

IPART REVIEW OF NSW COUNCIL FINANCIAL MODEL SUBMISSION BY GOULBURN CHAMBER OF COMMERCE

References to the system being broken have been frequently used in both learned and media coverage of the NSW State Government's, and to a lesser extent, the Australian Government's, transfer over the last decade to local government of costs without sufficient recompense, and IPART's rate peg methodology. The timing of this Review simply compounds the problem.

Business, particularly SME's, as rate payers have during that time been repeatedly called on to be the fix through increased rates. This at a time when thinking which could be described as "I PARTY" thinking is frustratingly apparent.

SME's (employing less than 20 people) in Australia added \$506 billion of value to the economy in 2021-22. This was 32% of Australia's total GDP. The vast majority of small businesses are family businesses.

The impact of any Council rate increase is a double whammy for small businesses. Having opened the rates and charges notices at the office, or the letter from the landlord advising that rent and or outgoings are to increase, that evening the business owner goes home (invariably late) to open the rates and charges notices for their residence, or the letter from the managing agent should they be renting their home.

I PARTY thinking - one

An Australian Local Government campaign is demanding the Federal Government restore the Financial Assistance Grants (FAG) for Australia's Councils to at least one per cent of Commonwealth Tax Revenue, an increase of just over \$3 billion.

In response to requests over more than a decade for an explanation why it has not increased FAG funding to one per cent of tax by an increasingly desperate sector - which at its very core does nothing else other than provide services to rate payers including local business owners and operators or their employees, the Australian Government points to a range of competitive grant-funding and other programs for 2023 that amounted to \$2.6 billion, some 83.9% of the current FAG amount.

Councils, and businesses, in NSW need more reliable funding streams, instead of Councils trying to win grant-writing competitions. It is no secret that an increasing component of some Council's cost base is the staffing costs of one or more Grants Officers.

I PARTY thinking – two

In August 2023, IPART handed down its Final Report on its Review of the Rate Peg Methodology. The new rate peg methodology determined by IPART was applied in October 2023 when it set the rate peg for the 2024-25 financial year. It reportedly produced rate pegs that more accurately reflect changes in inflation and costs incurred by councils by using forward-looking indicators to measure changes in Councils' base costs.

Of concern is that Councils can apply through the special variation process, if required, for an adjustment due to **past** inflationary impacts. This imposes more uncertainty, and potential costs, on business.

I PARTy thinking – three

The IPART Report notes that on average, the 128 Councils in NSW raise about a third of their revenue through rates with IPART determining how much each Council's total rates revenue can increase each year through the rate peg. The Report recommended the NSW Government commission an independent review of the financial model for councils to identify improvements.

On 30 January 2024, IPART published Terms of Reference received from the NSW Government to investigate and make recommendations on the NSW council financial model. IPART is seeking feedback on the draft Terms of Reference by 15 March 2024. Consideration of all the feedback may result in recommended changes to the Terms of Reference. Within 12 months of the Terms of Reference being finalised, IPART is to submit its Final Report to Government.

Two of the matters to be reviewed and on which improvements are to be recommended are:

- A) Whether the current budget and financial processes used by Councils are **delivering value-for-money for rate payers and residents**; and
- B) whether the current funding model **will sustainably support the needs of the communities**.

Meanwhile, effective 1 July 2024 the first or only stage of an SRV, if approved by IPART - as a separate process to its Review of the NSW council financial model, will be implemented by those Councils who have been granted an SRV. The timing of IPART's report to Government on the financial model will see its Report, at best, be handed to Government within weeks of, if not after, the second, and perhaps final, stage of an SRV when implemented 1 July 2025.

Business thinking – the fix

Rather than fine-tuning the Review's terms of Reference, IPART should be recommending to Government, or vice versa, that all SRV applications should be held in abeyance until:

- 1) Feedback on the Terms of Reference is in.
- 2) The Terms of Reference are finalised.
- 3) The Report to the Government on the NSW council financial model is submitted.
- 4) Government announces what improvements to the model have been recommended and which are to be implemented.
- 5) IPART, based on the improved model, announces the rate peg for, at the earliest, the 2025-26 Financial Year.
- 6) IPART only then considers SRV's for the 2025-26 Financial Year based on the new, improved rate peg; SRV's may not be necessary.

If business was responsible for the Review and did it any other way, business would be harshly criticised.
