

IPART investigation of the council financial model in NSW

Lane Cove Council Submission on the Draft Terms of Reference

Council supports the work IPART is doing on the review of the rating methodology, and in considering industry feedback on the rating methodology review and welcomes the opportunity to comment on the draft Terms of Reference proposed by the NSW Government in relation to the council financial model in NSW.

The draft Terms of Reference as they stand represent a missed opportunity to address the matters raised by the Independent Pricing and Regulatory Tribunal (IPART) in its final report on the rate peg methodology. Instead, they primarily focus on the performance of councils and the need for councils to improve and/or undertake more reporting and compliance activities, as opposed to examining the underlying adequacy of the funding models that councils are compelled to comply with. Many matters are focused on processes or capabilities without asking the fundamental question as to whether rating structures and other revenue streams are equitable or adequately fund councils.

The recommendation arising from IPART's final report on the Review of the Rate Peg was:

That the NSW Government consider commissioning an independent review of the financial model for councils in NSW including the broader issues raised in this report.

That report identified that:

Councils can face significant and often different challenges in managing their revenues and costs to meet their community's needs and ensure their financial sustainability. The recent COVID-19 pandemic, economic volatility, bushfires, droughts and floods, and growing climate and cyber security threats, have increased these challenges.

Section 9.3 of the report outlined measures which may be of benefit to the local government framework, which Council would support exploration of, including:

- Better targeting eligibility criteria for rates exemptions.
- Allowing councils to use the Capital Improved Value method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type.
- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services, so councils do not need to use rates income to cover the costs of providing these services.
- Developing a mechanism to enable councils found to have insufficient base rates income to achieve financial sustainability.
- Supporting councils to serve their communities more effectively to build community trust in councils. This could include improvements in how councils undertake and implement their integrated planning and reporting.

- Alternative funding mechanisms, such as targeted grants, should be considered to support councils to provide essential social services to disadvantaged or vulnerable communities, with special attention to the unique challenges faced by rural and regional areas.
- A comprehensive state-wide evaluation of existing pensioner concessions should be conducted, along with the exploration of additional initiatives to enhance support for vulnerable ratepayers. Clear communication and proactive promotion of available assistance options offered by councils are essential.
- Methods to increase the confidence ratepayers have in the rating system should be explored, which could involve introducing additional constraints (i.e. conditions) on the rate peg

The draft Terms of Reference for the “Investigation of council financial model in NSW” do not address any of these issues, do not examine any structural deficiencies in the funding models that councils are compelled to comply with, and do not provide any opportunity to comment on emerging issues such as the impact of ‘build to rent’ on ratepayer equity.

In this regard, the current rating legislation as it relates to ‘build to rent’ developments in NSW does not allow councils to maintain average rates per capita funding in order to service the new population. Build to rent housing is large-scale, purpose-built rental housing that is held in single ownership, rather than being sold individually via strata subdivision. As the land is not subdivided, the rating system continues to utilise the unimproved capital value (the land value). Residential multi-unit developments typically are strata titled and the strata plan is used by councils for rating purposes. Each individual unit within the strata plan is rated separately, resulting in the council receiving at least minimum rates for each strata unit. As an example, an existing build to rent development in the Lane Cove LGA consisting of 327 apartments pays \$47,000 in Council Rates. The equivalent 327 strata titled residential apartments would attract approximately \$370,000 if minimum rates were levied. This presents an inequity for existing ratepayers, who will effectively be subsidising these developments and will almost certainly present an unsustainable financial position for councils to service the growth in population.

The draft Terms of Reference instead focus on the adequacy of existing Integrated Planning and Reporting processes, the capability of council staff and councillors, and propose increased reporting and compliance frameworks to be applied to councils. While the matters raised provide an important opportunity to comment on industry-wide issues, they do not align with the issues raised by IPART and as such do not assist councils in addressing financial sustainability challenges. In fact, any findings from the review could likely lead to increased reporting and compliance obligations on councils and would require significant resources to satisfy. This would actually increase pressure on council budgets and not address fundamental shortcomings and inequities in the current council financial model.

Council’s comments on the matters outlined in the draft Terms of Reference are provided below. Having noted that, Council seeks a broadening of the Terms of Reference so that the review can also focus on addressing the issues existing with council financial models as originally identified by IPART, including:

- Ensuring that statutory charges reflect the efficient costs incurred by councils in providing statutory services, so councils do not need to use rates income to cover the costs of providing these services. Current statutory charges are wholly inadequate in

- compensating councils for the real and reasonable costs of providing services such as Stormwater Management, Development Approval fees and compliance activities.
- Compensating councils for cost shifting from other levels of Government, including administrative overhead in providing services for and excessive reporting to other levels of Government.
 - Better targeting eligibility criteria for rates exemptions.
 - Alternative funding mechanisms, such as targeted grants, to support councils to provide essential social services to disadvantaged or vulnerable communities.
 - Allowing councils to use the Capital Improved Value method to set the variable component of rates to ensure they can set equitable and efficient rates for all residential and business ratepayers, regardless of their property type.
 - An evaluation of existing pensioner concessions and also an examination of the adequacy of compensation provided to councils for the existing pensioner concessions; and also
 - A mechanism to deal with the rating inequity arising from build to rent developments.

Council provides the following comments on the Terms of Reference.

IPART should review and recommend improvement on the following matters:

1. *The visibility of councillors and the community over the financial and operational performance of their councils.*
 - *Are the mechanisms for reporting on Council performance clear and understood? Does the accounting code for local government provide meaningful financial information to enable Councillors to understand and influence the financial and budget performance of their Council? Is there a need to update the performance indicators to make them more useful for 'real time' monitoring?*
 - *Are Councillors receiving timely and appropriate information to enable decisions on allocation of public funds in an efficient and cost-effective way?*
 - *Are there benefits to moving to a dedicated budget or expenditure review committee model to ensure budget decisions are understood by Councillors and the communities they serve?*

Council supports this matter. The Quarterly Budget Review Statements have been in place since 2010. A review of their effectiveness in this context would be worthwhile. Further, the accounting code for local government can be too complex for all Council stakeholders to understand. This may limit community visibility of Council decisions, and Council would welcome its review. Council would also support a review of Annual Report and End-of-Term Report requirements.

2. *Whether the current budget and financial processes used by councils delivering value-for- money for ratepayers and residents.*
 - *Is the integrated planning and reporting process currently used by councils to make budget decisions, effective in allowing councillors to engage with the community on the challenges of setting a budget and meeting service level expectations?*

- *How well is council setting service delivery standards that match revenue, and managing their expenses within allocated budgets? What opportunities exist for improvement in efficiency, service quality, and sustainability?*
- *How can councillor accountability and expenditure be visibly boosted to the community?*

Council supports this, especially a review of the Integrated Planning and Reporting process. The IP&R process is time-consuming for Councils, often resulting in limited community feedback which may be a reflection on the current requirements.

3. *Whether the current funding model will sustainably support the needs of communities.*
- *How do councils balance cash flow to manage the different (and sometimes uncertain) timeframes for revenue and grants money (including Financial Assistance Grants) coming into council?*
 - *How effective are councils in identifying and using other revenue sources beyond grants and rates to support the needs of communities and sustainably provide services required to be delivered by councils?*
 - *Identify measures to put downward pressure on rates through other 'own source' revenue or closer scrutiny of expenditure.*
 - *Consider the needs of diverse communities and councils and protect the interests of current and future ratepayers from unnecessary impact on their cost of living.*

Council supports this and would welcome the learnings from the review. In this regard Council suggests that the Terms of Reference be expanded to include the matters identified in the final report on the IPART review of the rate peg methodology which could positively contribute to the financial sustainability of councils.

4. *Whether councils (both councillors and staff) have the financial capacity and capability to meet current and future needs of communities.*
- *Are councils equipped with the right internal capabilities to deliver on the services which their community requires?*
 - *Has the Audit Mandate been successful in providing a consistent view on the accounting and risk management practices of councils?*
 - *Are there opportunities to look at long-term expenditure and service delivery improvements by insourcing services? Where outsourcing models have been used, do they provide an efficient and effective means of meeting community needs?*
 - *What examples of best practice capability building and innovation could be implemented more widely?*

Council supports this review.

5. *How can better planning and reporting systems improve long-term budget performance, transparency and accountability to the community?*
- a. How effective are Councils in managing their assets and planning for future growth and renewal of assets?*
 - b. Does current community engagement allows for effective long-range planning and sustainable funding?*
 - c. Is the current framework of reporting and compliance appropriate and effective?*

Council support this review, and would welcome a review of Resourcing Strategy requirements and its effectiveness.

6. *Any other matters IPART considers relevant.*

If the Terms of Reference are not formally expanded to include the matters raised above, Council is hopeful that IPART considers the matters raised in its final report on the rate peg methodology as relevant to this review.