



15 March 2024

Carmel Donnelly AO
Chair
Independent Pricing and Regulatory Tribunal NSW
Online submission: www.ipart.nsw.gov.au/Home/Reviews/Lodge-a-submission

Dear Ms Donnelly

Terms of Reference for the IPART NSW Councils Financial Review

Southern Sydney Regional Organisation of Councils Inc (SSROC) welcomes the IPART NSW Councils Financial Review, and appreciates the opportunity to participate in the development of the Terms of Reference (ToR).

SSROC has been tasked by the CEOs and General Managers of all 12 member Councils to provide this consolidated feedback on the ToR for the review.

SSROC is an association of twelve local councils in the area south of Sydney harbour. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. The SSROC area covers central, inner west, eastern and southern Sydney, an area with a population of almost 1.8 million, that contributes much of Sydney's gross domestic product.

The finances of NSW local government are increasingly heavily stressed, with rates pegged well below the level of cost increases, costs shifted from state to local government, and community expectations ever-increasing. This submission is offered as constructive comment on the draft ToR, including setting out key issues that are not specifically captured.

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?

Councils report extensively on their financial and operational performance under the Integrated Performance and Reporting (IP&R) framework. This includes a long-term financial plan and an operational plan, which support the implementation of the overarching community strategic plan.

It would be helpful for the review to include explicitly setting out the current financial and operational reporting mechanisms and performance indicators, which would better enable IPART to assess whether they are clear. The question of whether the mechanisms are understood is very important, but also needs to cover whether the information presented through them can be well understood by Councillors, who have differing levels of financial capability.

It is important to consider updating the existing performance indicators to make them more useful to "real-time" monitoring. SSROC recommends that this element of the ToR be expanded to also consider updating them to improve how adequately they represent the financial and operational effectiveness of councils.

In both instances, recommended alternative and/or additional indicators should be included.

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

The scope of this question should be clearer, so that it addresses either the “efficient and cost-effective way” of receiving the information, or the “efficient and cost-effective way” of allocating the public funds. If the intent of the question covers both, then that too should be clear.

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?

NSW Council are bound by legislation to follow the IP&R framework. This necessitates engagement with the community in developing the budget and the Operation Plan; these on public exhibition annually for a minimum of 28 days before they are deliberated on by Council, at which time submissions received from community members will be considered. The consideration of this question should take into account:

- how the model might contribute to improving Councillor or community understanding of budgets and related decision-making;
- how the committee would be funded;
- fit with councils’ obligations under IP&R;
- existing council finance-related committees.

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

This point is difficult to interpret, since the “processes” do not of themselves deliver value for money. It might be better expressed as “How value-for-money decisions are made by Council”, and should also cover the definition of “value-for-money” as it relates to different types of expenditure or investment decision.

Is the Integrated Planning and Reporting process, currently used by councils to make budget decisions, effective in allowing Councillors to engage with the community on the challenges in setting a budget and meeting service level expectations.

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.

These two questions are extremely broad in scope, and likely to have different answers depending on the scenario in which they are being considered. SSROC would suggest examining these through several different lenses, such as applied to service standards, expenses, efficiency, service quality and sustainability etc.

It is important to note that the IP&R process “currently used by councils” is in fact a legislated obligation for them, and not a process that they have the power to change or adapt.

The IPART may find it very challenging to assess, e.g. service standards against revenue or quality, when these would differ so much in cost, quality and delivery between councils. There is also an assumption that service delivery standards should “match” revenue, but services represent an expense that is managed within allocated budgets.

The second of these questions could be improved with greater clarity, particularly around “improvement in efficiency”. This could be understood to mean either overall Council efficiency, or efficiency in relation to a particular service. The concept of “sustainability” could also be clarified, since it could be taken to mean either the financial sustainability of council operations, or the sustainability of a service or council in environmental, social, governance and economic terms. Clarification is needed to ensure that the IPART can deliver meaningful findings through the review.

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

Since Councillors are currently accountable for the adopted budget and expenditure, and are effectively held to account at each Council election, this question could perhaps aim to identify a comprehensive set of performance indicators across financial and operational areas, which could be used to visibly demonstrate to the community how well Council is performing. This in turn could lead to increased accountability.

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

SSROC suggests that these words be revised to reflect the focus on the local government financial model: “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

This is an important consideration for the scope of this review. Most NSW Government grant funding agreements require Councils in part to fund the project and then claim reimbursement at specified milestones and/or at the time of acquittal. Depending upon the size of the project, this can cause a cash flow problem for Councils, particularly at year-end and when preparing financial statements and reports.

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.

Assuming that this refers to own source revenue, which Councils are required to measure and report as the Own Source Operating Revenue Ratio (OSORR), this question might be better framed as seeing how well Councils increase the proportion of own source revenue that they could apply to services.

It is difficult to pinpoint exactly what services are “required to be delivered by councils”, and defining them has been challenging for all stakeholders. SSROC recommends that the IPART clearly articulates its definition of these services as applied to this review.

The IPART could also consider an option of providing Councils (and Councillors) a way of understanding their decision-making process by establishing parameters around the nature of core services (e.g. regulatory, waste, library, recreation) and non-core services (e.g. events). This would provide a framework for specifying the cost of each service, the standard of service delivery, and whether they represent good value for money.

General rates (or specific levies) would be required to fund core services, but the insight that this approach would bring to the non-core services would help to inform decision-making. Non-core services can be in part funded from other sources of revenue, with the net cost offset by rates. This makes up a large part of many Councils’ operations, yet is not necessarily well understood, measured and reported.

Some rigour and justification for funding non-core services could be adopted for Councils to report under the IP&R framework, particularly to understand what level of general rates is allocated to them.

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

With the rate peg a permanent factor in setting local government rates, it is not clear how this question can be assessed. The question might be better framed as how Councils can focus on growing their own source revenue and better control current expenditure, in order to limit the need for Special Rate Variations (SRV). The question does need clarification.

Opportunities for Councils to raise own source revenue also vary greatly depending on the nature of the local government area i.e. large metropolitan, small metropolitan, rural, regional etc. The IPART will need to take these different situations into account, and acknowledge that any measures identified may be of little value in some councils’ circumstances.

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.

This point appears to blend and duplicate aspects of other points in the ToR.

Councils are required to consider the needs of their diverse communities, and do so with extensive consultation under IP&R requirements. Each Council also serves a different community, depending upon factors such as rural or metropolitan, coastal or inland, predominant industry, mix of ethnicities etc. The purpose of the question needs to be clearly stated, since needs will vary so greatly, and “unnecessary” would mean different things to different ratepayers.

Communities typically have far greater demands for infrastructure and services than Councils will ever be able to afford to meet. So Councillors are always under pressure to find ways to deliver to meet demand. As a result Councillors have to focus on relative priorities. Unfortunately, this can result in decisions that may be unavoidable at the time, but which are not necessarily in the best interests of the long-term financial sustainability of the Council. That, in turn will have a negative impact on the community sooner or later.

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

This question could be made clearer by specifying whether it relates the capacity and capability of the individual Councillors and staff, or to that of the whole organisation. This question might be better expressed as “Do Councils (i.e. individual Councillors and members of staff) have the capacity and capability to ensure the financial sustainability of their Council?”

There is also the implied direct connection between capacity and capability and meeting the current and future needs of communities, which may not necessarily be the case. So the question “What financial risk management practices are in place across Councils to assist with future financial sustainability?” might be better targeted.

The IPART should note that the metropolitan area of Sydney currently has no city-wide strategic framework to inform Council plans for future services. Current planning reforms aim to achieve much more housing but are not supported by updated Six Cities Plan and City Plans. The lack of strategic framework means that assessment of the future needs of communities will lack this critical input. In the context of this review, the adequacy of state government strategic plans is key element in the capability of Councils to assess future needs.

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

This point requires clarification, to explain that it relates to the skills of the workforce to deliver the range of services that the Councillors have deemed are a priority for their community. If this is not the correct interpretation, then the point needs to be clarified to articulate its intent.

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

This question should be more expansive. This review is about the financial model of Councils, so a question/s about whether the mandate has achieved any value to ratepayers and Council would be appropriate. SSROC member Councils have reported significantly higher audit costs, extended delivery timeframes, and questions about the relevance of some matters that Audit Office has asked Councils to undertake. SSROC strongly recommends including this consideration in the review: “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?

The intent of these questions appears to be to assess the comparative value of insourced versus

outsourced services. That assessment would be a very large task in its own right, and potentially eclipse the rest of the review in order to provide any useful insights. Insourcing and outsourcing is likely to be quite different for every Council depending on their circumstances, and on their metropolitan, regional or rural location. Further, decisions by a Council to insource or outsource would be informed by a formal service review process as required under the IP&R framework. SSROC recommends that this consideration be either removed from the ToR, or re-examined with a view to reducing its scope while also aiming to deliver useful recommendations.

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

It is not apparent exactly what practices are the target here. For better clarity, the question should specify the relevant practices e.g. financial management, service delivery, or measuring value for money. It is also not clear to whom the best practices might apply (e.g. Council, Councillors, the whole organisation, or Council staff), or whether it means capability-building as a result of service innovation.

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

This question should be modified to acknowledge that Councils are required by legislation to comply with the IP&R framework, which is fundamentally about ensuring transparency and accountability to the community. Effectively, this question implies that the scope of the review includes the IP&R framework outlined in the Local Government Act 1993, related regulation and described in the *Integrated Planning and Reporting Guidelines for Local Government in NSW*.

SSROC recommends that IPART consider revising this question to recognise that Councils are required to plan and report in accordance with the framework: “Could any improvements be made to the Integrated Planning and Reporting Framework that would achieve 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?

Assets generally provide a service to the community, and therefore are part of the balancing of priorities that all Councils must manage. Each Council’s approach to the management of assets will vary slightly, as will the amount of different types of assets e.g. not all councils have water or sewage assets, and some have extensive rural road networks. In the metropolitan area of Sydney, the issue is further exacerbated by the uncertainties relating to the current planning reforms aiming to dramatically increase the availability of housing. The reforms appear to be progressing quickly without any clear plan for the necessary supporting physical and social infrastructure, and in the absence of any reliable overarching city-wide strategic plan i.e. the updated Six Cities Plan and City Plans. These plans are critical inputs to Councils planning their future infrastructure needs.

SSROC recommends that the question would be better framed in relation to the funding of capital projects and programs i.e. so that there is adequate provision for on-going maintenance as well as for future growth; “How do Councils adequately fund the construction of new assets and the ongoing maintenance and renewal of those assets?”.

The IPART could, in considering this question, include the possibility that a portion of section 7.11 and section 7.12 funds be set aside to fund the maintenance of new infrastructure for a period of time.

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

This point needs some expansion, since community engagement in itself does not necessarily result in effective long-term planning. Rather, it is one of the inputs to the process of prioritisation that Councils undertake, and may not result in sustainable funding decisions.

SSROC suggests rewording as “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?”.

As previously recommended, the ToR need to be clear in relation to coverage of the IP&R framework.

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

SSROC takes this as referring to the IP&R framework. As recommended, the ToR need to be clear in relation to coverage of the IP&R framework.

6. Any other matters IPART considers relevant.

The following list notes relevant matters that SSROC recommends the IPART should include in this review in order for it to be comprehensive (no relative priorities should be inferred from the sequence):

- Introduction of Capital Improved Value (CIV)
- Value capture (including the ability to use some of these funds for operational purposes)
- Cost-shifting
- Pensioner rebates
- Rates exemptions
- Fee waivers
- State and Federal grant funding and the impacts of this on Councils
- Funding of environmental sustainability initiatives
- Funding for increasing cyber-related matters
- Funding for resilience in infrastructure i.e. building back better than before and for the long-term
- Funding of infrastructure, where, for example, changes are made to the State planning regime demanding intensification of development, however no funding is provided to Councils to invest in the necessary additional infrastructure
- Allocation of Developer Contributions for maintenance for new assets for a max period of 5 years based on an agreed Formulae
- A model that distinguishes between metropolitan, regional and rural councils and addresses the diversity of base cost patterns.

Conclusion

SSROC welcomes the review of local government finance, and is keen that it should take a comprehensive view of all aspects of finance and, in some areas, the lack of it. Overall the ToR are very qualitative and subjective. All the points are likely to be addressed in different ways by different individuals, with terms like “adequate”, “effective”, “long-term” and “unnecessary” having different benchmarks relative the perspective of the person answering the question.

SSROC would recommend including financial governance in the ToR. For example, if financial decisions are made that could impact the longer term financial sustainability of the Council, then some accountability should reside with the elected Council. Or if a Council adopts a deficit in the Long Term Financial Plan, some accountability is needed, such as putting in place commensurate actions to address the deficit such as a future SRV, service reductions or staff reductions. In short, Council decisions that will have cost implications should need to have a supporting funding source. Consideration of financial risk management in the review would be helpful.

The IPART has previously reviewed aspects of local government finances, and SSROC recommends that the ToR could usefully include consideration of the findings of those reviews. These have included reviews of the rates methodology, rate peg methodology, infrastructure contributions, domestic waste management charges, regulatory burden, and compliance burden.

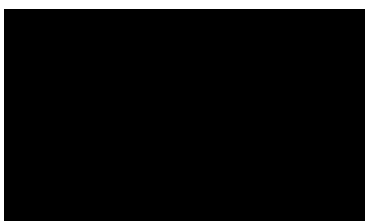
Whilst the information contained in this document addresses the ToR as released by the IPART for comment, the attached table presents a set of revised ToR that reflect an alternative approach to the ToR, for your consideration.



Although this submission has been prepared with input from Council staff, it has not yet been formally endorsed at a meeting of SSROC due to the need to meeting the deadline. I will contact you should any issues arise as a result.

Thank you for the opportunity to contribute to the development of the ToR. SSROC to provide constructive comments that aim to enable the IPART to achieve valuable insights into potential improvements to the current funding arrangements and related accounting, planning and reporting. Should you have any enquiries in relation to this letter, please contact me [REDACTED]

Yours sincerely



Southern Sydney Regional Organisation of Councils

Draft Terms of Reference <u>Revised Categories</u>	Questions
Financial Framework	<p>1) What is the current financial framework that Councils work within i.e. current legislation (including IPR) / accounting standards etc.?</p> <p>(The above question could potentially set the scene for other parts of the review.)</p>
Impacts on Council Finances	<p>2) What are the key factors impacting on the financial sustainability of Councils?</p> <p>(This could cover the rate peg, cost-shifting, increased community expectations, infrastructure and asset requirements, procurement constraints and any other factors affecting local government).</p>
Revenue	<p>3) 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?</p> <p>4) Are there ways for Councils to increase their own source revenue that will result in putting downward pressure on rates?</p> <p>5) How well is debt being used by Councils and is this an appropriate mechanism for funding inter-generational infrastructure etc.?</p>
Expenditure	<p>6) How well do Councils manage their expenditure in line with community expectations and current available funds i.e. living within their means?</p>
Infrastructure & Assets	<p>7) How effective are Councils in managing their assets (including the renewal of assets) and planning for the future growth of the area?</p> <p>8) Do Councils have the financial capacity to manage assets appropriately and to build resilience into their assets for the long term?</p>
Performance Measurement	<p>9) How are Councils currently measured against their financial and operational performance?</p>

Draft Terms of Reference <u>Revised Categories</u>	Questions
	10) 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? 11) What improvements should be made to the performance measures / indicators in order to provide the visibility and accountability required?
Informing Councillors	12) How do Councils currently inform Councillors of budget-related matters to enable effective decisions making? 13) Is the information provided to Councillors, timely, appropriate and sufficient for such informed decision making?
Decision-Making	14) 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 i.e. potentially making such decisions against the advice of staff?
Community Engagement	15) 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? 16) Does this engagement with the community via the IP&R framework, provide Councillors with adequate information with which to make informed decisions?
Service Provision	17) 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?
Efficiency	18) How do Council's currently demonstrate their efficiency to Councillors and the community? 19) How should the efficiency of Councils be determined and what opportunities exist for improvements in Council efficiency?

Draft Terms of Reference <u>Revised Categories</u>	Questions
Financial Sustainability	20) How should financial sustainability in NSW local government be defined and measured?