

PS:KL

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Independent Pricing and Regulatory Tribunal (IPART)
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Via email: ipart@ipart.nsw.gov.au

Review of the council financial model in NSW

Edward River Council is pleased to respond to IPART's invitation to comment on the draft Terms of Reference for its review of the council financial model in NSW.

Please find below Council's response and some suggestions for consideration in relation to each of the matters described in the draft Terms of Reference:

1. *The visibility of councillors and the community over the financial and operational performance of their councils:*
 - Council has concerns that the current Australian Accounting Standards related to grant income create inconsistencies in reporting making it difficult for users to understand and compare outcomes.
 - In relation to the notion of an expenditure review committee or similar model, Council encourages the review to consider the role of Audit, Risk & Improvement Committees (ARICs) in this regard. It is noted that ARICs should not simply be confirming that the financial reports are robust, but the expenditure has been spent according to the council's adopted suite of plans (prepared under the Integrated Planning & Reporting framework).
 - In considering the visibility of councillors over the financial and operational performance of the council, the review might seek to better understand what avenues exist for councillors to develop the necessary capabilities to fulfil the role (as described in the *Local Government Act 1993*– Chapter 3 and sections 223, 226 and 232).
 - The question of councillor remuneration and the costs and time required for councillors to upskill their financial literacy may also be beneficial to include in the review, as these have impacts on attracting councillor candidates with appropriate skills to effectively monitor councils' operational and financial performance.
2. *Whether the current budget and financial processes used by councils are delivering value for money for ratepayers and residents:*
 - Council considers that the framework in place to support councils to plan, resource, monitor and report (the Integrated Planning & Reporting framework) is effective, but that the review might add value if it considers how effectively the framework is implemented and used by councils to inform their day-to-day practice and decision-making.



- The review might also consider models that exist in other jurisdictions, such as Victoria's [LGPRF](#) (Local Government Performance Reporting Framework) to assess their value for the NSW local government sector.
3. *Whether the current funding model will sustainably support the need of communities:*
- Council notes that the NSW Office of Local Government and the local government sector have always considered rates revenue as the primary element of 'own source revenue'. While large metropolitan and coastal councils with high visitor numbers may also be able to rely on significant revenue from sources such as parking fees and fines, the review must take into account that this 'other revenue' is just not available to most regional and remote councils west of the Great Dividing Range.
 - Council suggests that instead of asking "how effective are councils in identifying and using other revenue sources", the review might consider if there are effective mechanisms for councils in different settings to use revenue from sources other than grants and rates. It is particularly important to consider the very different experiences of rural and metropolitan councils in addressing this issue.
 - Council also suggests that the review seeks to understand if the current rating model is the most appropriate way for councils to establish their revenue base.
 - For the review to be comprehensive, it must also consider the continuing impact of cost shifting, as local government bears the cost of policies imposed from other levels of government. Any revenue plan must consider how these often-significant shifted costs are funded when they become local government's responsibility, as well as the capacity of smaller councils to deliver on cost-shifted responsibilities.
4. *Whether councils (both councillors and staff) have the financial capacity and capability to meet current and future needs of communities:*
- Again, the city/country dichotomy arises, as the skills base being drawn on is more limited in rural communities. The review should consider what the financial capabilities are for being a councillor, and how skills development can be fast-tracked as people without such capability are elected, particularly in smaller and rural councils with limited capacity.
 - Council suggests that alternative mechanisms to the Audit Mandate are reviewed so that, as well as considering consistency, it also considers timeliness, the cost to councils (both in staff time and audit fees) and accessibility for council clients of the process.
 - Council also suggests consideration be given to the shift in council capability required when 'insourced' functions become 'outsourced', that is, the increased focus on contract management and procurement that follows.
5. *How can better planning and reporting systems improve long-term budget performance, transparency and accountability to the community?*
- Council suggests that the review considers the State Government's role in monitoring and confirming the application of current planning and reporting systems across the local government sector. The review might consider why some councils have not effectively managed their assets or engaged their communities – what are the barriers to effective application of the Integrated Planning & Reporting framework and what role does the State Government have in supporting councils to address these barriers?



6. *Any other matters IPART considers relevant:*

- Council considers that the community's capacity to pay (council rates, fees and charges) should also be considered as part of this review.
- While council supports a model that is consistent and scalable, it also requests that the review particularly consider the impacts of LGA location and population, noting the very different experience of city and rural councils.
- The review might also consider how the State Government might better support councils to standardise practice and therefore create efficiencies and cut red tape. This might include determining if there is value in identifying and recommending standard IT systems with back-end reporting capability.

Edward River Council appreciates the opportunity to comment on the draft Terms of Reference for this important local government sector review.

Yours sincerely,

