COOTAMUNDRA-GUNDAGAI REGIONAL COUNCIL

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Mr. Luke Gosling OAM MP
Chairperson
House of Representatives Standing Committee on Regional Development, Infrastructure and Transport
PO Box 6021
Parliament House
CANBERRA ACT 2600

Mr. Luke Gosling OAM MP,

RE: Inquiry into local government sustainability

Cootamundra-Gundagai Regional Council at its ordinary meeting held 23 April 2024 considered a report regarding the above matter and resolved to lodge a submission to the above inquiry. For context, Cootamundra-Gundagai Regional Council (CGRC) was formed in May 2016 as a result of the forced merger of the former Cootamundra and Gundagai Shire Councils resulting in a council which now has an annual operating budget of approximately $50m.

Almost since the time of the forced merger in 2016, the pursuit of demerger back to the former boundaries has been pursued resulting in Local Government Boundaries Commission processes in 2021 and 2022, the latter resulting in the former Minister for Local Government approving a demerger. With the election of a new State Government in March 2023 and the appointment of a new Minister for Local Government, Hon Ron Hoenig MP, CGRC created a demerger pathway (S204 and s212 of the Act), that required, amongst other things, to produce a plan which demonstrated two financially viable and sustainable councils post a demerger of CGRC.

In producing a Financial Sustainability Plan to support the demerger, it became abundantly clear that the financial sustainability challenges for CGRC in the main are not caused simply by a merger/demerger. The issues are far more systemic with a number of contributing factors that have escalated and eroded any real chance that a council, merger or otherwise, had to remain sustainable.

This submission will address each of the Terms of Reference established for this inquiry.

- **The financial sustainability and funding of local government**

  For CGRC, and arguably most councils in regional/rural NSW, there are four main funding streams that are relied on from one year to the next. These funding streams and percentages relevant to CGRC are Rates and Annual Charges, approx.. 40%; User Charges and Fees, approx.. 10.5%; Interest received and other income, approx.. 5.3%; and Grants and Contributions, approx.. 44%.

  On the expenditure side, both cash and non-cash, the main expense areas are Employee Benefits and Oncosts; Materials and Services; and Depreciation. Over the last 4 or 5 years, various unplanned events have occurred which have had a significant impact on councils' operations, from the COVID-19 pandemic to a variety of natural disasters including drought, bushfires and flooding.

Whilst the injection of disaster relief funding and stimulus funding on the face of things has been beneficial, in many cases there have been unintended consequences. With every council across the country all looking to deploy the relief and/or stimulus funding expediently, this has meant that the limited pool of contractors/service providers have all had their capacity extended and the result has been a significant increase in final project costings etc.

Additionally, with an uplift in infrastructure renewals/upgrades, this has resulted in a financial impact on councils' operational results through significant increases in depreciation.

For CGRC and most councils in regional/rural NSW, as the relief and stimulus funding recedes, our reliance on Rates and Annual Charges as the main source of funding to continue ongoing infrastructure renewal and service provision will be even further strained.

Like most councils in NSW, the fundamental issue for CGRC is to prepare and produce a balanced or surplus operating result (i.e., excluding capital grants and contributions in the Income Statement). It is that result that influences the Operating Performance Ratio (OPR) that is benchmarked by the NSW Office of Local Government (OLG) at 0%. A negative result is a deficit. A trend of cyclic surplus and deficit is acceptable (e.g., accounting and timing practice induced), provided an 'average' balanced (0%) result endures across the 10 year financial planning horizon. A regular and deeper annual deficit becomes structural and requires intervention – usually by a special rate variation (SRV).

And, like most councils, the revenue and expense gaps for CGRC widen each year, becoming increasingly dependent (and vulnerable) on the volatility of grants. The following charts illustrate those and other key trends since 2019.

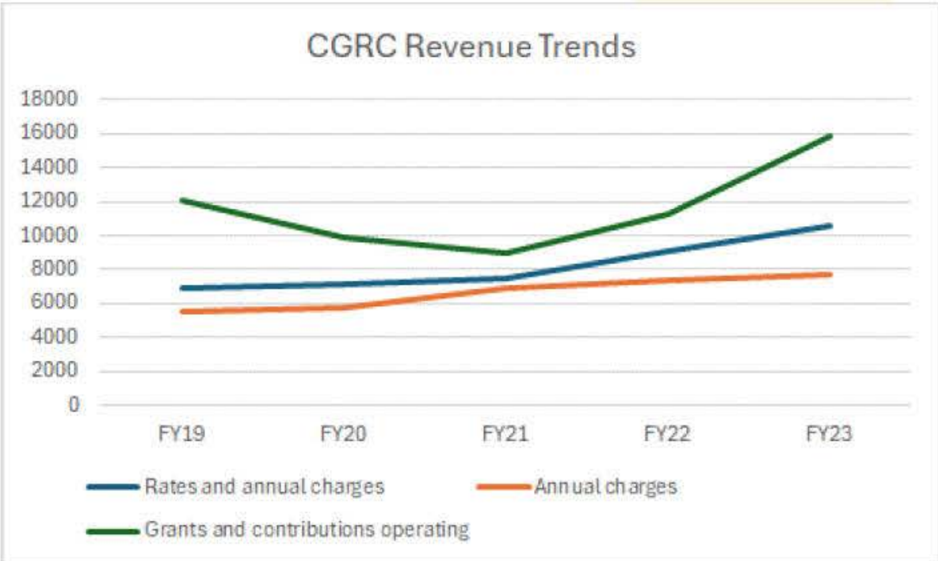

Chart 1

Note: depreciation expense represents 70% of annual rates and charges

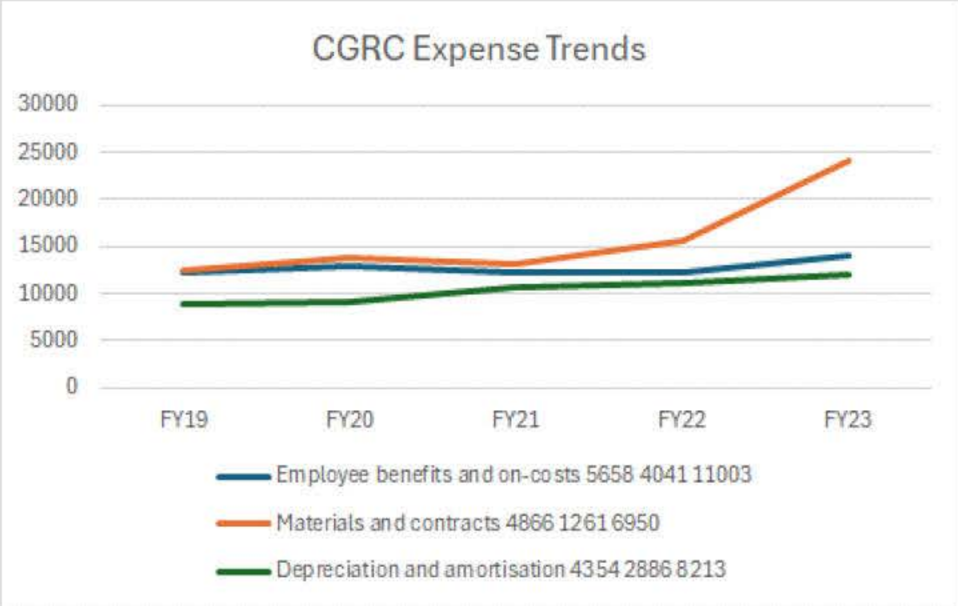

Chart 2

Note: cost of materials escalation

Note: depreciation annual growth absorbs ~ half rates and charges growth

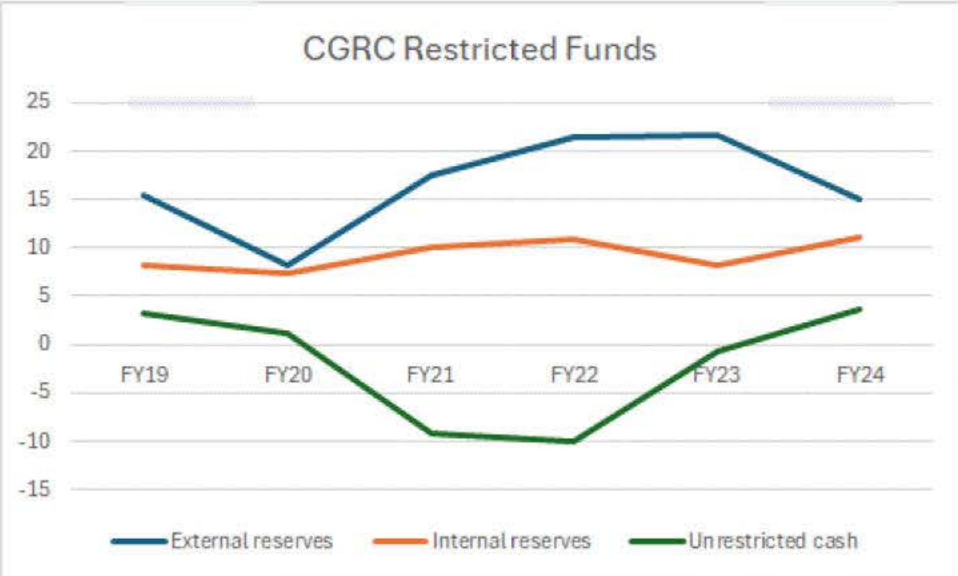

Chart 3

Note: negative unrestricted cash

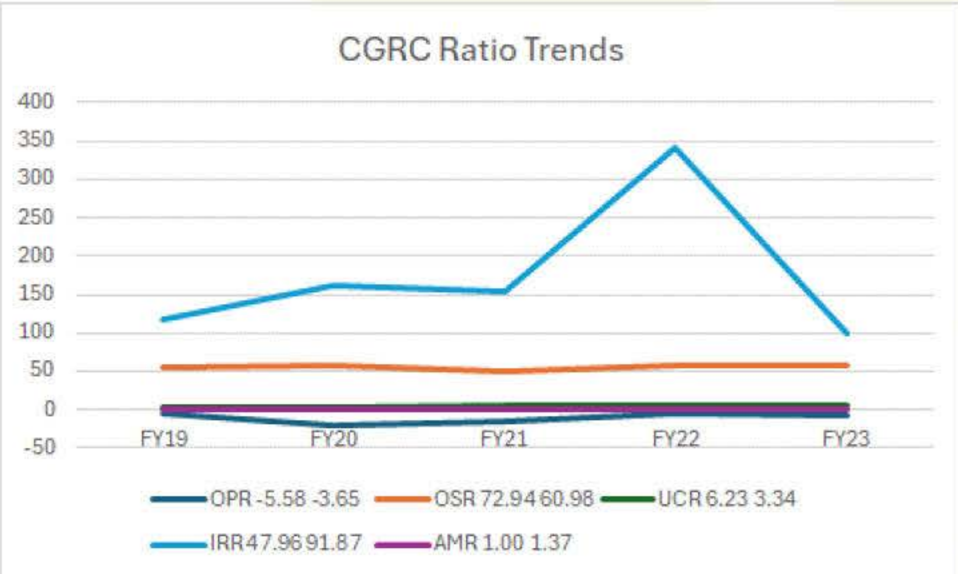

Chart 4

Note: grant-stimulated asset

Other than negative OPR and non-record of asset maintenance, all other indicators are

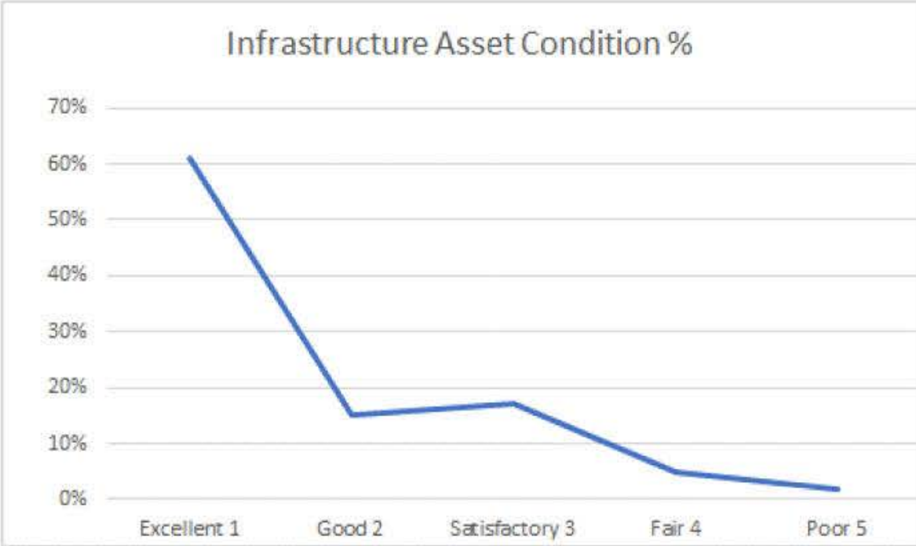

Chart 5

Note: general good condition of assets (excl utilities)

The basic indicator of sustainability for a council is to regularly produce a balanced or surplus operating result, indicating resources are available to expend on capital (renewal/upgraded assets). In essence, the annual movement in cash and investments (and subsequent mix of reserves and unrestricted cash) is a reasonable barometer of the financial health of a council. The following table (Table 1) draws on the pre-merger financial statements of Cootamundra Shire and Gundagai Shire and tracks comparative annual results, using data from the Cashflow Statement and other Notes.

				Statement of Cashflows - Trends							
FY15	FY15	$2023		($,000)	FY18	FY19	FY20	FY21	FY22	FY23	OP24
Cootamundra	Gundagai	C+G									
7,026	4,102	14,956		Rates and annual charges	11,996	13,022	13,884	14,550	16,588	18,269	19,264
4,529	1,553	8,174		User charges and fees	7,212	8978	8,114	7,523	7,356	10,806	4,986
534	297	1,117		Interest received	1,103	900	537	144	117	697	1,245
4,767	4,237	12,101		Grants and contributions	11,354	17,019	11,658	20,947	25,666	27,564	20,970
766	1,046	2,435		Other income	2,556	3,474	1,311	881	528	1,563	1,301
17,622	11,235	38,784			34,221	43,393	35,504	44,045	50,255	58,899	47,766
5,550	3,842	12,623		Employee benefits and on-costs	12,469	12,099	12,430	12,286	13,175	13,922	14,709
5,640	1,919	10,159		Materials and services	14,615	13,988	13,678	13,693	14,642	25,956	19,824
68	28	129		Borrowing costs	148	131	111	230	222	184	146
2,022	2,050	5,473		Other expenses	3,793	3,964	3,609	3,097	2,146	903	1,572
13,280	7,839	28,384			31,025	30,182	29,828	29,306	30,185	40,965	36,251
	261	351		Sale of real estate assets	186	793	347	1,368	453	-	
305	168	636		Proceeds from sale of IPPE	663	1,208	1,223	1,188	1,728	109	
	3,000	4,032		Proceeds from borrowings			4,430	4,000			
305	3,429	5,018			849	2,001	6,000	6,556	2,181	109	
2,650	3,217	7,885		Purchase of IPPE	10,539	21,443	22,000	24,897	16,998	9,963	
165		222		Purchase of real estate assets	10	781	186	4	55	-	
119	1	161		Repayment of borrowings	410	428	414	1,052	1,275	1,315	
2,934	3,218	8,268			10,959	22,652	22,600	25,953	18,328	11,278	
- 733	- 122		Inc Stat	Nett operating result (excluding capital grants)	- 9,376	- 2,910	- 6,248	- 5,469	- 4,977	- 3,779	- 7,694
- 452	2,313			Net change in cash and cash equivalent	- 1,467	3,821	- 2,201	2,556	2,039	7,161	
16,312	9,972			Total cash, cash equivalents and investments	34,471	27,015	16,781	18,276	22,273	29,070	
5,132	6,989		C1-3	Externally restricted reserves	16,800	15,473	8,166	16,232	21,679	21,683	
6,647	2,504		C1-3	Internally restricted reserves	16,755	8,192	7,363	10,003	10,866	8,203	
4,533	479		C1-3	Unrestricted reserves	916	3,350	1,252	- 7,959	- 10,272	- 771	
4,354	2,886	9,731	Inc Stat	Depreciation, amortisation and impairment	8,072	8,941	9,344	10,600	11,194	12,149	10,536
-5.58%	-3.65%			Operating Performance Ratio	-29.61%	-5.79%	-19.47%	-15.31%	-4.98%	-7.53%	
72.04%	60.98%			Own Source Revenue Ratio	65.28%	54.93%	56.88%	49.62%	57.68%	58.60%	
6.23%	3.11%			Unrestricted Current Ratio	5.40%	3.27%	2.91%	5.00%	6.47%	6.40%	
18.91	55.23			Debt Service Ratio	0.66	12.67	5.26	4.55	6.21	5.40	
0.83%	0.00%			Asset Maintenance Ratio	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
110.30%	104.57%			Infrastructure Renewal Ratio	112.60%	117.03%	162.48%	154.34%	340.36%	98.79%	
3.14%	0.00%			Infrastructure Backlog Ratio	6.95%	7.60%	4.10%	3.32%	3.49%	4.26%	

$2023: CPI=1.344

Table 1

Using the normal Income Statement format, the table indicates significant growth in revenues raised and expenses borne in the subsequently merged entity (CGRC). Notably, the annual investment in infrastructure was significant, which has manifest then in growth in depreciation expense, compared to the former councils.

While employment growth is relatively flat compared to the indexed staffing costs of the former councils, it has been the extraordinary escalation in contracts and materials costs (evident also in the development and construction sectors) as the primary driver of growth in expenses. Assuming the near doubling of materials costs in FY23 was an aberration, preceded by a similar doubling over three years of disaster and stimulus-led grant income, the normalised revenue and expenditure differences between the (indexed) former councils and CGRC would be deemed acceptable. This is particularly so given the expected harmonisation of service levels due to merger.

The standout from Table 1, has been the growth in depreciation, growing by 50% since FY18. This has contributed significantly to the deterioration in annual financial results for CGRC.

- **The changing infrastructure and service delivery obligations of local government**

While many councils provide environmental, economic and social services with some level of financial sponsorship of government, the primary purpose of local government is to maintain and renew infrastructure and other community assets, for which taxes (rates, annual charges) are levied on properties. Assets/infrastructure are tools for the delivery of services to our community.

CGRC prepared an Asset Management Plan (AMP) 2018-28, covering the main asset classes of transport, water, sewer, stormwater, buildings, parks and waste. The AMPs appropriately cover renewal and upgrade forecasts, risks, nominate community and technical levels of service (LoS), and suggest performance measures. It should be noted that recent costs escalations and the effect of natural disasters on assets prompt a revision of those AMPs.

The NSW Office of Local Government has established several asset sustainability indicators including:

- IRR 100%: infrastructure renewal ratio (renewals/depreciation)
- IBR 2%: infrastructure backlog ratio (cost to bring assets to satisfactory standard/WDV)
- AMR 100%: asset maintenance ratio (actual expenditure/AMP required maintenance)

Generally, CGRC has maintained assets at around $7.5m per year and achieved the AMR; renewed assets in line with depreciation indications achieving the IRR, and reduced backlog (IBR) near the benchmark. Recently, some years were influenced by natural disasters and elevated due to government grants to restore damaged assets or infrastructure stimulus post Covid. Only 8% of CGRC assets are nominated as requiring renewal or replacement.

Perhaps the largest change in service delivery obligations for CGRC, and arguably many regional/rural councils in NSW, has been the growth in demand from communities for services that are often referred to as the 'softer" services (community support, community resilience, etc.). As demand for additional and enhanced levels of service grow, councils are often faced with reducing the levels of service on core services or compromising on infrastructure renewal.

It also needs to be said that whist communities' expectations for enhanced and additional services have grown, so too has the propensity for State and Federal Government to place additional responsibilities on local government without any corresponding allocation of resources.

- **Any structural impediments to security for local government workers and infrastructure and service delivery**

  The biggest structural impediment to the security of infrastructure and service delivery for local government is the diminishing revenue base that councils in regional/rural NSW have compared to the escalation in costs associated with infrastructure renewal and maintenance and service delivery.

  The importance of Financial Assistance Grants to local government is mentioned in the section below on the role of the Australian Government. In the context of the NSW jurisdiction, the other main structural impediment to local government is the imposition of the rate peg on NSW councils by the NSW State Government. The rate peg rarely, if ever, adequately reflects the cost increases that councils are exposed to, resulting in councils from one year to the next constantly being asked to do more with less.

- **Trends in the attraction and retention of a skilled workforce in the local government sector, including impacts of labour hire practices**

  Given the diversity of services provided by local government, there is obviously a truly diverse workforce required to enable sustainable service delivery to the community. Roles within council organisations range from engineers, town planners, accountants, human resource professionals to trade qualified workers, plant operators and labourers.

  Having observed the changes in the workforces of councils over many years, there have often been cyclical periods where one profession/trade area or another may have suffered a downturn from time to time however, in more recent years the availability of skilled workers across the board has been and continues to be a problem for local government.

  Local government is often competing in the labour market to attract workers/resources where those workers have significant choice. More often than not, the workers that local government are pursuing are often in demand in other levels of government and the development and construction sector where the remuneration is often more attractive for them. Local government quite simply is often not in a position to match/compete with the remuneration offered by other levels of government and the private sector generally.

  CGRC's situation is even more complicated at the moment due to the fact that it has been in a "demerger transition period" since September 2022. In August 2022, the then NSW Minister for Local Government approved the demerger of Cootamundra-Gundagai Regional Council to form Cootamundra Shire and Gundagai Shire Councils. With the election of a new NSW Government in March 2023 and a new Minister for Local Government, CGRC has been directed to prepare for and progress though a further Boundaries Commission process.

  The demerger transition process is mentioned as this creates an extended environment where the existing staff of the organisation effectively have no certainty about the future and attempts to recruit to fill vacancies etc. is even more problematic given what is already a constrained labour market.

- **The role of the Australian Government in addressing issues raised in relation to the above**

  Perhaps the single most influential mechanism that the Australian Government could pursue to assist in addressing much of the financial sustainability challenges faced by local government would be to address the inadequateness of the funding pool for Financial Assistance Grants provided annually to local government across Australia.

The situation with the decrease, in real terms, of the Financial Assistance Grants has continued over many years, and the financial sustainability challenges for local government in Australia have increased substantially, particularly for rural/regional councils.

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

It is suggested that a review of the principles and objectives of the Financial Assistance Grants Scheme is required to ensure alignment with our constituents' expectations. In addition, it is obvious that an increase in the annual Financial Assistance Grants funding pool to 1% of Commonwealth taxation revenue would result in an injection of untied funding that would allow councils to maintain and renew infrastructure to required standards, provide essential services and respond to often valid requests for new services and enhanced service levels expected by our communities.

It is common knowledge that Financial Assistance Grants were originally introduced with a platform of 1.2% of personal income tax revenue, earmarked to increase to 2.0%. This has never occurred and in fact currently Financial Assistance Grants sits at around 0.5% of Commonwealth taxation revenue.

- **Other relevant issues.**

  In summary, there are a broad range of factors that impact the ongoing financial sustainability of the local government sector, particularly in NSW. In broad terms, most of the financial challenges experienced by CGRC would be equally experienced by other regional/rural councils, however, these challenges would in many instances be somewhat different to the challenges faced by our metropolitan counterparts who often enjoy access to a more diverse range of revenue streams.

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

Should you require further information or wish to discuss the matter please contact the undersigned on 1300 459 689.

Yours faithfully

[redacted]

Steve McGrath
Interim General Manager

24 April 2024