

12 March 2024

The Independent Pricing and Regulatory Tribunal (IPART)
PO Box K35
Haymarket Post Shop NSW 1240
Submission via the website portal

Feedback on the draft Terms of Reference (ToR) on the financial model for councils in NSW.

Bathurst Regional Council welcomes IPART undertaking an independent and objective review of the financial model for NSW Councils to identify opportunities to improve the financial sustainability of the sector.

Council has reviewed the draft ToR provided and notes that it contains much needed and broad inclusions on the transparency and governance for the review of Councils financial sustainability and elected representative and community input into these processes.

Using the ToR's framework, specific issues impacting NSW Councils' financial sustainability also be considered by this review including:

ToR Objective	ToR Explanatory Questions	Bathurst Regional Council Suggestions
1. The visibility of councillors and the community over the financial and operational performance of their councils	<p>Are the mechanisms for reporting on council performance clear and understood.</p> <p>Does the accounting code for local government provide meaningful financial information to enable councillors to understand and influence the financial and budget performance of their council.</p>	<p>Are there standardised mechanisms across the sector used for reporting on council's performance for both financial and operational performance on a regular basis?</p> <p>The Code of Accounting Practice ensures a standard Financial Statement format which does not give a detailed view of Council's operations. Do councillors receive easy-to-understand financial information other than that produced in the Code format?</p> <p>Do they give a true reflection of</p>

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	<p>Is there a need to update the performance indicators to make them more useful for 'real time' monitoring.</p>	<p>council's performance for both financial and operational performance? Are they understood by councillors? Do councillors have the financial knowledge to understand financial statements? Should that knowledge be a prerequisite to stand for election? Is reporting using the Code making financial statements easy for the community to understand?</p>
	<p>Are councillors receiving timely and appropriate information to enable decisions on allocation of public funds in an efficient and cost effective way.</p>	<p>Are councillors advised of the impacts of decisions on the financial position of council? Are councillors advised of or understand the long term financial impacts when making decisions? How are councillors made accountable for decisions which impact the financial position of council?</p>
	<p>Are there benefits to moving to dedicated budget or expenditure review committee models to ensure budget decisions are understood by councillors and the communities they serve?</p>	<p>A committee structure delegates responsibility to a handful of councillors rather than making all councillors accountable for financial decisions. Does the IPR Framework need to be strengthened around financial planning and ease of understanding?</p>
<p>2. Whether the current budget and financial processes used by councils are delivering value-for-money for ratepayers and residents</p>		<p>Definition of 'value for money' Criteria for measurement Performance indicators consistent across the sector.</p>
	<p>Is the Integrated Planning and Reporting process, currently used by councils to make budget decisions, effective in allowing councillors to engage with the community on the challenges in setting a budget and meeting service level expectations?</p>	<p>How to ensure all councillors actively participate in the community consultation process? Are service level expectations determined and published by all councils?</p>
	<p>How well Councils are setting service delivery standards that match revenue, managing their expenses within allocated budgets, and what opportunities exist for</p>	<p>Do all councils currently set and publish service delivery standards? What mechanisms are in place to ensure revenue streams enable council to deliver on the established service delivery standards? What mechanisms are in place to</p>

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	improvement in efficiency, service quality and sustainability.	ensure council manages expenditure in line with the budget? How should efficiency be measured? What opportunities exist for councils to improve efficiency? After years of rate peg caps what efficiencies are left to gain? What mechanisms are in place for knowledge sharing between Councils to gain efficiencies? Should the Office of Local Government do more to assist knowledge sharing across the sector?
	How to visibly boost elected councillor accountability for council budgets and expenditure to the community	Also, How to visibly boost elected councillor accountability for council long term financial sustainability to the community?
3. Whether the current funding model will sustainably support the needs of communities		Whether the current funding model for local government is adequate in providing for the financial sustainability of Councils, in support of the needs of communities.
	How do councils balance cash flow to manage the different (and sometimes uncertain) timeframes for revenue and grants money (including Financial Assistance Grants) coming into council?	The uncertain timeframes only affect reporting in the year end financial statements, if they are not received pre 30 June. This question bears no relation to the “sustainability support the needs of communities” objective as it is only looking at short term cashflow, not long term financial sustainability.
	How effective are councils in identifying and using other revenue sources beyond grants and rates to support the needs of communities and sustainably provide services required to be delivered by councils.	Need a definition of “services required to be delivered by councils” – core vs discretionary. Are the core services of councils being delivered in a financially sustainable way? Are discretionary services, once defined, fully funded by own source revenue?
	Identify measures to put downward pressure on rates through other “own source”	From the previous point, own source revenue should be related to services outside the core services. Rates need

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	revenue or closer scrutiny of expenditure.	<p>to, as a minimum, allow councils to provide the core services.</p> <p>Are core services matched by rates revenue? How can the rate peg properly reflect the increase in the cost of provision of core services?</p> <p>Replace the performance indicator of Own Source Revenue % with Core Services funded by Rates Revenue %.</p>
	Consider the needs of diverse communities and councils and protect the interests of current and future ratepayers from unnecessary impact on their cost of living.	<p>Whilst cost of living is currently a major focus of political parties, there seems to be no recognition that Council's have been subjected to the same cost pressures, also with no assistance available.</p> <p>The question that this sits under is "<i>Whether the current funding model will sustainably support the needs of communities</i>" – how does the "unnecessary impact on ratepayers cost of living" relate to whether councils can support the community sustainably?</p>
4. Whether councils (both councillors and staff) have the financial capacity and capability to meet current and future needs of communities.		<p>These should be separate questions:</p> <p>Whether councillors have the capacity and capability to ensure the financial sustainability of council? Should there be a prerequisite to being able to run for council?</p> <p>Whether council staff have the capacity and capability to ensure the financial sustainability of council.</p>
	Are councils equipped with the right internal capabilities to deliver on the services which their community requires?	<p>Considering the total labour shortage across the country in all sectors, it is probably safe to assume no council currently has the internal capabilities to deliver all services.</p> <p>With the cost of labour outstripping the rate peg, attracting staff using remuneration is out of reach of most councils.</p>
	Has the Audit Mandate been successful in providing a consistent view on the accounting and risk management practices of councils?	<p>Absolutely not.</p> <p>This question should be: Has the Audit Mandate delivered value to ratepayers. Audit costs have increased by approximately 30% the last five years</p>

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		<p>due to Audit Office charging. The Audit Office is obviously not subject to a rate peg. IPART should review the Audit Office's charging practices.</p> <p>Audit Office timelines are not being adhered to and should be subjected to a performance audit by IPART.</p> <p>Requirements to do additional revaluations serve little purpose or value to the financial position of council except to increase depreciation expense, which in turn reduces operating results and the Operating Result performance indicator.</p> <p>The previous system saw audits done in a timely and cost effective manner; all audits are subject to the same auditing standards, so consistency was not a problem under the previous system.</p> <p>The ARIC requirements have added another costly layer of administration to Council's with no recompense through the rate peg. A better question could be: Has the Audit Mandate resulted in value for money for ratepayers and what advantages has the Audit Mandate provided to ratepayers and Councils?</p>
	<p>Are there opportunities to look at long term expenditure and service delivery improvements by insourcing services? Where outsourcing models have been used, do they provide an efficient and effective means of meeting community needs?</p>	<p>Insourcing v outsourcing of services varies dramatically across Councils and dependent on many factors, including the ability to attract qualified staff, consistently to perform the role.</p> <p>Generally, councils prefer to insource work as it supports the job market in the community, however where there are skills shortages or economies of scale make this choice cost prohibitive, the result is outsourcing.</p> <p>The recent decision regarding same wage requirements for outsourced operations has effectively taken away any advantages in either insourcing or outsourcing.</p>
	<p>What examples of best practice capability building and innovation could be implemented more widely?</p>	<p>How can the Office of Local Government support knowledge sharing where best practice capability building and innovation has produced financial</p>

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		sustainability benefits for a council.
5. How can better planning and reporting systems improve long term budget performance, transparency and accountability to the community?		<p>Councils operate under the Integrated Planning and Reporting Framework, which, when implemented properly, provides councils with the tools they need to effectively plan and budget for their community's vision.</p> <p>A better question might be: Are there any improvements that could be made to the Integrated Planning & Reporting framework that would see increased transparency and accountability of Councils to their communities?</p>
	How effective councils are in managing their assets and planning for future growth and renewal of assets.	<p>How does the rate peg assist Councils to effectively manage their assets and plan for future growth and renewal of those assets.</p> <p>Does the Office of Local Government review each Council's Asset Management Plans to verify the veracity of those plans and how Councils are incorporating those plans into their IP&R plans to ensure sustainability?</p> <p>Should the Office of Local Government collate an industry wide asset management plan to verify if the IPART rate peg methodology allows for the future growth and renewal of assets?</p>
	Whether current community engagement allows for effective long-range planning and sustainable funding.	<p>Community engagement does not give rise to effective long term planning, it merely prioritises community wishes which won't provide sustainable funding.</p> <p>A better question may be: Does the community engagement that Councils currently undertake (as part of the IPR framework for the development of plans), provide adequate transparency and information to the community so that they are aware of the impacts of their needs and wants (priorities) on the long term planning and financial sustainability of the Council?</p>
	Whether the current framework of reporting and	Whilst the IP&R framework requires reporting to the community, the Office of

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	<p>compliance is appropriate and effective.</p>	<p>Local Government does little in the way of checking compliance, other than requesting a copy of the documents. There are Councils that, due to resourcing capabilities, produce the required documents but the documents do not comply with the requirements of the guidelines.</p> <p>How does the current framework of reporting and compliance enhance the community's understanding of Council's performance?</p> <p>Does the current framework of reporting and compliance enhance councils financial sustainability?</p> <p>How does the Office of Local Government ensure compliance with the IP&R framework for local communities?</p>
<p>6. Any other matters IPART considers relevant.</p>		<p>What are the key factors impacting on the financial sustainability of Councils? What are the financial sustainability challenges that councils and their communities face and how these challenges contrast for metropolitan, regional cities and rural councils. What controls are in place to ensure that Councillors are not making service and or priority decisions that will threaten the long term financial sustainability of their Council? The suitability of rate pegging methodology, its deficiencies and long term impacts on sustainability and infrastructure backlogs. Consideration of a rate peg exemption model for councils that demonstrate that rates revenue is not enough to fund core services. How to achieve sustainable service levels given the breadth of services and infrastructure provided by rural and regional councils? The ability of Councils to attract and retain suitably qualified staff in the current market to deliver its community's needs. How do Councils afford to innovate and</p>

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		<p>develop savings with no ability to generate more income to fund research?</p> <p>How do Councils manage service demand including the funding of depreciation as part of the Integrated Planning & Reporting Framework, when rates increases are capped and assets are revalued by CPI each year? Are there ways for Councils to increase their own source revenue that will result in putting downward pressure on rates? How well is debt being used by Councils and is this an appropriate mechanism for funding inter-generational infrastructure etc.? How well do Councils manage their expenditure in line with community expectations and current available funds i.e. living within their means? How can this be measured and reported? How to respond to the intensity and frequency of extreme weather events and natural disasters in comparison to disaster funding available to local government. Given natural disasters and extreme weather events are becoming more intense and frequent, consider how climate change impacts financial sustainability, including the adequacy of infrastructure, coastal erosion risks, clean-up costs along with the need to fund mitigation and adaption actions and what funding mechanisms may be available to deal with these additional costs. How should the efficiency of Councils be determined and what opportunities exist for improvements in Council efficiency? How do Council's currently demonstrate their efficiency to Councillors and the community?</p> <p>Office of Local Government: What is the role of the Office of Local Government in assessing, supporting and championing financial sustainability?</p> <p>Cost Shifting: The marked impacts of government cost</p>
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		<p>shifting, including operating and asset performance, as well as the inability to recoup costs from the NSW Government</p> <p>Investigate the legitimacy and how cost shifting from other levels of government to local government impacts financial sustainability and the consideration of funding mechanisms to take account of these cost transfers.</p> <p>Federal Government:</p> <ul style="list-style-type: none">• What is the role and responsibility of the State and Federal Governments in regard to the financial sustainability of council services and infrastructure?
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Yours faithfully

