

12 March 2024

The Independent Pricing and Regulatory Tribunal (IPART)

**Postal Address**

PO Box K35

Haymarket Post Shop NSW 1240

Submission via the website portal

**Feedback on the draft Terms of Reference (ToR) on the financial model for councils in NSW.**

Local Government Professionals, NSW welcomes the initiative of the Minister for Local Government in requesting IPART to undertake an independent and objective review of the financial model for NSW Councils to identify opportunities to improve the financial sustainability of the sector and in turn community trust in the sector.

The report and recommendations that arise from IPART's review have the potential to impact all Councils in NSW for decades to come. The draft ToR provide by the NSW Government contains much needed and broad inclusions on the transparency and governance for the review of Councils financial sustainability and elected representative and community input into these processes.

It is requested that specific issues impacting Councils financial sustainability also be considered by this review including:

**1. The visibility of councillors and the community over the financial and operational performance of their councils:**

- Are the mechanisms for reporting on council performance clear and understood.
- Does the accounting code for local government provide meaningful financial information to enable councillors to understand and influence the financial and budget performance of their council.
- Is there a need to update the performance indicators to make them more useful for 'real time' monitoring.

**Clarifying questions could be:**

- What are the current mechanisms used for reporting on council's performance?
- Do they cover both financial and operational performance?
- Do they give a true reflection of council's performance for both financial and operational performance?
- How are the reports presented to council?
- Are they understood by councillors?
- Is reporting against the accounting standards making financial statements clear for councillors and the community to understand
- Is there a need to update any current indicators for 'real time' reporting.

**Are councillors receiving timely and appropriate information to enable decisions on allocation of public funds in an efficient and cost effective way.**

**Clarifying questions could be:**

- How are councillors provided with information about council's financial performance?
- How are councillors advised the impacts of decisions on the financial position of council?
- Do councillors understand the long term financial impacts when making decisions?
- How are councillors accountable for decisions which impact the financial position of council.

**Are there benefits to moving to dedicated budget or expenditure review committee models to ensure budget decisions are understood by councillors and the communities they serve?**

**Clarifying questions could be:**

- Do you have a dedicated committee responsible for oversight of council's financial performance and reporting?
- How do they report to the full council?
- Does the IPR Framework need to be strengthened around financial planning?

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

**Unclear:**

- Who determines 'value for money'?
- If the community – there would be no way of them knowing or understanding the budget and financial process.
- If the councillors – they would only have a subjective view

**How well Councils are setting service delivery standards that match revenue, managing their expenses within allocated budgets, and what opportunities exist for improvement in efficiency, service quality and sustainability.**

**Clarifying questions could be:**

- How well do councils currently set service delivery standards?
- What mechanisms are in place to ensure revenue streams enable council to deliver on the established service delivery standards?
- What mechanisms are in place to ensure council manages expenditure in line with the budget?
- How should efficiency be measured?
- What opportunities exist for improvement to council efficiency?

**How to visibly boost elected councillor accountability for council budgets and expenditure to the community**

No suggestions for change

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

**A clarifying question could be:**

- Whether the current funding model for local government is adequate in providing for the financial sustainability of Councils, in support of the needs of communities.

**How do councils balance cash flow to manage the different (and sometimes uncertain), timeframes for revenue and grants money (including Financial Assistance Grants). coming into council**

No suggestions for change

**How effective are councils in identifying and using other revenue sources beyond grants and rates to support the needs of communities and sustainably provide services required to be delivered by councils.**

To effectively answer this question, you need to define/redefine the core/mandatory services in contrast to discretionary services, which is key to future financial sustainability, otherwise Councils will continue to make decisions that they can't actually afford in the long term, or they make decisions where some core services are impacted due to lack of funding to maintain that service.

**Identify measures to put downward pressure on rates through other own source revenue or closer scrutiny of expenditure.**

Not all Councils are the same i.e. rural, regional, small metro, large metro etc. and their ability to raise own source revenue can vary greatly Council to Council, so there is no one size fits all in relation to own source revenue.

There seems to be an assumption that councils see rate rises are the easy answer to the increased costs of service delivery. This is not the case, but where councils do not wish to alter service levels, or reduce the number of services provided, cutting expenditure is not an option either. So it comes down to Council's ability to generate own source revenue, which fluctuates considerably across the state.

**Consider the needs of diverse communities and councils and protect the interests of current and future ratepayers from unnecessary impact on their cost of living**

Is this not captured with the IPR Framework and community consultation?

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

**Clarifying questions could be:**

- Do councillors have the capacity and capability to ensure the financial sustainability of council.
- Do council staff have the capacity and capability to ensure the financial sustainability of council.
- What financial risk management practices are in place to promote financial sustainability?

**Are councils equipped with the right internal capabilities to deliver on the services which their community requires?**

This is an impossible question to answer, as each community requires different services to be delivered, and therefore there is no blanket answer. However, considering the total labour shortage across the country in all sectors, it is probably safe to assume no council has the internal capabilities to deliver all services.

**Has the Audit Mandate been successful in providing a consistent view on the accounting and risk management practices of councils?**

Across all councils in NSW the answer to this question would be no.

However, a better question here would be has the Audit Office delivered value to the ratepayer / Council. Audit now costs councils approximately 30% more than it was some years ago. AO timelines are also blowing out enormously, and requirements to do additional revaluations serve little purpose or value to the financial position of council. There are many other options available which would see audits done in a timely and cost effective manner and should be considered as part of this review.

**A clarifying question could be:**

- Has the audit mandate resulted in value for money for ratepayers and what advantages has the audit mandate provided to ratepayers and Councils?

**Are there opportunities to look at long term expenditure and service delivery improvements by insourcing services? Where outsourcing models have been used, do they provide an efficient and effective means of meeting community needs?**

Insourcing v outsourcing of services varies dramatically across Councils and dependent on many factors, including the ability to attract qualified staff, consistently to perform the role. Generally, councils prefer to insource work as it supports the job market in the community, however where there are skills shortages or economies of scale make this choice cost prohibitive, the result is outsourcing.

**Clarifying questions could be:**

- Where council outsource service delivery what benefits have been gained?
- Where council has brought service delivery back in house, what benefits have been gained?

**What examples of best practice capability building and innovation could be implemented more widely?**

More clarity is required for this question as the intent of the question is unclear, nor is it understood how the IPART will in fact be able to address this.

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

Councils operate under the Integrated Planning and Reporting Framework, which, when done properly provides councils with the tools they need to effectively plan and budget for their community's vision.

Are you asking what improvements to the IPR Framework councils would suggest?

**A clarifying question could be:**

Are there any improvements that could be made to the Integrated Planning & Reporting framework that would see increased transparency and accountability of Councils to their communities?

**How effective councils are in managing their assets and planning for future growth and renewal of assets.**

The way each Council manages its assets is likely to be slightly different, noting that some Councils have vastly larger amounts of assets to look after than other Councils i.e. some have water and sewer; some have extensive rural road networks and the like.

However, as part of the IPR Frameworks, Councils must have a strategic asset management framework and their long term financial plans must address both the maintenance of assets and the infrastructure to support growth.

Are you then asking how effective is the Strategic Asset Management Framework within the broader IPR framework and legislation?

**A clarifying question could be:**

How do Councils adequately fund the construction of new assets and the ongoing maintenance / renewal of those assets?

**Whether current community engagement allows for effective long-range planning and sustainable funding.**

Community engagement in itself does not necessarily result in effective long term planning. Community engagement is one of the inputs into the prioritisation that Councils undertake and may not result in sustainable funding decisions.

**A clarifying question could be:**

Does the community engagement that Councils currently undertake (as part of the IPR framework for the annual budget and Operational Plan), provide adequate transparency and information to the

community so that they are aware of the impacts of their needs and wants (priorities) on the long term planning and financial sustainability of the Council?

**Whether the current framework of reporting and compliance is appropriate and effective.**

The IPR Framework is a comprehensive framework that, when done properly, allows for the long term planning of council operation to deliver the community vision, however, there are some elements which could be addressed to make it more effective.

A review of the overall compliance reporting by local government including the obligations and resource impact on councils following up on previous reviews with tangible recommendations would be supported.

Further the review should consider the efficiency benefits of coordinating access to centralised data would be useful.

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

**Key Factors:**

- What are the key factors impacting on the financial sustainability of Councils?
- What are the financial sustainability challenges that councils and their communities face and how these challenges contrast for metropolitan, regional cities and rural councils.

**Financial Framework:**

- What is the current financial framework that Councils work within i.e. current legislation, Integrated Planning and Reporting Framework, regulatory guidance and accounting standards.
- Is the current IP&R framework adequate and appropriate i.e. fit for purpose, for engaging with the community about service priorities and related budgets and financial implications?
- Does engagement with the community via the IP&R framework, provide Councillors with adequate information with which to make informed decisions?
- What controls are in place to ensure that Councillors are not making service and or priority decisions that will threaten the long term financial sustainability of their Council?

**Rate Peg:**

- The suitability of rate pegging methodology, its deficiencies and long term impacts on sustainability and infrastructure backlogs, given that the rate peg does not fund service level increases.
- Consideration of a rate peg exemption model for councils that demonstrate an agreed level of performance and streamlining and simplification of the Special Rate Variation process.

**Equity of rates:**

- Consideration of the use the Capital Improved Value method to set the variable component of rates.
- Consideration of the eligibility criteria for rates exemptions.

**Pensioner concessions:**

- A comprehensive evaluation of existing pensioner concessions should be conducted, including the funding model and support for vulnerable ratepayers.

**Service Levels:**

- How well do Councils define their service levels to their community and are such service levels / service standards set in line with current available funds?
- How do Councils generate capacity to deliver the Community Strategic Plan?
- How to achieve sustainable service levels given the breadth of services and infrastructure provided by rural and regional councils?
- How are Councils to match private and government sector competition for professions and trades placing significant pressure on employment costs faced by councils?
- How do Councils manage ongoing and additional requirements in standard service delivery to meet the needs of evolving practices, technology, cyber security and governance risks?

**Service Demand:**

- How are Councils to manage service demand including the funding of depreciation as part of the Integrated Planning & Reporting Framework, when rates increases are capped?
- How do Councils assess their community's capacity and willingness to pay for their aspirations and demands for services.
- How are Councils to fund increased depreciation expenses relating to capital grant funded community infrastructure.
- How are Councils to sustainably fund the demand upon council services and infrastructure due to growth and development.

**Revenue:**

- What are the current sources of revenue for Councils and how effective are Councils in identifying and using other revenue sources (beyond grants and rates) to support the needs of communities?
- Are there ways for Councils to increase their own source revenue that will result in putting downward pressure on rates?

**Developer Contributions:**

- Barriers to the use of Developer Contributions in addressing existing infrastructure maintenance requirements

**Use of debt:**

- How well is debt being used by Councils and is this an appropriate mechanism for funding inter-generational infrastructure etc.?

**Expenditure:**

- How well do Councils manage their expenditure in line with community expectations and current available funds i.e. living within their means?

**Assets:**

- How effective are Councils in managing their assets (including the renewal of assets) and planning for the future growth of the area?
- Do Councils have the financial capacity to manage assets appropriately and to build resilience into their assets for the long term?

**Natural Disasters:**

- How to respond to the intensity and frequency of extreme weather events and natural disasters in comparison to disaster funding available to local government.
- Given natural disasters and extreme weather events are becoming more intense and frequent, consider how climate change impacts financial sustainability, including the adequacy of

infrastructure, coastal erosion risks, clean-up costs along with the need to fund mitigation and adaptation actions and what funding mechanisms may be available to deal with these additional costs.

**Performance measurement:**

- How are Councils currently measured against their financial and operational performance?
- What measurement mechanisms are in place (i.e. existing performance indicators / ratios) and do these current measures provide sufficient visibility and accountability to Councillors and the community?
- What improvements should be made to the performance measures / indicators in order to provide the visibility and accountability required?

**Efficiency:**

- How do Councils currently demonstrate their efficiency to Councillors and the community?
- How should the efficiency of Councils be determined and what opportunities exist for improvements in Council efficiency?

**Decision making:**

- How do Councils currently inform Councillors of budget-related matters to enable effective decisions making?
- Is the information provided to Councillors, timely, appropriate and sufficient for such informed decision making?

**Office of Local Government:**

- What is the role of the Office of Local Government in assessing, supporting and championing financial sustainability?

**Cost Shifting:**

- The marked impacts of government cost shifting, including operating and asset performance, as well as the inability to recoup costs from the NSW Government
- Investigate the legitimacy and how cost shifting from other levels of government to local government impacts financial sustainability and the consideration of funding mechanisms to take account of these cost transfers.

**Regulatory restrictions:**

- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services.
- To review restrictions that are denying council's the benefit of competitive pricing, such as the Auditor General mandate.

**Federal Government:**

- What is the role and responsibility of the State and Federal Governments in regard to the financial sustainability of council services and infrastructure?

**Financial Assistance Grants:**

- The mechanisms and suitability of Financial Assistance Grant funding in the context of financial sustainability

**Improvement Opportunities:**

- To further assess additional improvement suggestions identified by IPART as part of the rate peg methodology review.