

13 March 2024

Carmel Donnelly AO  
Chair  
Independent Pricing and Regulatory Tribunal NSW

Dear Ms Donnelly,

### **Terms of Reference for the IPART NSW Councils Financial Review**

Strathfield Municipal Council welcomes the IPART NSW Councils Financial Review and appreciates the opportunity to participate in the development of the Terms of Reference (ToR).

We view this opportunity as invaluable and have provide our input through constructive commentary below for your consideration.

### **Comments**

#### **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?*

Our Council reports extensively on our financial and operational performance under the Integrated Performance and Reporting (IP&R) framework. This includes a long-term financial plan and an operational plan, which support the implementation of the overarching community strategic plan.

It would be helpful for the review to include explicitly setting out the current financial and operational reporting mechanisms and performance indicators, which would better enable IPART to assess whether they are clear. The question of whether the mechanisms are understood is very important, but also needs to cover whether the information presented through them can be well understood by Councillors, who have differing levels of financial capability.

It is important to consider updating the existing performance indicators to make them more useful to “real-time” monitoring. Our Council would like to see this element of the ToR expanded to also consider improvements to how adequately they represent the financial and operational effectiveness of councils.

In both instances, we recommended alternative and/or additional indicators to be included.

*Are Councillors receiving timely and appropriate information to enable decisions on allocation of public funds in an efficient and cost-effective way?*

The scope of this question should be clearer, so that it addresses either the “efficient and cost-effective way” of receiving the information, or the “efficient and cost-effective way” of allocating the public funds. If the intent of the question covers both, then that too should be clear.

*c. 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?*

We are bound by legislation to follow the IP&R framework. This necessitates engagement with the community in developing the budget and the Operation Plan; with these then placed on public exhibition annually for a minimum of 28 days before they are deliberated on by Council, at which time submissions received from community members will be considered. The consideration of this question should take into account:

- how the model might contribute to improving Councillor or community understanding of budgets and related decision-making;
- how the committee would be funded;
- fit with councils’ obligations under IP&R;
- existing council finance-related committees.

**2. *Whether the current budget and financial processes used by councils are delivering value-for-money for ratepayers and residents***

This point may be better expressed as “How value-for-money decisions are made by Council”, and should also cover the definition of “value-for-money” as it relates to different types of expenditure or investment decision.

*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.*

These two questions are extremely broad in scope, and likely to have different answers depending on the scenario in which they are being considered. We suggest examining these through several different lenses, such as applied to service standards, expenses, efficiency, service quality and sustainability etc.

The IPART may find it very challenging to assess, e.g. service standards against revenue or quality, when these would differ so much in cost, quality and delivery between councils. There is also an

assumption that service delivery standards should “match” revenue, but services represent an expense that is managed within allocated budgets.

The second of these questions could be improved with greater clarity, particularly around “improvement in in efficiency”. This could be understood to mean either overall Council efficiency, or efficiency in relation to a particular service. The concept of “sustainability” could also be clarified, since it could be taken to mean either the financial sustainability of council operations, or the sustainability of a service or council in environmental, social, governance and economic terms. Clarification is needed to ensure that the IPART can deliver meaningful findings through the review.

*How to visibly boost elected Councillor accountability for council budgets and expenditure to the community*

To enhance elected Councillor accountability for council budgets and expenditure to the community, it is proposed to establish a comprehensive set of performance indicators spanning financial and operational domains. These indicators would serve to transparently showcase the council's performance to the community, thereby augmenting accountability.

Further, it is recommended to establish a baseline competency for Councillor financial literacy as a prerequisite for candidacy or as part of the candidacy process. This measure would increase the likelihood that elected Councillors possess the requisite understanding of Council finance, thereby enhancing their proficiency in budget oversight and expenditure management.

### **3. Whether the current funding model will sustainably support the needs of communities**

Council suggests that these words be revised to reflect the focus on the local government financial model: “Whether the current funding model for local government is adequate in providing for the financial sustainability of Councils, in support of 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*

No comment.

*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.*

Assuming that this refers to own source revenue, which Councils are required to measure and report as the Own Source Operating Revenue Ratio (OSORR), this question might be better framed as seeing how well Councils increase the proportion of own source revenue that they could apply to services.

Further, we recommend that the IPART clearly articulates its definition of the services as applied to

this review.

*Identify measures to put downward pressure on rates through other 'own source' revenue or closer scrutiny of expenditure.*

With the rate peg being a permanent factor in setting local government rates, it is not clear how this question can be assessed. The question might be better framed as how Councils can focus on growing their own source revenue and better control current expenditure, to limit the need for Special Rate Variations (SRV). The question does need clarification.

Opportunities for Councils to raise own source revenue also vary greatly depending on the nature of the local government area i.e. large metropolitan, small metropolitan, rural, regional etc. The IPART will need to take these different situations into account and acknowledge that any measures identified may be of little value in some councils' circumstances.

*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.*

This point appears to blend and duplicate aspects of other points in the ToR.

Councils are required to consider the needs of their diverse communities and do so with extensive consultation under IP&R requirements. Each Council also serves a different community, depending upon factors such as rural or metropolitan, coastal or inland, predominant industry, mix of ethnicities etc. The purpose of the question needs to be clearly stated, since needs will vary so greatly, and "unnecessary" would mean different things to different ratepayers.

Communities typically have far greater demands for infrastructure and services than Councils will ever be able to afford to meet. So Councillors are always under pressure to find ways to deliver to meet demand. As a result Councillors have to focus on relative priorities. Unfortunately, this can result in decisions that may be unavoidable at the time, but which are not necessarily in the best interests of the long-term financial sustainability of the Council. That, in turn will have a negative impact on the community sooner or later.

**4. *Whether councils (both Councillors and staff) have the financial capacity and capability to meet current and future needs of communities.***

This question might be better expressed as "Do Councils (i.e. individual Councillors and members of staff) have the capacity and capability to ensure the financial sustainability of their Council?"

There is also the implied direct connection between capacity and capability and meeting the current and future needs of communities, which may not necessarily be the case. So the question "What financial risk management practices are in place across Councils to assist with future financial sustainability?" might be better targeted.

*Are councils equipped with the right internal capabilities to deliver on the services which their*

*community requires?*

This point requires clarification, to explain that it relates to the skills of the workforce to deliver the range of services that the Councillors have deemed are a priority for their community. If this is not the correct interpretation, then the point needs to be clarified to articulate its intent.

*Has the Audit Mandate been successful in providing a consistent view on the accounting and risk management practices of councils?*

This review is about the financial model of Councils, so a question/s about whether the mandate has achieved any value to ratepayers and Council would be appropriate. Our Council has had significantly higher audit costs, extended delivery timeframes, and questions about the relevance of some matters that Audit Office has asked Councils to undertake. We recommend including the following consideration in the review: “Has the audit mandate resulted in value for money for ratepayers, and what advantages has the audit mandate provided to ratepayers and 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?*

The intent of these questions appears to be to assess the comparative value of insourced versus outsourced services. Insourcing and outsourcing are likely to be quite different for every Council depending on their circumstances, and on their metropolitan, regional or rural location. Further, decisions by a Council to insource or outsource would be informed by a formal service review process as required under the IP&R framework. Council recommends that this consideration be either removed from the ToR or re-examined with a view to reducing its scope while also aiming to deliver useful recommendations.

*What examples of best practice capability building and innovation could be implemented more widely?*

This question could specify the relevant practices e.g. financial management, service delivery, or measuring value for money. It is also not clear to whom the best practices might apply (e.g. Council, Councillors, the whole organisation, or Council staff), or capability-building as a result of service innovation.

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

This question should be modified to acknowledge that Councils are required by legislation to comply with the IP&R framework, which is fundamentally about ensuring transparency and accountability to the community. Effectively, this question implies that the scope of the review includes the IP&R framework outlined in the Local Government Act 1993, related regulation and described in the *Integrated Planning and Reporting Guidelines for Local Government in NSW*.

We recommend that the IPART consider revising this question to recognise that Councils are required to plan and report in accordance with the framework: “Could any improvements be made to the Integrated Planning and Reporting Framework that would achieve increased transparency and accountability of Councils to their communities?”

*How effective councils are in managing their assets and planning for future growth and renewal of assets?*

Each Council’s approach to the management of assets will vary slightly, as will the number of different types of assets e.g. not all councils have water or sewage assets, and some have extensive rural road networks.

We recommend that the question may be better framed in relation to the funding of capital projects and programs i.e. so that there is adequate provision for on-going maintenance as well as for future growth; “How do Councils adequately fund the construction of new assets and the ongoing maintenance and renewal of those assets?”.

The IPART could in considering this question include the possibility that a portion of section 7.11 and section 7.12 funds be set aside to fund the maintenance of new infrastructure for a period.

*Whether current community engagement allows for effective long-range planning and sustainable funding.*

Community engagement does not necessarily result in effective long-term planning. Rather, it is one of the inputs to the process of prioritisation that Councils undertake and may not result in sustainable funding decisions.

Council suggests rewording this as “Does the community engagement that Councils currently undertake (as part of the IPR framework for the annual budget and Operational Plan), provide adequate transparency and information to the community so that they are aware of the impacts of their needs and wants (priorities) on the long-term planning and financial sustainability of the Council?”.

*Whether the current framework of reporting and compliance is appropriate and effective.*

As recommended, the ToR needs to be clear in relation to coverage of the IP&R framework.

## **6. Any other matters IPART considers relevant.**

The following list notes relevant matters that Council recommends the IPART should include in this review for it to be comprehensive (no relative priorities should be inferred from the sequence):

- Introduction of Capital Improved Value (CIV)
- Value capture (including the ability to use some of these funds for operational purposes)
- Cost-shifting
- Pensioner rebates

- Rates exemptions
- Fee waivers
- State and Federal grant funding and the impacts of this on Councils
- Funding of environmental sustainability initiatives
- Funding for increasing cyber-related matters
- Funding for resilience in infrastructure i.e. building back better than before and for the long-term
- Funding of infrastructure, where, for example, changes are made to the State planning regime demanding intensification of development, however no funding is provided to Councils to invest in the necessary additional infrastructure.

### **Conclusion**

Our Council welcomes the review of local government finance and emphasises the importance of taking a comprehensive view encompassing all aspects of finance, including areas of deficiency. However, the Terms of Reference (ToR) are primarily qualitative and subjective, allowing for varying interpretations of terms such as "adequate," "effective," "long-term," and "unnecessary" depending on the respondent's perspective.

We recommend integrating financial governance into the ToR. For instance, decisions with potential long-term financial impacts should entail accountability from the elected Council. If a Council adopts a deficit in the Long Term Financial Plan, appropriate actions should be implemented to address it, such as future Special Rate Variations (SRV), service reductions, or staff reductions. Essentially, decisions with financial implications must be accompanied by a sustainable funding source, and inclusion of financial risk management in the review would be beneficial.

Furthermore, considering previous reviews by the IPART on various aspects of local government finances, including rates methodology, infrastructure contributions, and regulatory burden, would be advantageous. The ToR could benefit from incorporating insights from these reviews conducted by IPART.

We appreciate the opportunity to contribute to the development of the ToR.

We aim to provide constructive comments to enable IPART to gain valuable insights into potential enhancements to current funding arrangements, accounting practices, planning, and reporting.

For any inquiries regarding this letter, please contact our [REDACTED]

Yours sincerely,  
[REDACTED]

**Strathfield Municipal Council**