

## **Submission to IPART - Review of the Council Financial Model in NSW**

### **Council appreciates the opportunity to make this submission into the review of the Council Financial Model**

Federation Council was formed in May 2016 as a result of the forced merger of Corowa and Urana Shire Councils. Since this time, the Council has been on a steady financial sustainability improvement journey. This has been in addition to delivering services from day 1, and delivering many projects include some major ones.

Council notes the draft terms of reference draft Terms of Reference from the NSW Government for IPART to investigate and report on the financial model for NSW local councils.

The draft Terms of Reference ask IPART to review councillor and community visibility over the financial and operational performance of councils, including whether current budget and financial processes deliver value for money, and whether the current funding model will sustainably support the needs of communities.

It also includes reviewing the capacity and capability of councils and how better planning and reporting systems can improve long term budget performance, transparency and accountability to the community.

NSW Councils financial sustainability is an ongoing issue, and especially if you talk to anyone in Local Government that has been in it for 20 plus years, they will recall many such reviews. Usually most fail due to a lack of effective implementation of recommendations, or in some cases the State Governments of the day not accepting/adopting recommendations.

The Cost Shifting report recently released by LGNSW, is another prime example of the challenges impacting Councils financial sustainability, highlighting the quantum even for the 21/22 financial year, of the continued shifting of costs onto Councils, by the State and in some cases the Federal Governments.

Councils continue to receive rate peg increases that are far less than actual cost increases, and most Councils until recently, did not attempt to pursue special rate variations to address ongoing operational deficits, (including non-cash operating losses caused by depreciation).

The gap in the operating result caused by depreciation, is in simple terms, the amount of underfunded asset maintenance. As we know, the worse condition assets get to, the costlier it is to repair. Minor/Routine maintenance then becomes major or in many cases, total renewal. There are many other areas that are impacted from a lack of financial sustainability, in addition to just roads of course, including buildings and facilities, plant, waste facilities, and service delivery constraints and staff risks, due to a lack of resources to adequately staff areas, to name a few.

The recent Independent Peer reviewed Business Case on Federation Council, by the University of Newcastle, led by Professor Joseph Drew, provided robust data and analysis, and many recommendations aimed at improving Councils financial sustainability.

The draft terms of reference in this writers opinion, seem to look entirely inwardly at the Councils performance and ways to improve, including ensuring Councillors and the Community have more involvement with Councils financial sustainability. This is agreed, however there also needs to be an outward look at the real constraints facing rural and regional Councils. Rural and Regional Councils for example do not receive their fair share of revenue back from the taxes and many other levies paid and the product produced in these areas. Also the characteristics of rural

Councils especially, having large required asset bases, and dispersed populations requiring asset duplications, and a low rate base to meet the costs of maintaining assets such as roads.

**Key areas to address in addition to the Governments Draft Terms of Reference**

- Increasing the Financial Assistance Grants in total from the Commonwealth Government
- Consideration of re-allocation of Financial Assistance grants from City to Regional and Rural Councils where it can be justified.
- Draw on the work of previous reviews where valid recommendations remain unactioned such as the Independent Local Government Review 2013-2015 that led to the forced Council mergers in 2016 (many of the other recommendations aimed to improve Councils financial sustainability were not actioned);
- Include reference to the issue of the severe degradation of the quantum of the Federal Government Financial Assistance grants;
- Address Cost shifting in a meaningful way;
- Reflect the fact that many Councils failed to account for (cash back) depreciation and also resisted the opportunities to raise rates higher than the rate peg over the years, thus the assets have worn down due to always trying to do more with less and many Councils are facing large special rate increases.
- Remove rate pegging entirely and let the Integrated Planning and Reporting processes determine Council rate increases, in line with agreed service delivery (and levels of service), and asset maintenance requirements.

Council requests in this review IPART engage in a genuine and meaningful way with Local Government in order to ensure the best outcomes, and ultimately like all such reviews, it then relies on the will of the State Government of the day to adopt and implement the recommendations.