

MidCoast Council Submission - Draft Terms of Reference for NSW council financial model review - January 2024

General Comments

The Draft Terms of Reference are welcome as the financial model for NSW Councils requires review to assist councils in servicing their communities.

The IPART Review of the rate peg methodology Final Report August 2023 was delivered following extensive consultation across the Local Government Industry and with local communities. This Report highlighted the need for a detailed review of the financial model. Chapter 9 of the Report is specifically related to the Review of Councils Financial Model. The Draft Terms of Reference fall short of covering all the issues identified by IPART and should be reviewed to ensure all relevant issues are considered.

The Draft Terms of Reference are focussed on Councils financial governance and management which is reasonable as part of the financial model review however there is no reference to matters identified by IPART in Chapter 9.3 of the Review of the Rate Methodology Final Report. Chapter 9.3 included the following. Many of the issues raised are the responsibility of the NSW Government. A review of the financial model without including all the measures identified in the IPART Final Report would be flawed.

9.3 Measures which may be of benefit to the local government framework

We identified a range of matters that the NSW Government, Office of Local Government, and councils could consider. These measures may improve the equity of the rating system and local government revenue framework, better support councils to serve their communities, and better support councils' financial sustainability in the longer term. These measures are:

- Better targeting eligibility criteria for rates exemptions. This would help to ensure ratepayers do not subsidise the costs of providing council services to properties where it is not justified on efficiency and equity grounds.
- 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.

There are opportunities to strengthen incentives for councils to improve their performance. The merit of a rate peg exemption model for councils that demonstrate an agreed level of performance and consultation with ratepayers should be considered.

We note that some of these measures will require legislative change.

(Source IPART Review of the rate peg methodology Final Report August 2023 page 124)

The above highlights Councils main concern with the Draft Terms of Reference. Specific comments on each Item in the Draft Term of Reference are provided below.

DRAFT TERMS OF REFERENCE

The task - IPART should review and recommend improvements 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 dedicated budget or expenditure review committee models to ensure budget decisions are understood by councillors and the communities they serve?

MCC Comment – No comments

2. Whether the current budget and financial processes used by councils are 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 in setting a budget and meeting service level expectations
 - How well Councils are setting service delivery standards that match revenue, managing their expenses within allocated budgets, and what opportunities exist for improvement in efficiency, service quality and sustainability.

- How to visibly boost elected councillor accountability for council budgets and expenditure to the community

MCC Comment –

Many of the matters raised have been addressed by the recent inclusion of Service Review requirements in the updated IP&R legislation. Councils are only required to commence a program of service reviews in the 2024/25 Financial Year. It is likely to be too early to assess any impact of the revised IPR legislation.

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

MCC Comment –

The intent of this criteria is questioned. It is obvious that the current model does not support sustainability and IPART have already identified this as an issue. There are numerous Government commissioned reports which consistently identify financial sustainable of councils as an issue. A further review will only identify issues that have previously been raised.

Point 1 - This is looking at the problem the wrong way. Councils manage cashflows the best that they can in the uncertain and ever-changing timeframes that State and Federal Governments provide grant funding. A better system of providing grant funding with consistency of timeframes would then allow Councils to better manage their cash flows.

Point 2 – The IPART review of the rate peg methodology identified significant differences across councils and highlight that many councils do not have the capacity to generate other revenues. It's not a one size fits all. While metropolitan councils have alternative revenue raising sources such as parking revenue regional and rural councils do not have this capacity. There is a significant body of evidence to identify alternative sources of revenue is not the solution and a further review of this will not add to the already available information.

Point 3 - This indicates that the government has a view that rates should be decreased. Given the current budget pressures across the state, and infrastructure conditions which have been well documented this runs counter to the view of providing services to the community. NSW does not have comparatively high rates compared to other states and historical information should be reviewed to assess comparative rate levels rather than place a target of downward pressure without understanding the implications of that.

Point 4 - Cost of Living pressures are not a product of local government rating. It is a broad ranging issue which requires consideration by all levels of Government. Artificially keeping rates low will not ease cost of living pressures to the level required and will leave regional and rural communities with reduced levels of services and sub-standard infrastructure.

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?

MCC Comment –

Point 2 - the current Audit Mandate is to focus on Financial Statements in accordance with Accounting Standards only. There have been minimal improvements outside of financial reporting under the current audit mandate. This should not require a review for this to be evident.

Point 3 - this Item should be removed. It is not relevant to the funding model review. All councils prepare their resourcing strategy under IPR legislation and determine their workforce management strategy according to local needs. Suggesting that insourcing may be more effective does not take into account local circumstances and the autonomy councils require to best deliver services to their communities. Again, it seems to be looking at a one size fits all direction when the IPART review into the rate peg identified that NSW Councils are very diverse. In MCC's situation the current level of service could not be maintained if all services were insourced.

5. How can better planning and reporting systems improve long term budget performance, transparency and accountability to the community?

- How effective councils are in managing their assets and planning for future growth and renewal of assets.
- Whether current community engagement allows for effective long-range planning and sustainable funding.
- Whether the current framework of reporting and compliance is appropriate and effective.

MCC Comment –

All points in this criteria are supported.

6. Any other matters IPART considers relevant.

MCC Comment –

IPART are encouraged to focus on the issues / matters that it has identified in Chapter 9 – Review of Councils' Financial Model within its Review of the Rate Peg methodology Final Report (August 2023) and within its 2016 Review of the Local Government Rating System.

There are a number of matters in these reports that warrant further investigation and promotion that would benefit the sector and improve performance, flexibility and transparency.

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MidCoast Council