their reasons in detail. Planning staff reports would be made to the Independent Panel, with copies supplied to elected members for information.

Option 4 - Establish Advisory Independent Panels - We support the option.

Option 5 - State Planning Commission - We support the option.

Option 6 - Corporate Strategic Plans - We support the option, but note that significant resources will be required, and that additional financial support will be needed by the small Council sector if this is mandated for completion in the short term. However, there is a clearly discernible trend by Councils in this direction and we believe that within 10 years this will effectively have been completed by the majority of Councils.

We note that comprehensive 10 year plans are required to be developed and supplied to the Department of Local Government in support of any request for special variations made under section 508A of the LG Act<sup>34</sup>.

## **Chapter 9 - LOCAL GOVERNMENT REVENUE**

### **Option 1 - Deregulation of Rates**

We support the option for the reasons given above.

While the option “would give Councils monopoly powers over certain taxes and charges”, the rating base is shared with land tax, and figure 9.1<sup>35</sup> illustrates the extent to which this has been attacked by the NSW State Government - to a far greater extent than other State Governments - in recent years.

### **Option 2. - Partial Deregulation of Rates for Infrastructure Maintenance, etc**

We have referred to the difficulty of definition of maintenance/renewal/enhancement - the resolution of which would be a pre-requisite - in “Option 5. - Cash Fund Depreciation” on page 13 above.

We challenge the claim that, and certainly the extent to which, Councils are raiding capital funds to balance their books. Our research shows Council capital expenditures to have consistently averaged approximately 25% of gross operating payments for the past 5 years, with no downward trend discernible.

We do not support the option.

---

34. DLG Circular 05/04.

35. Interim Report, page 161.



### Option 3. - More Transparent Ratepegging

Establishment and publication of clear guidelines of the basis on which the general ratepegging limit - and particularly special variation - decisions are based would defuse much of the angst against the process. Councils would then be able to develop options within the guidelines with confidence. The current lack of transparency encourages an “ambit” component in many applications for special variations.

We submit that *if* rate pegging is to be retained, transparency must be improved, and to that extent support the option.

### Option 4. - Permit Fewer Rate Exemptions

We support this option, and note that *during the course of the Inquiry*, legislation has been passed which **extends** exemptions to the new stormwater drainage annual charge to certain rateable Crown lands<sup>36</sup>.

### Option 5. - Rate Deferments rather than Concessions

We foresee significant difficulties with this option, also involving some equity issues. Firstly, the ability to defer must be limited to only the “concession” component of the rates, and hence the second *pro* dot point is not absolute.

With the likelihood - even probability - that pensioners will defer an average of 25 years for the “concession” component of rates, there will inevitably be many cases where the deferred component exceeds the value of the rated property. If sale in such circumstances is authorised, who makes the decision to either cease the right to defer, or to sell the property? What protection will exist for Council officers who make an erroneous assessment that outstanding rates exceed property value without negligence and in good faith?

What happens when the rated property is transmitted (say, by will) to a person not eligible for deferment? What happens when the rated property is sold to other eligible persons - are the deferred amounts recouped on settlement?

Interest on overdue rates is currently calculated on a simple interest basis<sup>37</sup>. Loss of interest revenue would in very few years greatly exceed the current cost to Council of concessions.

If challenged, what level of proof of the calculation of the total amount outstanding would be required at the termination of the deferment entitlement? Although rates records are required to be permanently retained, modern software systems are designed to optimise on-screen enquiries, and the hard copy records are frequently seriously inconvenient for subsequent follow up. If a Council changes its software, it is only a few years before it has no computer capable of accessing on-screen enquiries or the old system or any staff sufficiently familiar with the old procedures to be able to access the information.

We have received reports that already this is impacting on persons seeking to claim adverse possession of land. While the legislation may provide a limitation period, this does not satisfy the question of fairness and equity to the beneficiaries of a deceased estate, or to vendors, where outstanding amounts are deducted from settlement proceeds.

---

36. *Local Government Amendment (Stormwater) Act 2005*.

37. LG Act, section 566 (1).

# Submission to the Independent Inquiry into the

## Financial Sustainability of NSW Local Government

All local government software systems retain current files of all transactions relating to all assessments where any balance remains unpaid. The option would result in the numbers of these assessments increasing enormously, and the potential for forced upgrading of equipment<sup>38</sup> or changes of software supplier.

The only benefits that we can identify accrue to the State Treasury, while Councils will be left with ultimately significant administrative, financial and other costs. We oppose this option.

### Option 6. - Change Rating Base

Having had experience with *improved value* rating bases in other jurisdictions, both as a Council officer and as an accountant in public practice, we support this option.

To the claim that such a change would deter development, we report that the opposite is the case, because the effect on future rates payable can be accurately estimated as part of the cost/benefit analysis of the capital expenditure proposal, in contrast to the current situation in NSW<sup>39</sup>.

Ratepayers are better able to relate the value of their property to the rates they are levied, and are better able to assess whether they should, or should not, object to a new valuation. This tends to reduce the number of valuation objections and appeals.

Frequently Councils are able to make a single rate for multiple land categorisations, increasing the transparency of the entire rating process and improving accountability to ratepayers.

Improved values *simplify* the valuation process. Sales of improved properties do not have to be analysed to allow the land value to be deduced from the sale price<sup>40</sup>, and Councils report the value of building approvals to the Valuer-General. We fail to appreciate the significance of the comment that in rural areas land values and property values tend to be much closer together, any more than land values and property values tend to be closer together for an unimproved town allotment.

Transitional provisions would be required to ease the impact of the change in rate burden on those assessments where the ratio of improved value to land value is particularly high.

### Section 9.4 Option 1 - Better Pricing Guidelines and

### Section 9.4 Option 2 - Better Cost Recovery

The most significant non-political factors inhibiting improved pricing of Council services are the multiplicity of discreet services and in some areas the lack of sufficient trained costing personnel to undertake the task.

In the late 1990s a number of major studies were undertaken seeking to develop appropriate benchmarks for Council services but all were unsuccessful principally due to the number of discrete services provided by Councils, these differences reflecting the differences in the areas and needs to which they administer. One of the greatest strengths of Local Government is its willingness and ability to tailor its services to local requirements, and this is a fundamental implicit in the theory of fiscal federalism<sup>41</sup>.

---

38. This is a distinct possibility with the quantity of information required for comprehensive asset management systems, although effective interface with the financial systems may permit the use of a dedicated server for the asset management system.

39. Very few accountants in public practice have an understanding of the manner in which land value is calculated, or even of how rates are assessed.

40. The accuracy of this analysis was criticised by the NSW Ombudsman *Improving the Quality of Land Valuations issued by the Valuer General*, October 2005.



## Financial Sustainability of NSW Local Government

It has been our experience that detailed costing/pricing analyses are often not cost efficient due to the low number of uses of a particular service<sup>42</sup>. There are more than adequate guidelines already available from the Department, and particularly in accounting literature, and we therefore do not support this option.

### Section 9.4 Option 3. - More Transparent Developer Contributions

Many early Section 94 plans required development contributions sourced from within a particular locality to be expended on specified projects within that locality. This resulted in many small “buckets of money” that, in aggregate, were substantial, but individually were insufficient to initiate any particular option. However, we are also of the view that some Councils have failed to utilise Section 94 funds as promptly as is appropriate.

While we support this option, we note that the effects of recent amendments - which should help to overcome this problem - have yet to be identified.

We submit that it would be competent for the Inquiry to recommend that a Council gains an unfettered discretion to deal with property acquired or constructed using Section 94 funds after a certain number of years<sup>43</sup>.

### Section 9.5 Option 1. - Increase FAGs and Section 9.5 Option 2. - Set FAGs as fixed percentage

When FAGs were first introduced it was proposed that they be a fixed percentage of personal tax income<sup>44</sup> and the author has clear recollections of personal income tax assessment notices disclosing the proportion of the assessed tax payable to local government. We wish the option well.

### Section 9.5 Option 3. - Reform the Distribution of FAGs

We do not support this option on the grounds that such a change in allocation of FAGs grants should occur using the existing mechanisms for periodical review of those grants (see “Option 9. - Restrict FAGs to low rate bases.” on page 11 above).

### Section 9.5 Option 4 - More Transparent LGGC

We support this option.

---

41. Interim Report, page 71.

42. However, often the Council still needs to determine a fee for the service even if it unlikely to be used (e.g. cemetery exhumations). Failure to determine a fee and include it in Council’s revenue policy prevents the fee from being charged (sec 610F, LG Act).

43. It appears that section 32 (1) of the LG Act which authorises a Council to classify land acquired pursuant to section 94 of the EPA Act does not operate to authorise a Council to dispose of the land many years afterwards although circumstances may have radically changed from the time of the original formulation of the Section 94 plan. (No reference available, but we believe the case involved Bankstown or Burwood Councils.)

44. 1.5% rising to 1.75% and ultimately 2.5% according to the author’s recollection.

## Financial Sustainability of NSW Local Government

### Section 9.5 Option 5. - State Disclosure of Grants and

### Section 9.5 Option 6. - LG&SA Disclose State Grants

Any such disclosure should clearly differentiate between State sourced grants, and those transmitted from the Commonwealth Government. Further, State sourced grants should differentiate between those grants that are expended by Councils as agent for the State Government because the State Government is not capable of delivering those services to its own electorate<sup>45</sup>, and grants made for the delivery of local government services to the local government electorate. Subject to this we support the option. (It would also be interesting to hear the reason for this information not currently being supplied.)

## Chapter 10 - COUNCIL GOVERNANCE & MANAGEMENT

### Option 1. - Clarify Governing Body Structure

We support this option.

### Option 2. - Amend the Local Government Voting System

We support an option to amend the Local Government voting system, *but in the opposite direction to that proposed*. The interests of the non-resident ratepayer are legitimate as are those of the non-ratepaying resident. Each should be entitled to one vote in each electorate (as also of course resident ratepayers) in which they have an interest. The non-resident voters roll should be ongoing, rather than requiring non-resident ratepayers to re-enrol for every election, and sole owner non-resident ratepayers should be automatically enrolled.

The situation in comparison to other tiers of government is not comparable, as electorates are much larger and the proportion of non-resident interests much less in large electorates.

### Option 3. - Increase Planning Accountability

Recording names voting for a proposal - except in the case of a division - may increase the frequency of occasions where an elected member denies responsibility for a Council decision, and we prefer the option of an advisory Independent Advisory Panel canvassed in “Chapter 8 - DEVELOPMENT PLANNING & CONTROL” on page 14 above.

We also oppose the practice of permitting elected members, after a vote at a Council meeting is declared, to request that their names be recorded as voting against the motion. We submit that names of elected members voting, and the direction of their votes, should *only* be recorded if a division is taken.

### Option 4. - Develop Strategic Plans

For the reasons given in option 6 of “Chapter 8 - DEVELOPMENT PLANNING & CONTROL” on page 14 above, we deprecate any element of compulsion: the plans will be better, more thorough and more useful - and external audit will be unnecessary - if they are developed by Councils of their own volition (but with official encouragement). Councils should certainly be permitted to *consult* with their auditor during the preparation process, and this may need statutory authorisation in order to avoid independence issues..

---

45. In every instance, Councils are unable to fully recover their costs in relation to these grants and are in fact examples of local government assistance to the State.

# Submission to the Independent Inquiry into the

## Financial Sustainability of NSW Local Government

The complexity of Local Government Management Plans, and the many variables involved, introduce significant technical difficulties from an audit point of view, and any such audit would be particularly time-intensive. We would anticipate the resulting audit fee to be of a similar order to the existing annual statements audit. We particularly oppose the option for external audit.

### **Option 5. - Improve Councillors' Remuneration**

Corporate board members are usually specially selected for the existing knowledge and skills that they can bring to the organisation. It is one of the strengths of local government that ordinary people are elected to office. Sometimes those people need to be made aware that they have specific responsibilities<sup>46</sup>, and that they do not have unlimited powers.

Significant increase in councillor allowances, with the concomitant increase in expectations of time commitment, will act to dissuade some of the more highly skilled and experienced members of the community from standing for election. If a successful business person is required to make a either/or decision between standing for Council and continuing in business, it is unlikely that the elected member's allowance will be sufficient to attract, no matter at what level it is set.

We do not support the option.

### **Option 6. - Dual Governance Structures**

We do not support the option.

### **Option 7. - New Key Performance Indicators**

We have expended much effort in trying to develop practical, reliable financial indicators for local government, and wish you well with this option.

### **Option 8. - Benchmark Administrative Performance & Capacity**

We doubt the practicability of this option, particularly with smaller population and remote Councils, many of which already experience significant diseconomies of size yet any larger unit will only increase these<sup>47</sup>. It is regrettable but a fact that any change in senior officers in such Councils usually leads to a six-month hiatus before a successor is in place. Benchmarking during or immediately after this period will provide misleading results. In any case, we believe that any manager worth his salt should be undertaking this on a continuous basis. We do not support the option.

### **Option 9. - Resource-sharing and Outsourcing**

We refer to our comments in "Option 3. - Shared Purchasing Arrangements" on page 14 above. One of the areas commonly suggested as suitable for centralised operation is the administration of the rating function. In fact, a considerable portion of a rates officer's time is spent in locating and identifying a land parcel on section maps or GIS systems, and the time saved in this is the greatest single benefit associated with an experienced rates officer with a Council. Doubling the number of land parcels/parishes, etc quadruples the time taken to properly familiarise oneself with an area, and our experience indicates that the rates function shows diseconomies, rather than economies, of scale.

---

46. e.g. Brewarrina Shire Council

47. Interim Report, pages 209-211.



## **Submission to the Independent Inquiry into the**

### **Financial Sustainability of NSW Local Government**

The mere processing of rates notices is a minor component of a rates officer's duties, and for possibly the majority of Councils is contracted to companies such as Security Mail Pty Ltd.

(Coalface is one of only two providers of specialist training to Rates Officers in NSW, and the author is the editor of the *NSW Rates Administration Cluebook*<sup>48</sup>.)

Resource-sharing etc should continue to be pursued by Councils on a case-by-case basis.

## **Chapter 11 - LOCAL GOVERNMENT FINANCES**

### **Option 1. - Standard Reporting Practices**

We offer qualified support to this option. Such, indeed, was the original intention of the Code, but we suspect that major factors for the Inquiry's need to include the option are lack of Local Government Department resources, and the existing heavy workload of the senior practitioners who could contribute most to the process.

We note that the Department invited selected tenders for the preparation of model statements for the 2006 year (incorporating AIFRS) on 13 February 2006, but that this did not extend to updating the remainder of the text of the Code to incorporate AIFRS. We are unaware whether the Department proposes to undertake this separately from the successful tenderers, but note that there is a possibility that the Code - a prescribed standard - as it will operate for preparation of 2006 annual financial statements, will contain contradictions.

We note that there is currently action to establish a specialist Local Government Finance Officer's training course, which has been absent from NSW Local Government for over 10 years.

### **Option 2. - Fiscal Transparency Code**

The elements of such a code should form part of the Accounting Code, rather than a separate document. We do not support the option.

### **Option 3. - Introduce "Golden Rules"**

Any such rules must first be developed and obtain general industry agreement, and again we consider the appropriate document to contain those rules is the Accounting Code, which already is an obligatory standard. We oppose the option.

### **Option 4. - Update "Financial Health Check"**

We support the option.

### **Option 5. - Increase Borrowing**

We agree that many Councils could appropriately increase borrowings from financial institutions.

---

48. Published by Coalface Software & Training Solutions Pty Ltd, Wagga Wagga, ISBN 0-9758234-0-X



# Submission to the Independent Inquiry into the

## Financial Sustainability of NSW Local Government

However, we also express concern at the level of borrowings from employees as a result of failing to require them to take annual and long service leave within a reasonable period of it falling due<sup>49</sup>. We support the option subject to the particular financial requirements of individual Councils.

### Option 6. - Maximise Revenue

We support this option.

### Option 7. - Review Operating Expenditure

Our experience is that this is an ongoing process in most Councils although there are doubtless instances where this could be pursued more rigorously. We support the option.

### Option 8. - Increase Revenue Flexibility

We support this option.

### Option 9. - Increase Pressure on Other Governments

We wish this option well.

### Option 10. - Reduce Council Spending Responsibility

As has been acknowledged elsewhere in the Interim Report, many of the additional Council spending pressures have been mandated or encouraged by State Government. A case in point is the current option that permits Councils to raise a stormwater drainage annual charge that will not be subject to ratepegging limits. Information now becoming available<sup>50</sup> makes it clear that this charge may only be raised in relation to *enhanced* stormwater drainage services, and that Council must itself carry the cost of the enhanced services for public land, including some rateable Crown land. Automatically therefore, any Council that charges a stormwater drainage annual charge *must* wind up with a net deficit on the overall scheme.

We suggest that the term “live within their means” is evocative and inappropriate. Almost every person, and every organisation - including Councils - must prioritise expenditure options if they are to “live within their means”. Making such expenditure decisions does not imply that the person or organisation is financially incompetent or inept, but merely that available expenditure opportunities are greater than the means available.

We suspect that the intention would be better expressed with the phrase “properly maintain, replace and renew infrastructure when required”. As we have expressed above, we believe that a Council can validly decide to defer infrastructure renewal (in the same way that a private person can validly decide to defer changing over their car) **provided it is an informed decision**. We oppose the introduction of any externally mandated, arbitrary standards.

---

49. We estimate current borrowings by Councils from this source at some \$3/4 billion, increasing at a rate well in excess of wages increases.

50. DLG circular 6/18, 23 March 2006.



# Submission to the Independent Inquiry into the

## Financial Sustainability of NSW Local Government

### Option 11. - Mandatory Policy Statements

We oppose the mandatory elements of this option, but submit that these certainly should be *encouraged*. We suggest that there is a great deal of development work that should be undertaken in developing the components of such statements, and in developing a skills base within the industry to enable their accurate preparation<sup>51</sup>. We submit that this option is premature.

### Option 12. - Clear Statement of Financial Governance Responsibilities

We support this option. It is now more than 10 years overdue, and was and is a far more important component of Local Government reform than mere shifting of Council boundaries. In turn, this option can only be realised once the matters raised in options 1 & 6 of Chapter 10 are resolved.

### Option 13. - Increased Councillor Training

We support this option, but express the view that this relies on successful completion of the previous option.

### Option 14. - External Ranking of Council Finances

The pre-requisites for putting this option into effect are set out in the first *con* dot point, and in the absence of those pre-requisites such rankings would be no more valid than much of the information contained in the Department's *Comparative Information* publication. Pending the development of generally accepted ranking measures, we oppose this option.

### Option 15. - Change Governance Structure

Based on the author's experience as a member of a Council audit committee, it is suggested that this is the best method of making specialist skills available to elected members while still retaining the strengths of local representation by a cross-section of persons elected from the community at large. However, there are practical difficulties involved in developing a suitable model for such committees that will convey those benefits to small, remote Councils as well as to metropolitan areas.

### Option 16. - LG&SA Leadership

In other jurisdictions the Councils' association is viewed as representing the *corporate interests* of its members to a greater extent than appears to be the case in NSW. For example, the Local Government Association of SA has developed both a Financial Management<sup>52</sup> and a Governance<sup>53</sup> framework.

Local Government Managers Australia is the professional body representing the professional interests of its members, who form a large proportion of the senior officers of Councils throughout the State. The fact that LGMA has found it appropriate to expend its own resources in developing things such as the *Financial Health Check* and the *Governance Health Check* - and the other projects that are under development - suggests that the *corporate interests* of the Local Government industry as a whole are under-represented, and we suggest that the LG&SA is the most appropriate body to amend this situation.

---

51. Early NZ examples bore little relationship to reality, and it was only after about 10 years that the majority of these documents became reliable and capable of being put into practice.

52. *Framework for Local Government Financial Management*, LGA of SA, March 2001

53. *Governance - A practical resource and Performance Assessment Process for South Australian Local Government*, LGA of SA, April 2003.



## Financial Sustainability of NSW Local Government

The Interim Report<sup>54</sup> refers to our earlier submission where we advocate the development of mechanisms for interstate co-operation in research projects following the conclusion of the Inquiry. We would envisage that the most appropriate body for the necessary coordination would be the Australian Local Government Association, but it cannot develop this role without the strong support and encouragement of the LG&SA and the equivalent bodies in other States.

### Option 17. - State Government Support

There are many occasions throughout the Interim Report it is acknowledged that the differences in scale between NSW Councils - which is a consequence of geography, and therefore immutable - means that an option or a procedure developed for larger Councils will require modification and adaptation before it is reasonable to expect it to be adopted by smaller Councils.

We suggest that it is in this process of adaptation that funding support by State Government would achieve maximum benefits at minimum cost, rather than the areas of funding support referred to in the Interim Report in relation to this option. On many occasions, such support need not involve any payments at all.

Since Coalface Software Solutions commenced sponsoring the Local Government Finance Professionals *Annual Financial Statements Award* we have been gratified on many occasions by the expressed opinions of many auditors that the Award and the judges' commentary made publicly available has been responsible for a significant improvement in the professional standards of preparation of Council annual financial statements generally<sup>55</sup>.

### Option 18. - State Government Legislation

It is fair to say that this has been the approach most commonly adopted in the past, and must therefore have contributed to the current situation as reported by the Inquiry. We are of the view that the Department of Local Government is seriously under-resourced for carrying out its current responsibilities and this has contributed to hasty, late legislation which has had unintended consequences and unnecessarily imposed significant management and administrative pressures on Councils.

Act 49 of 2005, the "water rights" amendments, was read (second reading) in the Legislative Assembly on 21 June 2005, Legislative Council 22 June 2005, assented to 27 June 2005, commenced 1 July 2005. It affected farmland rates made by Councils in accordance with Management Plans that were required to be adopted before 1 July 2005, after a 28 day public consultation period<sup>56</sup>. The consequences in relation to rate-pegging are still being worked out<sup>57</sup>.

The "stormwater drainage annual charges" legislation<sup>58</sup> was assented to 19 October 2005, and Councils were advised by Department circular 05/69 dated 12 December 2005. That circular anticipated that amendments to the *Local Government (General) Regulation 2005* would be "completed by the end of February 2006 to allow Councils time, if they choose to raise the charge, to include details in their 2006/2007 management plans." Circular 06/18 dated 23

---

54. Page 242..

55. e.g. John O'Malley, President, Local Government Auditors Association, and a current award judge.

56. LG Act, Chapter 13.

57. LG circular 06/20, 24 March 2006.

58. Act 70 of 2005

## Submission to the Independent Inquiry into the

### Financial Sustainability of NSW Local Government

March 2006 advised “that the drafting of the amendments to the Local Government (General) Regulation 2005 to enable councils to raise and implement this charge is still underway. The Circular [05/69] also advised that guidelines to assist councils to implement the charge are being prepared. It is anticipated that the legislation will be in force by mid-April and certainly in advance of the 2006/2007 financial year.”

Although the Department has supplied “answers to frequently asked questions” they are no substitute for the regulation or the (compulsory) guidelines. Councils are already in an advanced stage of preparation of their Management Plans (which, as noted above, have a period of public display). The proposed basis of charging business category properties (first advised to Councils in the FAQ, but not yet in the regulation) will require a number of software suppliers to change a field in the property masterfile from a *notational* to a *value* field. We suspect that the Department has not taken any action to advise software suppliers of this.

The continued under-resourcing of the Department will result in continued Sydney-centric, one-size-fits-all legislation with unintended consequences that has been complained of to the Inquiry. We oppose this option.

We shall be pleased to supply any further information or explanations that you may require.

