



15 March 2024

Independent Pricing and Regulatory Tribunal (IPART)
SYDNEY NSW 2000

Subject: Review of the council financial model in NSW – Draft Terms of Reference

Lake Macquarie City Council (Council) appreciates the opportunity to contribute to consultation on the Draft Terms of Reference for IPART's upcoming review of the council financial model in NSW.

Lake Macquarie is the largest local government area by population in the Hunter region. Council's 1300 employees serve a population of 217,000 people across more than 90 suburbs, towns and villages within a geographically diverse area of 650 square kilometres.

Council has operating revenue exceeding \$290 million, an annual capital works budget of more than \$100 million, and an asset base valued at \$3.7 billion.

Council staff have reviewed the discussion paper and prepared the following submission.

Executive summary

Council regards the draft Terms of Reference to be broad enough in nature to capture most of the important issues that influence the financial sustainability of councils in NSW. However, there are specific issues we believe should be more explicitly articulated in the Terms of Reference, to ensure these matters are properly considered and addressed in responses to the review.

These issues are:

1. suitability of the Local Government Code of Accounting Practice and Financial Reporting, including revaluations, depreciation and grant timings
2. impact of cost-shifting
3. applicability of metrics to measure performance and drive best practice
4. ongoing costs of grant-funded projects and dedicated assets.

Further information on each point follows in the body of this submission.

Submission

Council recommends the following additions be made to the Terms of Reference.

1. Suitability of the Local Government Code of Accounting and Financial Reporting

The Office of Local Government releases a Local Government Code of Accounting and Financial Reporting each financial year that councils are required to use as their basis for year-end financial reporting. The applicability of this code has been challenged due to its timeliness and recommendations. Local government has requested that the code be released by the commencement of the financial year, to ensure sufficient time to comply, or alternatively that it be released for an extended period – for example, three years.

Recommendation: The Terms of Reference should specifically refer to the Local Government Code of Accounting and Financial Reporting, the schedule for its annual release, and whether the Audit Office of NSW should have a role in the development of the Code.

2. Impact of cost-shifting

Cost-shifting from state to local government is an ongoing issue that contributes significantly to the financial burden on councils. Analysis by independent consultants Morrison Low for Local Government NSW calculated the total cost shifted to councils in the 2021-22 financial year was \$1.36 billion, or \$460.67 per ratepayer per year. ([Cost Shifting | LGNSW](#))

The most significant areas of cost-shifting include:

- the EPA waste levy
- rate exemptions (ie: non-rateable or properties at discounted rates)
- administration of development applications and regulatory functions.

A rising issue is cost-shifting that occurs due to changes in NSW Government regulations that increase the administrative and resourcing burden on councils. An example of this is the mandatory implementation of the NSW Planning Portal, which Lake Macquarie City Council calculates has required an additional two fulltime positions in our council alone to absorb additional workload and not reduce our processing times.

The IPART review of the council financial model in NSW provides an opportunity to scrutinise the types and sources of cost-shifting experienced by councils and provide better frameworks for financial coordination between state and local governments.

Recommendation: The Terms of Reference should specifically reference the impact of cost-shifting from state to local government.

3. Applicability of metrics to measure performance and drive best practice

Community members and councils can use a range of metrics to compare key data and performance with that of other councils.

Financial metrics used include operating results, cash management ratios, net profit, and income from both external sources (grants etc) and own-source revenue such as rates (collected and outstanding), fees and charges and investment revenue. However, these metrics do not always accurately reflect the overall financial health of a council, or drive

sustainable practices, as receipt of some significant sources of income – such as Financial Assistance Grants or competitive grant funding – is not always aligned with the year in which the expenditure is incurred.

Also, as councils have substantial asset bases, factors such as depreciation and revaluations that are not captured in standard metrics can have a significant impact on the operating result of councils and community perception of financial performance.

Recommendation: The Terms of Reference should specifically reference financial performance metrics and whether they can more accurately reflect factors such as asset depreciation and revaluation, and income received outside of the financial year cycle.

4. Ongoing costs of grant funded projects and dedicated assets

The financial impact of grant-funded capital projects and dedicated assets from developers continues long after delivery of an asset. Councils bear the cost of ongoing maintenance and depreciation, which impacts the operating cost base of councils. As these additional costs cannot be recouped from rate increases, the financial sustainability of councils can be significantly affected.

Recommendation: The Terms of Reference should specifically refer to the financial impact of ongoing costs associated with the delivery of new assets.

Further engagement

Council appreciates the opportunity to provide this feedback. Should you require further information on the matters raised, please contact [REDACTED]

Yours sincerely

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