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Date of submission: Thursday, 14 March 2024

Your submission for this review:

Dear Sir / Madam Willoughby City Council Submission: Draft Terms of Reference for the Investigation of council financial model in NSW Willoughby City Council appreciates the opportunity to provide comment on the draft Terms of Reference for the Investigation of council financial model in NSW to be undertaken by the Independent Pricing and Regulatory Tribunal. Please find attached Councils submission on this matter. Given the significance of this review it is recommended that IPART undertake significant consultation with local councils during the review process. Council would participate in any future engagement process. For further information on this submission, please contact [REDACTED]



The Office of the Chief Executive

13 March 2024

Independent Pricing and Regulatory Tribunal
C/ - ipart@ipart.nsw.gov.au

Dear Sir / Madam

Willoughby City Council Submission: *Draft Terms of Reference for the “Investigation of council financial model in NSW”*

Willoughby City Council appreciates the opportunity to provide comment on the ***draft Terms of Reference for the “Investigation of council financial model in NSW”*** to be undertaken by the Independent Pricing and Regulatory Tribunal.

Please find attached Council’s submission on this matter.

Given the significance of this review it is recommended that IPART undertake significant consultation with local councils during the review process. Council would participate in any future engagement process.

For further information on this submission, please contact [REDACTED]

Yours sincerely

[REDACTED]



Willoughby City Council Submission

IPART Draft Terms of Reference: “Investigation of council financial model in NSW”

March 2024

About Willoughby City

The City of Willoughby occupies 23 square kilometres on the lower north shore of Sydney, with its own CBD of Chatswood and a large part of St Leonards. Located 8.5 kilometres north of the Sydney CBD, Willoughby City incorporates the suburbs of Artarmon, Castle Cove, Castlecrag, Chatswood, Middle Cove, Naremburn, Northbridge and Willoughby, as well as parts of Gore Hill, Lane Cove North, St Leonards and Roseville.

The Lane Cove River and the foreshore of Middle Harbour feature treasured bushland, while our City's residential areas are home to more than 81,000 people. Industrial and commercial zones support approximately 73,000 jobs and a gross regional product of \$11.5 billion. The City of Willoughby's population is forecast to grow to 104,000 in 2041. During the same period, the City expects to support approximately 530 new workers per year.

Council manages many assets and delivers numerous services to meet the needs of our community. As with many councils, we are facing increasing expectations and costs associated with delivering these services. We regularly review how we operate and our service costs to ensure we are operating as efficiently as possible and within our means. Even so, the rate peg is not keeping pace with cost escalations making it more difficult for Council to meet the expectations of our community. At 42%, our rates are a key component of our revenue, and to have a rating methodology and financial model which is outdated and not reflective of the costs we face to deliver our services to our community is extremely challenging.

Council supports the work IPART are doing on the review of the rating methodology, and in considering our previous and current feedback on the rating methodology review.

Overall Feedback

The draft Terms of Reference do not address any of the matters raised by the Independent Pricing and Regulatory Tribunal (IPART) in their final report on the Review of the Rate Peg (November 2023). Instead draft Terms of Reference appear to primarily focus on the performance of councils and need for councils to improve and/or undertake more reporting and compliance activities, as opposed to examining the underlying adequacy of the funding models that contain structural and regulatory deficiencies that threaten the financial viability of councils.

The recommendation arising from IPART's final report on the Review of the Rate Peg was "That the NSW Government consider commissioning an independent review of the financial model for councils in NSW including the broader issues raised in this report". That report identified that "councils can face significant and often different challenges in managing their revenues and costs to meet their community's needs and ensure their financial sustainability. The recent COVID-19 pandemic, economic volatility, bushfires, droughts and floods, and growing climate and cyber security threats, have increased these challenges".

Section 9.3 of IPART's final report on the Review of the Rate Peg outlined measures which may be of benefit to the local government framework, which Council would support exploration of, including:

- Better targeting eligibility criteria for rates exemptions. This would help to ensure ratepayers do not subsidise the costs of providing council services to properties where it is not justified on efficiency and equity grounds.
- Allowing councils to use the Capital Improved Value method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type.

- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services, so councils do not need to use rates income to cover the costs of providing these services.
- Developing a mechanism to enable councils found to have insufficient base rates income to achieve financial sustainability.
- Supporting councils to serve their communities more effectively to build community trust in councils. This could include improvements in how councils undertake and implement their integrated planning and reporting.
- Alternative funding mechanisms, such as targeted grants, should be considered to support councils to provide essential social services to disadvantaged or vulnerable communities, with special attention to the unique challenges faced by rural and regional areas.
- A comprehensive state-wide evaluation of existing pensioner concessions should be conducted, along with the exploration of additional initiatives to enhance support for vulnerable ratepayers. Clear communication and proactive promotion of available assistance options offered by councils are essential.
- Methods to increase the confidence ratepayers have in the rating system should be explored, which could involve introducing additional constraints (i.e. conditions) on the rate peg

The draft Terms of Reference for the “Investigation of council financial model in NSW” do not address any of these issues and do not examine any structural deficiencies in the funding models that councils are compelled to comply with.

The draft Terms of Reference instead focus on the adequacy of existing Integrated Planning and Reporting processes, the capability of council staff and councillors, and propose increased reporting and compliance frameworks to be applied to councils. These matters do not align with the issues raised by IPART and as such do not assist councils in addressing financial sustainability challenges.

Conversely any findings arising from the draft Terms of Reference would lead to increased reporting and compliance overheads on councils and would require significant resource and costs to satisfy. This would adversely impact council’s attempts to contain costs without solving fundamental shortcomings and inequities in council financial models.

Willoughby City Council request significant revision to the Terms of Reference so that the review is focused on addressing the issues existing with council financial models as originally identified by IPART. This includes amending the Terms of Reference to at least provide focus on:

- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services, so councils do not need to use rates income to cover the costs of providing these services. Current statutory charges are wholly inadequate in compensating councils for the real and reasonable costs of providing services such as Stormwater Management, Development Approval fees and compliance activities.
- Compensating councils for cost shifting from other levels of Government, including administrative overhead in providing services for and excessive reporting to other levels of Government.
- Better targeting eligibility criteria for rates exemptions.
- Alternative funding mechanisms, such as targeted grants, to support councils to provide essential social services to disadvantaged or vulnerable communities.
- Allowing councils to use the Capital Improved Value method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type.
- State-wide evaluation of existing pensioner concessions and also examination of the adequacy of compensation provided to councils for the existing pensioner concessions

(currently the State Government only compensate councils for 50% of total pensioner concessions).

If the draft Terms of Reference remain as they are, significant consultation with councils across NSW must be undertaken. It is important to ensure there is adequate understanding of the current processes and resources required to deliver existing processes in addition to any proposed changes. The significant administrative burden councils already have, as required by the State Government cannot be under estimated.

Council's previous submission to IPART on the Review of the Rate Peg Methodology Draft Report June 2023 also provides relevant information to consider in the financial model of councils in NSW.