



## FINANCE

The recent decision by the Independent Pricing and Regulatory Tribunal (IPART) to grant a 0.7% rate cap increase for Councils in NSW has highlighted the extremely tight financial position that rural councils are being forced to endure. With inflation predicted to be in the vicinity of 3%, and with world events putting more pressure on this figure the ability of councils to maintain, let alone improve services becomes impossible. The cost of this decision to Walcha Council's bottom line will be close to half a million dollars.

From a ratepayers view it is easy to think that IPART have made a good decision, is understandable. Who wants to pay more rates? Councils are easy targets for their perceived inability to deliver services, whether roads, community facilities or waste, but like any household or business, outgoings can only be greater than income for a short period. Councils like Walcha have no ability to increase income, our rate rises are capped and we have no what is termed "own source income". On top of this we are expected to deliver dozens of different services whose costs are increasing exponentially. Unlike business we do not have the capability to borrow and pay back when things improve, as at no time in the future does our income increase to repay borrowings.

Over the last five years disasters and grant funded projects have further put pressure on reserves, these reserves have proved to be inadequate to fill this gap. Every time Council are involved in a wind storm, flood, fire or drought recovery it costs in the vicinity of \$50,000 due to the structure of State Government funding requirements. We are responsible for a portion of the costs in closing roads, clean up etc. Most projects that Council has had funded have cost overruns during the ensuing period and have cost more than budgeted, again due to grant conditions and increase in costs during delivery. We, as Council must take some ownership of this also, at times through poor scoping and poor project management leading to delayed delivery.

Following a desk top review by Professor Joseph Drew, who has delved into the last 11 years of Walcha Council's finances and the trend that has developed, a pattern of a decline in Council's financial stability has emerged. He discussed the initial findings of this review with us through the week and we look forward to working with him to produce plans to ensure our long term financial sustainability. A direct quote from Professor Drew is *"I'm going back eleven years in financial data and can confirm for you that this problem is at least 11 years in the making, it is not something that has suddenly arrived over the last three years."* Professor Drew is an Associate Professor of Public Policy and Local Government at UTS Sydney. One of his principal areas of study is Local Government Financial Sustainability.

Over a minimum of these 11 years Council has maintained a tenuous financial position through the revaluation of assets, conversion of assets to cash and reduction in unrestricted cash. This trend can only be maintained for a short period and under the management of highly credentialed General Manager Barry Omundson and the formidable



team he has assembled in this area we must start to halt and turn around this trend to secure our long term stability and autonomy.

Generally there are two ways to improve your financial bottom line. Increase income or reduce costs. From 2014 to 2019 our staff increased by 33%. While some of this is due to regulation and statutory compliance, has there been a corresponding increase in service delivery? More projects have been delivered and therefore more staff have been required but we must work to find the economic tipping point of wages versus delivery.

Census information tells us our LGA has a falling population base, this puts more pressure on as we have a large area and therefore a long road network to maintain. Our water and waste water treatment plants could service a much larger population and therefore have maintenance costs in proportion to their size, not user base. Rubbish disposal is coming under increasing pressure from the EPA and this is also coming at an additional cost burden.

The Integrated Planning & Reporting Framework was introduced in 2009 and all Councils were to be compliant by 30 June 2022. In many areas we are still not compliant, which as explained to me by the Office of Local Government is not uncommon – it is a very demanding process, but we must aim to be compliant into the future.

Of higher concern is Walcha's submission to the IPART Assessment of Council Fit for the Future Proposal in 2014. Under sustainability it states, *"In its proposal, the Council relies on the successful application for and adoption of a permanent Special Rate Variation (SRV) from 2016 to 2017 of 15.6% cumulative over 2 years (10.5% above the rate peg)"*. As the lead in time for a SRV is around two years this should have been started in 2014. If this proposal had been implemented as stipulated by Council's submission and documented by IPART many of the current issues would have been averted.

Moving forward we, like a number of non-metropolitan Councils over the last 12 years, are investigating the implementation of a SRV. These permit Councils to apply for a rate increase above the rate capped by IPART. Over this 11 years there have been 168 SRV applications by 103 Councils, there are only 128 Councils in NSW. The 2014 State Government Report states that 84% of respondents to a survey on Walcha's position and future wanted to remain a stand alone Council yet 57% did not want an increase in rates to provide essential services. This was always going to be an untenable outcome, but should not have been a reason to not follow through with Council's commitment.

The purpose of this article is to make you, the community aware of the current position. It is not to reflect on what could have been done or should have been done . Decisions made in the past should have been made with the best information and intention at the time, but at times tough decisions that can be unpopular need to be made for long term outcomes. Hindsight should only be used to not repeat outcomes and we need to look



forward, be honest and transparent with the community and work toward a sustainable outcome.

Despite what I have written this is certainly not an irretrievable position other Councils are in a similar position. We now have the right people in the Council to understand and reverse the downward trend and the newly elected Councillors have a grasp on the issues. We must focus on core business, we cannot be more than what our community expects and needs. There needs to be, and will be public engagement over these issues.

In the words of JF Kenndy, "There are risks and costs to actions, but they are far less than the long range risks of comfortable inaction".

Clr Eric Noakes  
Mayor of Walcha