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13 March 2024

Carmel Donnelly
Chair
Independent Pricing and Regulatory Tribunal NSW
ipart@ipart.nsw.gov.au

By email

Dear Ms Donnelly

Review of the financial model for councils in New South Wales – draft Terms of Reference

Along with the local government sector, Blacktown City welcomed and endorsed the recommendation of IPART in November 2023 for a full independent review of the NSW council funding model.

We are appreciative of the Premier's prompt action to initiate this review by referring draft Terms of Reference to IPART.

We trust the review will help fulfil the commitment made in February 2022 by the then Shadow Minister for Local Government, Mr Greg Warren MP to the President of Local Government NSW (LGNSW) that:

“a NSW Labor Government is committed to supporting a local government sector that is focused on sustainable and liveable communities... This includes a commitment to an intergovernmental agreement with LGNSW. Furthermore, NSW will also implement a review of the financial modelling of councils, which is clearly broken after a decade-long drain on local council resources and the increasing cost burden on residents.”

In broad terms, we support those matters included in the Terms of Reference. Some comments on particular items are indicated in our attached submission.

However, we consider the draft Terms of Reference overall are too narrow to reflect the comprehensive review of local government financial sustainability which is needed, and was anticipated by the sector. We accordingly propose a number of additions to the scope of the review.

The key matters we wish to see incorporated are summarised as follows:

- Examination of the overall funding model of local government and the long term impact of the rate pegging system.

- The adequacy of the current local government revenue model to fund
 - Mandatory responsibilities under legislation
 - The services demanded by communities.
- The different needs of different classes of councils and councils in communities with particular needs (such as socio-economic disadvantage).
- The impact of environmental challenges including climate change.
- The significance and limitations of developer contribution mechanisms to overall council funding and provision of community facilities.
- The impact of government policy changes, such as planning and development policy change.
- Externalities which drive council costs, including cost shifting from government.
- Models and learnings from other jurisdictions, both positive and negative including interstate and overseas experience.
- The importance of benchmarking, the availability of standard and meaningful comparative data and performance standards.

Our detailed comments in the submission are structured for ease of reference as follows:

Part A – Two additional topics proposed for the Terms of Reference

Part B – Additions to and commentary on the 6 topics in the draft Terms of Reference.

We look forward to actively participating in the review by IPART, and to providing a detailed submission in due course.

If you would like any further information on this matter please contact our Director Corporate Services, Wayne Rogers at [REDACTED] or phone [REDACTED]

Yours sincerely,

Kerry Robinson OAM
Chief Executive Officer

Blacktown City Council

Submission in response to the draft Terms of Reference for the IPART review of the financial model for councils in New South Wales (issued 30 January 2024).

A. Proposed additional topics for the Terms of Reference

1. The sustainability of local government financial arrangements

- Informed by the recent IPART review of the rate peg system in NSW, is local government funding in NSW equitable, efficient and reliable to meet community expectations of service.
- Is the balance of service responsibilities between NSW state and local government appropriate, and do established funding mechanisms adequately reflect the role of councils under all relevant legislation.
- How effective are the present inter government arrangements in preventing the transfer of responsibilities from the Commonwealth and NSW governments to local government without commensurate transfer of revenue sources (cost shifting).
- Are the externalities which drive local government costs adequately reflected in local government revenue mechanisms.
- Is the dependence of councils on Commonwealth government untied operational grants (Financial Assistance Grants) appropriate, noting the long term decline in this funding. What role should the NSW government play in ensuring adequate ongoing funding for councils.
- Should capital grants to local government from the NSW government be augmented by an allocation of operational funding sufficient to maintain and operate new facilities established through the grant for an appropriate period.

2. Other local government financial models

- Are there other innovative financial models or mechanisms, including but not limited to, value capture which may provide a more sustainable model for local government.
 - What lessons can be learnt from other Australian and international jurisdictions, in regard to alternative financial models for local government.
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B. Additions to and commentary on topics in the draft Terms of Reference

[our additions and comments in blue text]

1. The visibility of councillors and the community over the financial and operational performance of their councils

- Are the mechanisms for reporting on council performance clear and understood. 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. Is there a need to update the performance indicators to make them more useful for 'real time' monitoring.

- Are councillors receiving timely and appropriate information to enable decisions on allocation of public funds in an efficient and cost effective way.
- 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?
- [The impact and transparency of key policy decisions by NSW Government affecting local government, e.g. major changes in planning and development policy.](#)

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

- Is the Integrated Planning and Reporting process, currently used by councils to make budget decisions, effective in all owing councillors to engage with the community on the challenges in setting a budget and meeting service level expectations
- How well Councils are setting service delivery standards that match revenue, managing their expenses within allocated budgets, and what opportunities exist for improvement in efficiency, service quality and sustainability.
- How to visibly boost elected councillor accountability for council budgets and expenditure to the community.
- [The availability in NSW of meaningful benchmarking information for council performance. Should there be a mandated standard, or performance template provided for comparable services.](#)

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

- How do councils balance cash flow to manage the different {and sometimes uncertain), time frames for revenue and grants money {including Financial Assistance Grants) coming into council.
- [Should the current ad hoc grants programs available from Commonwealth and state government be replaced by more reliable and sustainable longer term funding mechanisms which reflect increases in costs due to inflation, enhance legislative requirements etc.](#)
- [Should capital grants to local government from the NSW government be augmented by an allocation of operational funding sufficient to maintain and operate new facilities established through the grant for an appropriate period.](#)
- [Are the existing developer contribution system and other mechanisms available to councils sufficient to provide the needs of new or renewed urban communities, including requirements for essential community facilities as well as essential infrastructure.](#)
- [Are existing funding mechanisms adequate to meet the requirements of councils in high growth areas, as well as those with stable populations.](#)
- 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.
- Identify measures to put downward pressure on rates through other own source revenue [\[as local government own source revenue is constrained by legislation,](#)

would further potential revenue sources be examined?] or closer scrutiny of expenditure [and would this entail further scrutiny by the Audit Office of NSW, noting its costs to councils in recent has increased well above the applicable rate peg].

- Consider the needs of diverse communities and councils and protect the interests of current and future ratepayers from either unnecessary impact on their cost of living or suffering from inadequate provision of services and community facilities.
- Consider the needs of councils with significant areas of socio-economic disadvantage, including a relatively high proportion of social housing.

4. Whether councils (both councillors and staff) have the financial capacity and capability to meet current and future needs of communities.

[Note – any assessment to be based on reliable evidence, as opposed to hearsay or assumptions often put forward in the media by critics of local government.]

- Are councils equipped with the right internal capabilities to deliver on the services which their community requires? What factors such as market demand for experienced and appropriately skilled staff may limit this capability.
- Has the Audit Mandate been successful in providing a consistent view on the accounting and risk management practices of councils?
- 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?
- What examples of best practice capability building and innovation could be implemented more widely? What should be the role of the Office of Local Government as a knowledge resource to help facilitate excellence in practice.
- What safeguards against poor financial management or undue financial risk are appropriate, considering key examples.
- What current constraints on local government treasury management (such as investment orders) may be unduly restrictive.

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

- How effective councils are in managing their assets and planning for future growth and renewal of assets. Should there be a consistent template provided to identify the true cost of operations, including accounting for all costs.
- Whether current community engagement allows for effective long-range planning and sustainable funding.
- Whether the current framework of reporting and compliance is appropriate and effective.
- How can planning and reporting by state and local government be more effectively coordinated to provide community accountability.

6. Any other matters IPART considers relevant.