



Review of Draft Terms of Reference  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop, Sydney NSW 1240

Dear Tribunal members

### Submission - Draft Terms of Reference of the NSW Council Financial Model

We thank IPART for the opportunity to provide feedback on the Draft Terms of Reference of the NSW Council Financial Model. This engagement with Council staff, Councillors, ratepayers, and the community will ensure a well-balanced approach to assess whether the current funding model sustainably supports the needs of the community.

The current Draft Terms of Reference (ToR) consists of six subject areas containing various questions which are under consideration for review and recommendation for improvements. The following subject areas for review are listed below:

1. *The visibility of councillors and the community over the financial and operational performance of their Councils.*
2. *Whether the current budget and financial processes used by Councils are delivering value for money for ratepayers and residents.*
3. *Whether the current funding model will sustainably support the needs of the communities*
4. *Whether councils (both councillors and staff) have the financial capability to meet current and future needs of communities*
5. *How can better planning and reporting systems improve long term budget performance, transparency, and accountability for the community.*
6. *Any other matters IPART considers relevant.*

#### Initial feedback:

The current ToR contains questions that are open ended and very general in nature, and it is recommended that IPART considers more specific targeted questions in order to provide meaningful and measurable improvements in the NSW Council Financial Model. It also should be noted that the current ToR only focuses on the responsibility of Council and ignores all external factors such as Federal and State Government decisions as well as changing market and industry factors which severely impact Council's financial sustainability but are out of Council's control.

The following items below, outline some of the major issues facing NSW Council's ability to sustainably support the needs of the community now and in the future:

- **Rate Peg:** Prior to FY24/25, the Rate Peg methodology was "backward looking" and was not reflective of current and future market and economic conditions such as increases in inflation and construction costs to maintain critical community infrastructure and therefore resulting in infrastructure backlogs. These lags have had a compounding effect on Councils financial sustainability. In addition, currently the Rate Peg is not mandatory. Council can adopt to not apply the Rate Peg for a specific year or any percentage up to the

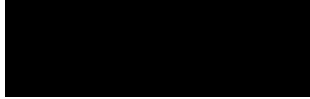
maximum that legislation allows without consideration of the financial implications. In FY22/23 City of Ryde adopted not to take up the special variation of 2.5% offered by IPART as the Rate Peg of 0.70% provided was considered insufficient after IPART review. This had a financial impact of \$1.4m in FY22/23 which has impacted the current Financial Year and has a compounding effect into the future on Council's financial sustainability.

- **Housing Policy Changes:** Due to housing policy changes mandated by the NSW State Government such as State Significant Developments (SSD), Build to Rent (BTR), Affordable Housing and zoning changes. There will be an adverse impact on Council's Rates income and Developer Contributions.
- **Statutory Fees & Charges:** Council has no control on the pricing of Statutory fees. Such fees have never been reviewed with the increases in costs and have not kept pace with the cost of providing the service by Council. Council cannot put downward pressure on rates through 'own source' revenue if these fees are not reviewed regularly. Council always looks for alternative streams of revenue so that they are not reliant on rates due to rate pegging. However recently some Councils introduced a compliance levy which was to pay for development monitoring and regulatory activities, however this was removed by Department of Planning. These compliance and regulatory costs are enormous for Councils and the removal of this fee meant that City of Ryde could not recoup \$1.3m per annum, resulting in a shortfall of income.
- **Cost Shifting:** There are costs outside Council's control which need to be looked at as part of this review. These are including but not limited to: Streetlighting, Election and Bi-Election costs, Valuer General Fees, Sydney Regional Development Fund, Part subsidised Pensioner Rebates, and Audit Fees including mandated performance audits.
- **Domestic Waste related costs:** Council incurred expenditure of \$4.3m in FY22/23 due to the Waste Levy payable to the NSW Environment Protection Authority (EPA). State Government levies charged relating to Domestic Waste results in an increased Domestic Waste Charge for ratepayers. In addition, the State Government requires Council's to provide Food Organics and Garden Organics (FOGO) to all NSW households by 2030. Implication studies of the introduction of FOGO have highlighted a potential increase of 31%-37% above the current collection and disposal contract costs, which amounts to an additional \$6.2m to \$7.4m per annum. These increases in costs will be unprecedented and will further put pressure on ratepayers.
- **Federal Grants:** Most Councils are dependent in some respect on additional funding from the Federal Government (Federal assistance grants and other). The allocation methodology of these grants should be reviewed to ensure that it is fair and relative to the increasing costs that Councils must incur in providing services to the community.
- **Other Industry & Market Factors:** Increases in construction costs, supply chain issues, shortages of contractors, planning, compliance and regulatory costs, utilities and insurance have had a major impact on Councils ability to deliver critical infrastructure and manage these expenses whilst meeting the needs of the community. In addition, emerging changes within the industry and market which require council to fund costs relating to cyber security, climate change and mandated environmental sustainability targets must also be considered.



If you have any queries, please contact me at [REDACTED]

Yours sincerely,



Aneesh Zahra  
Chief Financial Officer