



## **CRONULLA COMMUNITY PRECINCT ASSOCIATION**

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Carmel Donnelly  
Chair - IPART  
Independent Pricing and  
Regulatory Tribunal NSW  
PO Box K35  
HAYMARKET NSW 1240

Dear Ms Donnelly,

### **RE: Review of the Council Financial Model in NSW**

We write to make a submission in regards to the draft Terms of Reference for IPART to review and recommend improvements to the Council Financial Model in NSW.

Like many communities, we are concerned that our council may be experiencing financial sustainability problems from no major fault of its own. We feel that the current Council Financial Model in NSW is failing and is in need of urgent restructure.

We understand that all 128 councils within NSW have the same revenue raising categories being:

- i. rates and annual charges,
- ii. grants and development contributions, and
- iii. user fees and charges.

We therefore structure our submission based on these categories.

### **Rates and Annual Charges**

The recent review of the rate peg methodology is a major turning point in changing the culture and structure that councils work within but we feel that it is only the start of the long process required to restructure the council framework for the betterment of communities.

We commend IPART recognising the diversity of councils by changing the rate peg model to a Base Cost Change (BCC) system that accommodates the different types of councils into three groups being Metropolitan, Regional and Rural rather than having a 'one size fits all' approach.

However, we feel that this ideology needs further advancement which requires a 3-tier categorisation of councils in order to accommodate a Council Financial Model that suits all.

The Great Depression which commenced in 1929, brought about the need for economic restructure. At that point in time, the NSW Government was looking at ways of improving its financial position. One of the solutions it sort was to divide the state of NSW into smaller states of the Commonwealth.

In 1933, Justice Harold Nicholas was appointed as sole Commissioner to determine the suitability of regions in NSW in becoming federal states in their own right. This inquiry is known as the Nicholas Royal Commission.

Nicholas' recommendation was that NSW could be divided into 5 smaller states which he defined their areas as being:

- Eastern State – (to remain as NSW) Sydney as its capital,
- Northern State – Tamworth as its capital,
- Western State – Broken Hill as its capital,
- Southern State – Wagga Wagga as its capital, and
- Central State – Parkes as its capital.

We do not believe that NSW needs to be divided into separate federal states but we do believe it should have regions known as State Sectors. This will allow the 128 councils to group rate payers down to the Rate Type, by Council Area, within its State Sector by using the following 3-tier categories:

<b><u>Tier 1 – State Sector</u></b>	<b><u>Tier 2 – Council Area Type</u></b>	<b><u>Tier 3 – Rate Type</u></b>
Eastern Sector	Metropolitan	Commercial
Northern Sector	Regional	Residential
Western Sector	Rural	Rural
Southern Sector		
Central Sector		

For example, a small farm in Wingecarribee Shire Council's town of Berrima would be in the Southern Sector to a Regional Council and be of Rural Rate Type.

The rationale to this 3-tier categorisation is that methodology such as the rate peg will be given more flexibility in meeting the needs criteria of individual communities that make up a local council area.

As the new rate peg methodology stands at the moment, the regional councils of say Tamworth Regional Council and Broken Hill City Council are grouped together with other regional council and treated in much the same way. As most of us know, Tamworth's community needs differ significantly than those of Broken Hill. To add to this, Tamworth's population is growing whereas Broken Hill's population is diminishing.

The new rate peg methodology has become more flexible in that it uses separate Base Cost Change Models for different council groups to account for diversity but we believe this methodology would be far more powerful and therefore beneficial if it were more defined by State Sectors.

If the Council Financial Model were to be much more specific to the geography, economy and population of councils, it would in effect be more in tune to the needs of each community within the state of NSW.

### **Grants and Development Contributions**

The main, constant and dependable grant distributed to councils is the Federal Government's Local Government Financial Assistance Grant. The distribution of this grant is administered in accordance with the Local Government (Financial Assistance) Act. Section 6(3) of this Act gives instruction on how the yearly pool of funds allocated for the grant, is to be formulated for distribution amongst councils.

#### **Section 6(3)**

*The allocation of funds for local government purposes on a full horizontal equalization basis is a reference to an allocation of funds that:*

- a) ensures that each local governing body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in that State, and*
- b) takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their functions and in their capacity to raise revenue.*

The NSW State Government body known as the NSW Local Government Grant Commission is responsible for formulating the methodology to distribute the Federal Government's Local Government Financial Assistance Grant.

Its methodology is not consistent with, and as fair as, that of which IPART uses to determine the rate peg. The formula used is a 'one size fits all' approach. The parameters used in formulating the distribution of this grant are also inconsistent and out dated.

For example, the NSW Local Government Grant Commission's 2020-21 Annual Report states: *"the calculation of revenue allowances involves determining each council's theoretical capacity to raise revenue by comparing a council's land value per property to the state standard (or average) per property land value and applying the state standard (or average) rate-in-the-dollar. Councils with low property values compared to the state average receive a positive outcome and councils with higher property values compared to the state average receive negative outcomes."*

This calculation is distorted and gives advantage to councils with strata properties in their local area. A strata lot is counted as one property and only its proportional land value is used in the calculation. This will give councils with numerous flat developments in their area a much lower average property value than what they actually have and therefore a higher positive outcome resulting in more than their fair share of the federal grant.

Another inconsistency is the way population change is determined as a factor in calculating the distribution of the grant. It makes sense not to include Service Populations in the calculation of the rate peg but when it comes to the Federal Government's Local Government Financial Assistance Grant, the increase to a local government's population caused by business, leisure and tourism should be taken into consideration if Section 6(3)(b) of the Act is to be satisfied.

For example, the area of Bayside Council between Banksmeadow and Mascot has its population quadrupled during a work day due to the businesses located in this area as ancillaries to Port Botany and Mascot Airport. The population of Sutherland Shire Council is considerably increased on weekends due to its national park, waterways, marinas and beaches. Yet, neither of these councils have the ability to raise revenue to support this Service Population growth, nor do they receive financial assistance for it.

In Sutherland Shire Council's case, 64% of its revenue is from Rates and Annual Charges, which is double the state average. 6% of its revenue is from grants for operational purposes. The majority (79%) of this 6% is from Federal Government Financial Assistance Grants and a yearly grant for having the Lucas Heights Nuclear Reactor in its backyard. A further 4% of its revenue is from Development Contributions. This leaves 26% of its revenue raised from fees, charges and other ad hoc income. Is this achieving the objective of the Act which is to allocate funds *on a full horizontal equalization basis* ?

There is also some assistance from an independent association called Local Government NSW to help its council members apply for grants. Most of these grants are one off and require a lot of effort to compile an application. They total 2% of the Sutherland Shire Council's revenue.

There needs to be consistency and compatibility between Local and State Government Systems. It is not just the Council Financial Model that needs restructuring. The restructure must also involve the regulating parties that share common data to be integrated, especially when accuracy and real time information is crucial to the efficient operation of each council.

### **User Fees and Charges**

Councils must determine fees and charges in accordance with Section 610D of the Local Government Act. This Section allows councils to charge the '*actual cost*' to the council for providing the '*exclusive service*' to the customer. If the Base Cost Charge is included in rates and annual charges, then these portions of the costs are to be excluded in fees and charges. The Base Cost Charge includes employee costs, asset costs and administration fixed costs.

Section 610D therefore limits councils from charging for full cost recovery. Only partial cost recovery in providing the service can be recovered in most cases. This is because most services benefit the community as well as the individual user. This is why most council fees and charges are based on partial cost recovery. The shortfall can only be recovered from grants, development contributions and income earned from asset investments.

Which ever way you look at it, councils raise as much revenue as possible by rates that are limited by the rate peg and fees/charges that are limited by Section 610D. the remainder of required funds is delivered by grants and development contributions. Any surplus that is left is used up as prioritised capital expenditure for the benefit of the community. This is the current Council Financial Model for NSW.

## **Conclusion**

An immediate restructure of the Council Financial Model is paramount for councils to operate in a financially sustainable capacity. It is crucial that this new model is operated by a NSW Local Government Portal that has the ability to drill down to each specific community, on line and in real time.

This real time database should have built in algorithms that analyse, budget and determine funding for each council within its State Sector, in comparison with similar Council Types within the same State Sector, to bring about the best possible support for communities. This will allow each Council Type within each State Sector to have independent Base Cost Changes and different amounts of financial assistance, allowing the NSW State Government to direct funding to specific areas where it is most needed. The rationale is to allow both the State and Local Governments to work together in prioritising the allocation of funds where they are most efficient and effective, whilst at the same time, recognising and respecting the diversity of councils.

We thank you for the opportunity to comment by way of submission.

Yours faithfully

Cronulla Community Precinct Association

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