

# Central Coast Council Submission

## Investigation of Council financial Model in NSW - Draft Terms of Reference

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

The first two points are considered reasonable questions to include. However, the accounting code may not be the best reference as the tool to enable councillors to understand and influence budget performance. Point three has no merit as there are already legislated processes in place for Councillors and the community to have insight into budget management e.g., annual operational plan and quarterly budget review processes.

### **2 Whether the current budget and financial processes used by Councils are delivering values for money for ratepayers and residents**

Point one is considered reasonable however, it is suggested that the question is expanded to assess whether the IP&R process supports Councillors in performing their financial oversight role effectively.

Point two does not include the impact of other parties including the different levels of government. Whilst the IP&R process provides the opportunity to negotiate service delivery standards with the community, it does not consider constraints and cost shifting from other parties e.g., statutory fees and rate pegging. There is scope to test the impact of legislative and associated industry processes on the flexibility available to Councils when implementing efficiencies.

There is limited scope for point three as Councillors accountability is already included in the legislation and is supported through numerous legislated processes e.g., preparation and adoption of annual operational plan.

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

The first point is considered relevant given that grant opportunities are generally not strategic and planning for them is difficult. The recent inconsistency regarding the payment of the Financial Assistance Grants and the impact on councils' operating results supports the question. The erratic and politically influenced nature and timing of grants does not support, and in most cases interferes with, a strategic and planned approach to delivering outcomes in the Community Strategic Plan and Delivery Plan. There is scope in considering the effectiveness of grant funding as a reliable supplement to councils' revenue, and therefore, the financial sustainability of the councils.

The effectiveness of current operating models for state government services e.g., RFS and SES that are under pinned by grants needs to consider the impact of numerous grant programs administered by a range of agencies on administrative burden, delivery capability and conflicting priorities.

The funding and administration of these services is also unnecessarily complex including the claiming back of funds via grants to subsidise the cost of the service. If programs of this nature were centrally funded rather than each individual LGA our emergency service could arguably run more efficiently and effectively.

Whilst federal and state grant funding does assist councils in the delivery of assets and services, the impact of the timing of grants, deliverability and administration costs need to be questioned.

The third point also needs to consider how effective is grant income, in an environment of rate capping, in delivering the best possible outcomes for the community. The question should also consider the limits on Council generating other revenue, e.g., statutory fees.

Whilst grants can be effective in supplementing Councils own capacity to deliver outcomes for the community, the question needs to be asked regarding the long-term impact of grants where new and unplanned assets are created e.g., ongoing operational and maintenance costs of new and upgraded infrastructure with no ongoing grants to fund them. The question may also need to be asked regarding alignment of grant funding with Council's own objectives.

When assessing whether the current funding model will sustainably support the needs of communities, there is a need to consider community inputs in the development of state base strategies.

The assessment needs to be on the impact of limited revenue on the ability to fund service provision to the community, maintain and renew the vast infrastructure assets, and service growth.

The review should also consider the cap on development contribution rates under section 7.11 of the *Environmental Planning and Assessment Act 1979* and the impact this has on the delivery of priority local infrastructure to support new housing and local communities. The cap was introduced in 2008 (amended in 2010) and has not been indexed to reflect the increasing cost of providing infrastructure by Local Government and the development industry. The Essential Infrastructure List for IPART approved plans should also be reviewed to ensure it meets community needs, especially regarding the provision of social infrastructure.

The change proposed under the Low and Mid-Rise Housing Reforms will also likely be introduced prior to Local Government having an opportunity to ensure infrastructure planning is complete and revised development contribution plans adopted. To ensure infrastructure funding is provided from these new developments, section 209 of the *Environmental Planning and Assessment Regulation 2021*, should be amended to allow Local Government to apply a 3% development levy where the Low and Mid-Rise Housing SEPP applies.

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

The question that needs to be more focused on the challenges experienced by Councils in attracting skilled staff when competing with the private sector for the same skills and resources.

Clarity is required regarding the intent of question two, is it intended to assess the effectiveness of external audits undertaken by the NSW Audit Office or is it aimed at ARIC? It is suggested that the effectiveness of Councillor oversight within the context of the new ARIC Guidelines, is assessed.

Question 3 should be reworded to assess whether Councils are regularly looking at the most optimal way to delivery their services. The effectiveness of an in house or outsourced service delivery model will depend on various factors including the service itself. Further the question could assess the impact of limited opportunity to select a specific model or supplier e.g., Councils must use the NSW Audit Office for audits.

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

Whilst the IP&R process requires a long-term financial plan, the alignment of the IP&R cycle with election cycles limits the effectiveness of long-term planning.

The first question is important however the assessment of effectiveness will need to rely on documentation such as asset plans. It will be difficult to undertake a genuine assessment of the robustness of such plans.

Question two is a valid question however, it needs to be asked within the wider context of service planning. It may be worth assessing the extent of Council's effort into educating the community to attract informed feedback.

Whilst the IP&R and SRV processes are heavily based on community engagement they are also politically challenging as elected Councillors are required to make SRV decisions to ensure long term financial sustainability during what is a relatively short Council term.

## **6 Any other matters IPART considers relevant.**

In assessing the current funding model, there needs to be a focus on looking at the current process available to Council to adjust their income levels to ensure they can remain financially sustainable whilst continuing to meet the community's expectations. The current SRV process is resource intensive and potentially is conducive to councils seeking higher increases to avoid having to go back to the community. An assessment needs to be undertaken on the effectiveness of the SRV process in achieving good outcomes for the community, noting the resource intense nature of the process.

As the SRV process and outcome influences Councils decisions, it may be more appropriate to consider the effectiveness of grants within the IPART rate peg setting context.

The review needs to assess councils' ability to flex and adjust within the context of rate-pegging and various other restrictions imposed by other levels of government and authorities.

The review needs to consider the challenges faced by councils when engaging with the community regarding services and service levels. Need to assess whether councils have the adequate support when having politically difficult conversation with the community.

The funding model review needs to consider the specific circumstances of different councils. Smaller, less populated councils have a limited rating base, whilst growing councils are facing challenges servicing rapid growth, with growth in some cases being State Government driven. Other main funding sources such as developer contributions also need to be considered in the review of councils' overall funding models.

The review of the local government funding model is welcome. However, the proposed terms of reference appear more focused on checking whether councils are taking actions to increase income and reducing expenditure, rather than looking at the underpinning problem of the model. Councils are expected to operate like a business serving the community but are unable to easily adapt their income due to rate-pegging, and statutory fees and other limitations.

The IP&R process requires councils to engage with their community regarding services, but then councils are not able to adapt revenue accordingly. At the same time councils are having to maintain more and more assets, which in some cases have not been created in line with a council's objective. The issues associated with the current model and the resulting increasing number of councils requesting an SRV, and the growing magnitude of the SRV should already be known by IPART.

The challenges faced by councils across NSW in maintaining financial sustainability are well known. This review should be focused on critically assessing the impact of rate-pegging, and its purpose within the context of the IPR planning process and the associate engagement with the community regarding service levels.

The proposed terms of reference do not appear to be addressing the real issues underpinning the current funding model.