

10.2. IPART - Terms of Reference for the Review of the Council Financial Model in NSW

AUTHOR	Luke Harvey, Director Corporate Services
ENDORSED BY	Luke Harvey, Director Corporate Support
ATTACHMENTS	Nil
CSP LINK	5. Our Civic Leadership 5.2 Strong civic leadership and customer focussed services

PURPOSE:

The purpose of this report is to inform Council of the Independent Pricing and Regulatory Tribunal's (IPART) review of the council financial model in NSW. The report also seeks Council endorsement for a submission to IPART.

EXECUTIVE SUMMARY:

- IPART has received a draft Terms of Reference from the NSW Government to investigate and report on the financial model for NSW councils.
- The draft Terms of Reference asks IPART to review Councillor and community visibility over the financial and operational performance of their councils, whether current budget and financial processes deliver value for money and whether the current funding model will sustainably support the needs of communities.
- IPART is seeking feedback on the Terms of Reference until 15 March 2024.
- Council staff have reviewed the draft Terms of Reference and produced a draft response to IPART, pending Council's approval.

RECOMMENDATION:

- 1. THAT** Council note the draft Terms of Reference from IPART.
- 2. THAT** Council approve the submission to IPART on the review's draft Terms of Reference.

Background

The Independent Pricing and Regulatory Tribunal (IPART) is seeking community feedback on a draft Terms of Reference for a review of the financial model for councils in New South Wales. The NSW Government requested IPART undertake the review following the IPART review of rate pegging.

IPART Chair Carmel Donnelly said, “Last year, as part of our review of the council rate peg methodology, stakeholders raised concerns about the affordability of council rates in the current cost of living climate, as well as community consultation, financial management and financial sustainability of councils in NSW”. “IPART noted many of the issues raised cannot be fixed by the rate peg or the special variation process and we therefore recommended the NSW Government commission an independent review of the financial model for councils to identify improvements.” “We have received the draft Terms of Reference for this review, and we are seeking feedback on them from the community, ratepayers, councils, former and current Councillors and council staff.”

Report

The draft Terms of Reference asks IPART to investigate and report on the financial model for NSW councils. This includes reviewing Councillor and community visibility of the financial and operational performance of their Councils, whether current budget and financial processes deliver value for money, and if the current funding model will sustainably support the needs of communities.

The draft Terms of Reference also include reviewing the capacity and capability of Councils and how better planning and reporting systems can improve long term budget performance, transparency, and accountability to the community.

North Sydney Council faces challenges in financial sustainability following a reduction in revenue from fees and charges, and the ongoing financial impact of the North Sydney Olympic Pool project. Previous decisions on the pool project have led to costs being significantly above the original project budget, leading to increased loan funding and a higher depreciation expense.

Council invites IPART to consider the decision-making around the North Sydney Olympic Pool project, the information available to Council staff, Councillors, and the community in undertaking this review.

The draft Terms of Reference are outlined below with staff comments in italics.

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.*
 - a. *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?

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

North Sydney Council welcomes consideration of the visibility of financial and operational performance to Councillors and the community. Council recommends IPART consider the information available to Councillors during decision-making on the North Sydney Olympic Pool project, a project which is significantly over its original budget and delayed by several years. An increase in governance and oversight on decisions made in relation to the project, both at its commencement and ongoing, should have brought cost escalation issues into discussion at an earlier stage to discuss appropriate mitigation strategies.

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 North Sydney Council welcomes its review. We support consideration of standardised supplementary information to make this easier for the whole community to understand. This includes general financial performance, as well as decisions on projects and other matters including reserve balances. Budget line items and funding provisions should be linked as much as possible to the services that they support, and if possible, linked to any key service level standards available through the Integrated Planning and Reporting process.

- 2. Are the current budget and financial processes used by Councils delivering value-for-money for ratepayers and residents.*
 - a. 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?*
 - b. 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?*
 - c. How can Councillor accountability and expenditure be visibly boosted to the community?*

North Sydney Council supports this, and in particular the review of the Integrated Planning and Reporting process. The IP&R process is time-consuming for Councils, with a focus on reporting which may not provide information on the efficiency and cost-effectiveness of the services as effectively as they could. Council suggests reviewing its effectiveness, and that the focus move to performance rather than reporting. Council also suggests a model of continuous review of Council systems and licensing to determine if these provide the community with value for money and are "fit for purpose".

We recommend reviewing the processes used in the calculation of the original budget of the North Sydney Olympic Pool project to identify potential improvements to the quality,

transparency, and governance required to manage a Council's financial performance in relation to its services, especially when conducting major projects.

3. *Does current funding model will sustainably support the needs of communities.*
 - a. *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?*
 - b. *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?*
 - c. *Identify measures to put downward pressure on rates through other 'own source' revenue or closer scrutiny of expenditure.*
 - d. *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.*

North Sydney Council supports this. Whilst we welcomed the recommendations of the 2023 IPART review of the Rate Peg Methodology as per our submission in June 2023, our long-held position is that the rate peg itself is an impediment to a council's long term financial sustainability. The rate peg also constrains North Sydney Council's capacity to act on community demands for additional services and infrastructure.

We suggest IPART consider the rates charged in NSW against other states. We suggest IPART further considers the impact of cost-shifting from state government to Councils. We support considerations of other sources of income for Councils other than rates and grants. We suggest IPART review the impact of NSW government decisions on Council fees and charges. For example, North Sydney Council has recently permanently lost 30 parking meters due to the Warringah Freeway upgrade. Council now must make up these long-received funds (approximately \$800,000/year) through other sources.

We support a consistent schedule for the payment of grants (including the Financial Assistance Grant).

We recommend a review of the cost to residents and other ratepayers to cover non-rate paying institutions and if this is fair. North Sydney Council services a large daily transitory worker and student (non-resident service) population with its CBD, multiple public and private primary and high schools, and a university campus. Therefore, Council's services and infrastructure obligations expand due to 'population factors' not captured in its local ABS residential population data. This is also the case for major events including New Years Eve, which costs North Sydney Council large sums of money and which are largely patroned by non-residents.

4. *Whether Councils (both Councillors and staff) have the financial capacity and capability to meet current and future needs of communities.*
 - a. *Are Councils equipped with the right internal capabilities to deliver on the services which their communities requires?*
 - b. *Has the Audit Mandate been successful in providing a consistent view on the accounting and risk management practices of Councils?*

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

North Sydney Council welcomes the review of Councillor and staff financial capacity and capability. In particular we propose reviewing the Councillor induction process and the financial training Councillors receive to undertake their roles effectively.

- 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?*

North Sydney Council welcomes a review of planning and reporting systems. We propose a review of the IP&R process and in particular the long-term financial plan and if this is rigorous enough to be useful as a reporting tool.

We recommend consideration of whether Councils' engagement approaches reach a large enough portion of their communities and welcome suggestions to improve this.

- 6. Any other matters IPART considers relevant.*

Consultation requirements

Community engagement is not required.

Financial/Resource Implications

There are no financial implications from this report.