

Dear Sir,

Please find below my submission and cover form regarding IPART's Review of Councils Financial Model in NSW - Terms of Reference.

Submission:

I seek to have the process covering Special Variations (SV) included in the above review. SV represent the end result of circumstances or poor expenditure decisions made by a Local Council and I believe this form of redress is becoming a more frequent option used by Councils as a solution to their funding shortfalls.

Special Variations – The Current Process

Currently, a Council makes a decision to apply for a SRV and submits an application to IPART for its consideration. There is little to no cost incurred by the Council and the time and expense involved in assessing the application is borne by IPART. From a Council's perspective, it has nothing to lose and everything to gain.

A case in point is Kempsey Shire Council (KSC) who, on 24 November 2023, decided to seek an SV in 2024/25 of 42.7% covering roadworks and maintenance. Kempsey Shire has previously gained approvals for permanent SV also covering roadworks and maintenance of 11.37% in 2012/13 and 37.5% in 2014/15, but it appears the additional level of funding gained by the earlier SV has been insufficient for their needs. The justifications for the SV and the public consultation undertaken by Councils vary considerably and I believe the affected communities deserve a better & more reliable process.

For example, in the public documents distributed by Kempsey Shire justifying the current SV, they have identified the State Government's rate pegs as one of the causes for the Council's financial woes and states; "*Rate Pegging – The NSW Government restricts how much Councils can typically increase rates by and in recent years rate rises haven't kept up with inflation*". However, I have been advised by IPART that in the 10 years to 2023/24, Kempsey Shire has been approved compound rate pegs of 67%. This represents an average rate increase of 6.7% every year for the last 10 years. The above statement by Kempsey Shire does not appear valid as the increases are well above inflation for the period, yet the community is expected to accept the statement as a true and accurate assessment of the causes of the Council's financial problems. This is the point, a Council is free to submit an application to IPART for a SV and can proceed to justify to their community it in any way they see fit.

Special Variations - A Better Process

IPART could introduce a new system putting more rigour around the process for a Council requesting a large SV, say upward of 10% or 20%. In these circumstances, a Council would be required to undergo an independent financial assessment by an accounting firm appointed by IPART and the Council would be required to fund that review. The review could cover such areas as;

- The Council's current financial position.
- A review of recent expenditures
- The main causes of the Council's financial problems.
- Remedial actions available to the Council to mitigate those problems.
- The independent financial review should also be made available to the community as part of the SV process.

The extent and criteria for the independent financial assessment would need to be determined by IPART. However, the provision of such independent reporting would greatly assist IPART in its assessment of a Council's SV and place more pressure on Councils to properly consider the cost and

circumstances of submitting an SV application. The Council would also be informed of any remedial actions available to them to resolve their financial problems and possibly negate the need for the SV. If a Council is at a point of financial crisis that it requires a significant abnormal rate increase, it may be an optimum time for that Council to get some independent financial advice.

Also, in the interests of transparency, the independent financial reporting should be made available to the community as part of the public consultation process. The community would be better informed of the need for the SV and more trusting of the assessment process. Considering the current level of debate underway in Kempsey Shire regarding its current SV application, I believe some independent financial reporting would be most welcome by the community.

I respectfully ask for your consideration of the SV process to be included in the Review of Council's Financial Model in NSW.