



15 March 2024

**Independent Pricing and Regulatory Tribunal**  
Online submission

Dear Sir / Madam,

**COUNCIL OFFICER SUBMISSION**  
**REVIEW OF NSW COUNCIL FINANCIAL MODEL – DRAFT TOR CONSULTATION**

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Thank you for the opportunity to provide a submission on the Review of NSW Council Financial Model – Draft ToR Consultation which is on exhibition until 15 March 2024. Please note that the following submission represents Council officer comments and has not been formally considered or endorsed by the elected Council.

Council officers believe that it crucial to ensure that the TOR accurately reflects the perspectives and priorities of local councils to facilitate meaningful improvements in financial management and governance. However, it is recommended that the TOR would assess the effectiveness of the overall Integrated Planning & Reporting (IP&R) framework, rather than focusing purely on reviewing the financial modelling of councils. Feedback on the 5 aspects of the draft TOR is detailed below.

**1. Visibility of councillors and the community over council performance.**

Councils strive to serve their communities effectively, and increased transparency will enable councillors and stakeholders to better understand and assess the decisions and actions taken by council management to implement the Strategic direction set by Council. However, it is noted that NSW councils are governed by the Local Government Act and significant time and resource are invested in preparing the Integrated Planning & Reporting (IP&R) documents as per the IP&R requirements. The format of budget review, annual reports and financial statements of the local government sector are also standardised by local government guidelines and accounting codes. As such, in order to improve visibility of council performance, the ToR should include a review of the effectiveness of IP&R and other reporting requirements in providing meaningful insights into council performance and financial management. It is also important to assess the resources required by councils to produce these documents and the effectiveness of these documents. Reports should be streamlined, relevant and easily understood by users.

**2. Current budget and financial processes and whether they are delivering value-for-money.**

Regarding the assessment of current budget and financial processes, it is essential to evaluate their alignment with the strategic objectives and priorities of individual councils. Council's financial statements can give misleading information to the community as it shows majority of Capital Grants and Developer Contributions as income in the year it is received, even though the use of that expenditure is restricted and not expended in the same year that is it received (e.g., Contribution Plan Income). This results in misleading/inflated Net Operating Results, especially in the case for councils experiencing growth with significant Developer Contributions income which cannot be used

for recurrent operations. Reading the finance statement, the community assumes that Council is choosing not to fund certain community requests despite a large Net Operating Result (which includes restricted income). As such, our Council is maintaining 2 sets of financial results, one for Statutory Reporting and the other for Management Reporting. However, the community will refer to the statutory financial statement and often do not understand the difference between the two. This may also explain how some councils experience financial difficulties as Externally Restricted income are mistakenly used to fund recurrent operations. The proposed review of the effectiveness of IP&R should explore this issue.

Furthermore, Audit Office puts a lot of emphasis on asset valuations as that is the largest number on the Balance Sheet. However, unlike the private sector where asset values affect a company's share price or valuation and where depreciation are tax deductible, these items are not the key issues affecting the financial sustainability of councils. Yet councils are having to spend significant resource and money in justifying the desktop valuations annually, and obtaining external valuer reports periodically, to satisfy the Audit Office.

### **3. Sustainability of the current funding model in supporting community needs.**

The sustainability of the current funding model is of paramount concern to councils, as it directly impacts councils' ability to meet the evolving needs of their communities. The review should carefully assess the adequacy and stability of funding sources, as well as explore opportunities to diversify revenue streams and mitigate financial risks. It should also look the statutory fees that have fixed for decades (e.g., stormwater charge) and are no longer sufficient to cover Councils' costs in providing the services to which the fees relate.

We also recommend the inclusion of the issue of cost shifting from other levels of government to councils in the TOR. Cost shifting places undue financial burden on councils and compromises their ability to effectively deliver services.

Furthermore, we urge IPART to examine the issue of contribution plan funding, particularly its impact on growth councils facing significant capital expenditure in delivering large-scale infrastructure projects. Councils' recent experience with IPART's review on CP15 has raised concerns about potential funding gaps arising from contribution plans, which could be the number one issue affecting growth councils' financial sustainability.

Financial Models should include estimated future maintenance costs of new assets that are being constructed, and not merely indexing current year's recurrent expenditure.

Furthermore, there is limited guidance in the IP&R for the Workforce Plan and how it lines to the Long-Term Financial Plan (LTFFP). Guidance should be provided how to prepare a workforce Plan that can feed to the LTFFP.

As noted in IPART's rate peg review, there is no one-size-fits-all approach for NSW councils given their different nature. It is recommended that the ToR would separate not only the metropolitan, regional and rural councils, but also those that are going through growth and those that are more in the maintenance phase, as the risks and issues faced are completely different.

### **4. Financial capacity and capability of councils to meet current and future community needs.**

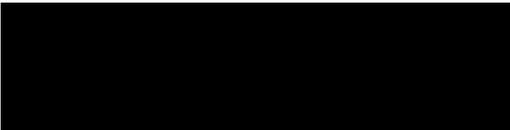
We are supportive for the review to examine the financial capacity and capability of councils to meet current and future community needs. This involves not only assessing the sufficiency of financial reserves and infrastructure investment but also identifying areas for skill development and capacity building within council staff. The review should also assess whether the current rate peg methodology provides sufficient support and flexibility to individual councils in preparing for future needs, including the need to invest in technology.

**5. Improving planning and reporting systems to improve long term budget performance, transparency, and accountability.**

We support the focus on improving planning and reporting systems to enhance long-term budget performance, transparency, and accountability. Good processes should enable councils to make more informed decisions, monitor financial performance effectively, and demonstrate accountability to ratepayers and stakeholders. However, if IPART is intending to provide standardised template modelling tools, they should be in a manner that is simple to understand, and not complex like the modelling files seen with the new Rate Peg and the Contribution Plan models currently being developed. The IP&R documents and process already demand significant council resource to prepare. Adding a complex model will further complicates the process.

In conclusion, it is recommended that the ToR would assess the relevant IP&R and accounting requirements and guidelines holistically for the local government sector. We also urge that the review would consider the unique challenges and priorities of councils in NSW, as they are diversified both geographically and in various stages of the growth cycle, to ensure that the final ToR facilitates meaningful improvements in financial management and governance.

Yours faithfully

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