



## **REVIEW OF COUNCIL FINANCIAL MODEL IN NSW 2024**

This submission is lodged on a personal and individual basis. The context of my experience is as a resident of Tamworth (33yrs). I graduated as a Civil Engineer in 1975 and worked in Construction (predominantly hard \$) with extensive experience in costing and budgeting in an engineering/construction based format.

### **Overview**

Concurrently with this submission I have also prepared and lodged a submission with IPART in respect to the Tamworth Regional Council (TRC) Application for a Special Variation 2024-25.

I note the structure of the DRAFT TERMS OF REFERENCE. This appears heavily skewed towards responses being sought from Councils.

- I have made enquiries of a Councillor and perused Council Meeting Papers and Minutes. As of this date there is no recorded intent of Tamworth Regional Council (TRC) to make a submission to this review.
- It is further noted that this review is happening concurrently with the 2024-2025 SV applications which includes one from TRC.

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

The need for a robust and detailed accounting system for Councils conforming with Australian Standards, Accredited Professional Accounting and Audit Standards and Statutory Requirements is understood and appreciated.

Whilst TRC does attempt Community engagement mainly around the issuance of the various financial and operational plans, the inherent complexity and format provided by TRC is difficult for the un-trained to comprehend.

I make the following comments in this regard based on my own experiences.

- Over the years I have from time to time perused business papers for Council meetings, attended meetings and engaged with various Councillors.
- From a personal perspective, I struggle to devote time to keeping abreast/informed of Council dealings, let alone without having to interpret and fact find further detail.
- Whilst my background equips me with a certain (limited) skillset to interpret such information, it is my observation that many struggle with this or worse, simply do not bother.
- In my observations, I am unable to recall any robust questioning in open Council of any financial or performance matters. If this happens in “workshops” it is neither recorded, nor is it publically visible. Furthermore, a typical TRC ordinary meeting is conducted on a fortnightly basis and might run for three (3) hours (including closed session).

- There have been occasions I have observed where Councillors have to contend with two thousand pages of Business Paper plus Annexures to prepare for a meeting typically between midday Thursday and a Tuesday evening meeting. These very same pressures apply to members of the public likewise with typically one day less than the Councillors. Whilst appreciating the fact that such deadlines are “business as usual”, those who wish to raise issues or make comment inherently become time constrained by meeting deadlines, ie making cut-off times for Community Consultations (limited to 3 minutes) or otherwise contacting Councillors who must process such additional enquiries.
- I have experienced situations where Councillors have not been able to articulate a discussion on matters financial due to a claimed lack of information provided to them.
- Typically financial matters tend to be dealt with later in the meeting agenda, I suggest this tends to distract somewhat from the focus.

In summary, I believe there would be benefit in better explaining financial and reporting matters in a simplified and better articulated fashion compared to the traditional balance sheet approach. This is not about changing the practice of accounting methodologies or standards, rather, it is about presenting the same information in a different manner which is more easily understood.

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

It is my view that whilst matters of financial and operational performance must be managed and recorded in a format (preferably common across Councils) and in detail to satisfy accountability and audit standards and provisions, the manner in which this is reported to the Public needs to be simplified whilst displaying linkability/traceability back to the formal balance sheet reporting.

Without going into detail, I note cases (for TRC) where for example elements of road spending are not listed under key headings of “Road Construction” in the budget as a deliverable, rather being incorporated in “L03 More diverse and affordable housing”, or the existence of a “Civil Construction Reserve” and a “Westdale Lane Reserve” which on evidence available to me as a member of the Public do not appear to link with Budget Line Items or Investment Holdings. The point being that such information requires much investigation or questioning to find in addition to what position may be taken by Council in providing a reply.

The issues in my view are further compounded by Grant Funding which whilst reported on the Income side of the accounts does not display performance against the individual Grants. The point is made that in the case of TRC, significant (\$8m) of over-spends have occurred in recent years against such Grant Funding which seemingly bypass the monthly/3 monthly variation reporting process. This then leads to the question as to how effective cost control is at the individual project level across Council operations.

My background experience in the construction sector suggests that much more rigor needs to be applied to processes of estimating, budgeting, cost control, forecasting cost at completion and reporting. I have had a number of interactions with TRC on such issues over time.

From experience there are a raft of widely held misconceptions regarding the application of “Overheads”, “Risk”, “Escalation”, “Contingencies” and “Margins” which enter the debate. This statement does not invalidate the application of such, they are part of the process. However, care needs to be applied to the manner in which they are applied and used in order that their use is necessary and justifiable. Nor should they simply be applied as a general percentage for the same reason.

There is much more detail to this debate which is unable to be covered within this submission.

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

In my opinion it would be difficult to change from the current funding basis ie a mixture of Grant Funding, Developer Contributions, Rate Income, Service Fees and Charges and a small percentage of Income from other sources.

As far as TRC is concerned Grant Funding (exclusive of developer Contributions) accounts for approximately thirty five percent (35%) of income. A further three (3) percent is derived from Developer Contributions, ie

- Operating Grants (unrestricted) 17%
- Capital Grants (restricted) 18%
- Developer Contributions (restricted) 3%
- Historically these Grants are subject to an application process (costs to Council) and then subject to competition and approval for the funds at Government level. As such the reliability of sourcing Grant Funding is not a given certainty.
- Additionally, this is compounded by Cost Shifting from Government in various forms, for example in Road Maintenance and the Fire Services Levy.
- TRC in their Application for a SV have noted uncertainty/a likely decrease in Grant funding, and the discontinuation of the Fire Services Levy as points of justification.
- Funding for roads remains a point of contention with the Government shifting maintenance of many State Roads to Councils.

If the “Current” model is to be assessed as the basis of sustainably supporting community needs, in my view the following points need to be addressed:

- Certainty of Grant Income.
- Cessation of Cost Shifting by Government.
- Improved negotiation of Rate Caps.
- Periodic review of outcomes/effects of Rate Caps compared to the current scenario.
- From a Political perspective “Pork Barrelling” needs to be avoided as this can lead to skewed budgeting outcomes.
- There remains a balance where-in Grant Funding subject to application should reasonably be subject to competition and scrutiny to ensure that Grant Funds are utilised to best effect.

Regardless of the source of funding, ultimately it is paid for by the community either as Local Government Rates and Charges, State Government Taxes Levies and Charges or Federal Government Taxes and Charges.

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

The wording “financial capacity” is perhaps incorrectly used here and is interpreted to apply to skills and knowledge rather than monetary aspects.

It is my experience that a key tenet of financial and operational controls is “ownership” wherein accountability (at various levels to suit the situation) is applied to those in control of performance controls and the budget and sub-budgets. Such accountability is usually applied as performance KPI’s and managed through Performance Review processes. Clearly this is difficult to apply to elected Councillors who are only subjected to a performance review at election time.

Furthermore, I suggest this applies more widely than purely financial considerations intimated. Robustness of decision making can include timing/scheduling, evaluation of options/alternatives (optioneering), critical review and team approaches to the task.

- Coupled with this is having adaptive approaches and controls to recognize any departures at the earliest opportunity to implement corrective actions.
- Additionally the “Culture” of an organization needs to support open and honest communication in a supportive working environment. This applies to interactions both internally and externally, both by Staff and Councillors.
- I am able to articulate a range of experiences in this regard.
- Currently TRC have a SV Application of 36.3% (over 2 years) pending. The magnitude/quantum of the increase sought does not match with a progression of cost increases one might expect on a year to year basis and the due diligence expected of Council staff and Councillors over time.
- In the commercial world, to suddenly be requesting a 36.3% increase in charges would be regarded as gross mis-management. Rate pegging and cost shifting has been cited as a reason. TRC themselves acknowledged during Community Consultation for the Application for SV that the issue had been coming to a head for a number of years. The timing with respect to changes in government is noted.
- Developer Contributions have remained at the fore of discussion for a number of years as Developers sought to decrease their costs of development.

Based on the points made above, I draw the conclusion that more oversight of Local Government is needed (perhaps as evidenced by the very need and nature of this review) to ensure that the needs of the community are being met.

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

In my view this question is more appropriately answered by Councils/OLG as the practitioners in the performance and accountability to the community. However, I shall make comment from the perspective of a community member.

Improved planning and reporting systems are fundamental to long term budget performance, transparency and accountability to the community. Ways I envisage this occurring are:

- Simplifying the formats to enable reporting to be more easily understood by the community (whilst maintaining the necessary regulatory and audit detail) essentially by articulating/representing the budgets and controls in a more simple fashion.
- As above, however, the simplified detail should still demonstrate how it links back to the detailed budget.
- Improved recognition of project forecasting and early recognition cost over-runs. Currently as far as construction projects are concerned, it appears from recorded information available that Councillors and the Public first become aware well after the event.

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

The following points are put forward for consideration of IPART under this section of the review.

- Avoidance of Political “Pork Barrelling”. This has the effect of unfairly un-balancing the sharing of funding pools.

- Review of the basis and quantum of matters which are delegated to Council General Managers without further review by the Councillors and the Public by way of Meeting Papers.
- Review of Councils undertaking works on behalf of TfNSW.
  - This detracts from the ability of Councils to service their own road networks.
  - It creates financial risk for Ratepayers should the works over-run Budget.
  - Achieving Value for Money (VfM) could be an issue for TfNSW. Based on my observations, I remain to be convinced VfM is being delivered.

### **In Closing**

The submission made above has involved a significant input of my personal time and I appreciate the opportunity to comment.

The fact that there are constraints applied through Legislation and Auditing provides a modicum of control, however, as with all matters involving human input there are the usual interpretations and oversights. The answer lies in removing scope for interpretation and oversights to provide more transparency, accountability and more timely management of budget over-runs.

I would be happy to answer queries and to further elaborate on points made.

Thank you for considering my submission.

Peter Gill

15 March 2024