

14 March 2024

Carmel Donnelly PSM
Chair
Independent Pricing and Regulatory Tribunal
PO Box K35
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Dear Carmel

REVIEW OF THE COUNCIL FINANCE MODEL IN NSW - DRAFT TERMS OF REFERENCE

City of Newcastle (CN) welcomes the opportunity to provide feedback on IPART's review of the financial model of Councils in New South Wales. CN provides the following commentary regarding the Draft Terms of Reference (TOR).

1. The visibility of councillors and the community over the financial and operational performance of their Councils.

CN provides significant, meaningful, and transparent reporting on financial and operational performance to the elected Council, and an array of stakeholders and the community. CN publicly publishes quarterly and annual reporting regarding financial and operational performance along with a monthly executive finance report, all of which are reported to Council, along with monthly workshops for Councillors to ask questions. There would be value in the sector following CN's lead and introducing monthly reporting and accompanying workshops to ensure Councillors are informed to make evidence based decisions.

CN notes that the increasing complexity of Accounting Standards, aimed at 'for profit entities', reduces the value of financial statements as a measurement tool for council performance. For example, recognition of income is no longer consistently matched with the time period it was earned or the corresponding expenditure. This reduces the usefulness of the current performance indicators to Councillors and the community. The OLG need to make considered changes to reporting requirements so that financial information maintains its relevance.

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

The current Integrated Planning and Reporting Framework is established and working well as a process to deliver value-for-money for ratepayers and residents. CN's Resourcing Strategy provides timely and appropriate information whilst giving opportunities to set long-term budgets and service delivery expectations.

Councils' Annual Financial Statements and the Annual Report are a well recognised and trusted process for providing financial performance and holding council and the organisation to account for budget and expenditure.

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

Having a financial model that supports consistent long-term financial planning and sustainability is critical to the NSW local government sector meeting its community expectations. CN is continuing to invest and plan for significant projects that will not only aid the local economy but also help it cater for the significant forecasted growth in population over the next decade and beyond however the current financial model is overly restrictive and limits a Council's ability to respond to its community.

CN notes the recent reviews into the rate capping methodology suggests that IPART has not addressed the key issue ie that the process is too restrictive. There is a special rate variation process in place, but it is overly onerous. The IP&R framework already requires a genuine conversation with the community and NSW councils should be empowered to also discuss and set rates with their community without the permission of the IPART, or at least if done within a predetermined percentage outside of the annual rate cap.

In addition, the NSW Investment Order inhibits all local councils from placing investments that grow with inflation and support our assets and services. Recent high inflation pressures have seen investments made within the current restrictions lose real value across the sector.

It also needs to be noted that councils are significant holders of infrastructure assets. Periods of high inflation and supply issues can have a highly detrimental effect on long term sustainability that cannot be expected to be offset by capped rates income. Additional funding streams are required to match the replacement cost of infrastructure.

CN would like to bring attention to the specific challenges faced by regional capitals such as Newcastle. The current financial model expects local LGAs to fund regional sized assets that are being used by a regional population well beyond its LGA ratebase. User pays is not appropriate for all community assets and is impossible for assets such as our coast line. A single LGA's rate base is not sufficient to maintain and renew these regionally significant assets. This current funding model for such assets is unsustainable. A dedicated grant program is required for regional assets. In particular CN is often excluded from grant applications due to inconsistent metro or regional classification used by the NSW Government. It is critical that Newcastle has a consistent classification applied.

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

Cost shifting continues to be one of the most significant challenges facing the NSW local government sector. CN advocates for a review that takes a holistic approach in understanding the impost cost shifting has on local governments. A key focus should be the consideration of a council's increased long-term obligations and allocated funding of share services.

Grant income is a valuable funding source but creates its own challenges. For example, most grant programs are targeted towards new assets resulting in additional unfunded future maintenance and depreciation expense. The lack of much-needed operational grants must be addressed for Councils to meet the current and future daily needs of communities, at a level they are accustomed to. Additionally, applying for grant funding is often time consuming with short announcement-to-submission timeframes. This hinders Councils' ability to effectively enact long-term strategic planning.

Council staff are required to comply with numerous legislation and regulations to meet the current and future needs of communities. This in itself takes time and effort to ensure compliance without constant changes. For example, accounting code changes and the harmonisation of accounting standards has created additional work for council staff. As the OLG is the primary user of the Financial Statements, it needs to consider a more efficient way of receiving information without the resourcing impost. Similarly, the introduction of the Audit Office into Local Government has come at an extraordinary cost of money and staff time.

Councillors play a key governance role and are being asked to make increasingly complex financial decisions. This requires more training and support from the Office of Local Government to ensure councillors are adequately skilled to acquit their responsibilities. We do however feel that any such obligation will be met with a more positive response if the same financial literacy obligations are required for State MPs as for councillors.

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

The existing IP&R framework and Financial Statement processes provide a high level of transparency. CN is mindful that any additional reporting requirements would result in reduced time spent on strategic and delivery outcomes as limited resources would be required to be reallocated. It is important that IPART and OLG considers the cost benefit of any additional reporting.

CN also asks the NSW and Federal governments to be more considerate of the impact of their budget decisions on local government, highlighting that the regular decision to pre-payment portions of the Financial Assistance Grant. This prepayment, often unknown until almost the end of the financial year, is disruptive to Councils' budgeting processes. It is disingenuous to suggest a council has run an operating deficit simply because the grant was paid early as recognised the year before. Early notice and a consistent payment schedule from the Grants Commission needs to be urgently addressed.

It needs to be noted that councils are a significant holder of long term infrastructure assets. Long term increases in the replacement value of assets increases the level of non-cash item such as depreciation washing through the income statement that it is not appropriate to expect rates revenue to offset. CN requests a review of the calculation of the Operating Performance Ratio to ensure it better reflects the real financial performance of a local government.

In addition, CN would welcome auditing of the Special Schedule 7. This schedule is required to be prepared by all NSW councils but without auditing it is inconsistent and reduces community confidence in the financial statements process.

CN looks forward to participating in the review itself.

Should you require any further information on this matter please contact [REDACTED], [REDACTED].

Yours faithfully

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