Hawkesbury Council Submission to IPART – Review of NSW Council Financial Model

Council welcomes the Review of the NSW Council Financial Model, as recommended by IPART during the Review of the Rate Peg Methodology in August 2023. While the Draft Terms of Reference provide a sound starting point, Council believes that some of the items specifically mentioned in the IPART recommendation should be included within the Terms of Reference.

Some of the items included within the Draft Terms of Reference have been reviewed by T-Corp in its Financial Sustainability of the New South Wales Local Government Sector in 2013 and assessed as part of the Fit for the Future process undertaken by IPART in 2014.

Many of the recommendations of both reviews are already built into the current version of Integrated Planning & Reporting (IP&R) system, that has been reviewed and amended on several occasions, as recently as 2021. Therefore, Council is concerned that some of the items have previously been covered and any beneficial outcomes that may be achieved are likely to be less than the cost of the review and will divert council staff away from the provision of services to respond to this Review.

Council's preferred stance in relation to achieving long-term financial sustainability is that rate-pegging should be discontinued, in line with submissions made in relation to the Review of the Local Government Rating System and the Review of the Rate Peg Methodology. There should be a governance framework that permits a certain range of increase from year to year, without the need for a Special Rate Variation.

It is Council's view that the determination of the appropriate annual rates increase should be made by each council with the objective of ensuring that the community's expectations are met in a financially sustainable manner, over the long term. Increases would be in line with the required amount as identified in Council's (IP&R) documents, developed through community consultation. Therefore, the Draft Terms of Reference should specifically include the impact of rate pegging on financial sustainability.

Additionally, the Draft Terms of Reference needs to specifically mention the role of State and Federal Governments have in the long term financial sustainability of Local Government, both in relation to how grants are administered and funded, the mechanisms of the Disaster Recovery Funding Arrangements, the increasing costs associated with building resilience and the impact of climate change and cost shifting.

Taking the above into consideration, Council recommends that Term Three is amended to include the items listed below, with explanatory comments in italics.

a. Better targeting eligibility criteria for rates exemptions.
   For Hawkesbury, the cost of property held by other levels of government is over $3.8 million per year. The use of these properties does consume council assets and increases the demand on council services.

b. Ensure statutory change reflects costs incurred by council to provide these services and that levies paid to other levels of government are fair, transparent, and equitable.
   Council calculated that the impact of cost-shifting in 2021/22 was $11.2M, which equates to an average of $419 (or 26% of average rates) per rateable property.

c. Review the current funding model of the NSW Rural Fire Service (RFS), including the vesting of assets under the care and control of the RFS to councils.
   Council incurs significant costs including depreciation of assets used by RFS, direct costs, the Emergency Services Levy, and significant staff time and resources towards the management of the assets, and liaison with both paid RFS staff and volunteers. The current model leads to significant double handling and confusion.

d. Developing a mechanism to enable councils found to have insufficient base rates income to achieve financial sustainability.

Hawkesbury is a peri-urban council covering a large geographic area with a small rating base over a dispersed population with metropolitan cost pressures and service expectations. Therefore, it is important that this is included in the terms of reference.

e. A rate increase methodology that enables a range of rates within a governance framework and an appropriate range for councils that demonstrate an agreed level of performance and community consultation.
As outlined above, the main driver of long term financial sustainability is the community having sufficient understanding of the costs of service and works delivery and agree to pay sufficient rates for the services that they demand. This also enables communities to have a more individualised service provision, with every Local Government Area have unique characteristics. This understanding cannot be built by keeping to a rate peg system.

f. A comprehensive review of existing pensioner concessions and exploration of additional support to support vulnerable ratepayers.
The pensioner concession has been held at $250 per annum, with 55% subsidisation by the Commonwealth Government since 1993. Average residential rates have raised substantially over this time and accordingly the pensioner concession should also.

g. Review the impact of the increasing role of councils in disaster management, community resilience building and infrastructure betterment to provide enhanced resilience to future natural disasters, including the review of the mechanisms and practices of the management of Disaster Recovery Funding Arrangements (DRFA).
Hawkesbury Council has encountered the Gospers Mountain Bushfire and six flood events since late 2019. The current DRFA model does not sufficiently cover the cost of the disaster management and community recovery efforts and fails to recognise the diversion of staff resources required does not entail not continuing business as usual. Additionally, with over $170 million of essential public asset restoration that requires Council to fund upfront has had significant impacts on Council's cashflow and investment income potential.

h. Review the continuation of the Ministerial Investment Order that inhibits opportunities for Local Government to pursue revenue streams through innovative and prudent investment.
As an example, a range of sustainability certificates that Council could have generated income from were unable to be taken advantage of as they are secondary derivatives – which also has the impact of lessening Council's ability to achieve Net Zero.

i. Review the impact of development generated and grant funded new and upgraded assets and recommend potential funding sources for depreciation, operation, and maintenance of these assets.
It is Council's experience that it is significantly easier to obtain grant funding to build or upgrade assets, whereas the main driver of the issues of long term financial sustainability are driven by the inability to raise funding sufficient to renew and maintain assets. A broader system of grant funding for asset renewal is required.

Should grant funding be available for new or upgraded assets than an adjustment to the rate peg (or preferably Council is able to set the rate increase in consultation) for the additional amount to cover depreciation, operation, and maintenance.

Likewise, while there is an adjustment for population increase to the rate peg associated with development and the construction costs for infrastructure as part of development is partly covered by developer contributions, it does not fully cover the cost of the asset lifecycle costs. Adjustments based on the level of new infrastructure should be incorporated into the rate peg or be able to be set by Council based on consultation with the community within a rate increase framework.