

Submission to review the council financial model in NSW



**CENTRAL NSW
JOINT ORGANISATION**

- Bathurst
- Blayney
- Cabonne
- Cowra
- Forbes
- Lachlan
- Lithgow
- Oberon
- Orange
- Parkes
- Weddin

[draft Terms of Reference \(ToR\)](#)

Independent Pricing and Regulatory Tribunal

NSW Government’s Terms of Reference to investigate and report on the financial model for councils in NSW

To whom it may concern,

Re: Submission to review the council financial model in NSW

Joint Organisations (JOs) were proclaimed in May 2018 under the NSW Local Government Act 1993. The Central NSW Joint Organisation (CNSWJO) represents over 177,000 people covering an area of more than 51,000sq kms comprising the eleven Local Government Areas of Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Lithgow, Oberon, Orange, Parkes and Weddin.

Tasked with intergovernmental cooperation, leadership and prioritisation, JOs have consulted with their stakeholders to identify key strategic regional priorities. The CNSWJO Strategic Plan can be found here: [Strategic Plan & Regional Priorities - Central Joint Organisation \(nsw.gov.au\)](#)

Thank you for the opportunity to provide feedback into a revision of the draft Terms of Reference from the NSW Government to investigate and report on the financial model for councils in NSW. This response has been informed by policy developed in region.

The driver behind this inquiry is for NSW communities and councils to have a better understanding and management of their financial situation. At best it will deal with operational liquidity and fiscal responsibility. Without consideration of rate capping, cost shifting and the broader funding framework it will not tackle financial sustainability which is the biting issue for the 59% of councils in

FINANCIAL INDICATOR GOAL			INDICATOR TYPE	
Goal	Achievability	Time Horizon	Financial Position Indicator	Financial Performance Indicator
1. Operational Liquidity	Short Term	Day to Day	✓	X
2. Fiscal Responsibility	Medium Term	Council's Elected Term	✓	✓
3. Financial Sustainability	Long Term	Inter Generational	✓	✓

Figure 1 Time frames for financial goals

NSW that have an operating deficit before capital income problem in a review over 5 years to 21/22.¹ Further, it is only through having financial sustainability that Councils can meet their intergenerational equity obligations.

The challenge for councils is meeting their commitments to community as directed by Integrated Planning and Reporting in a rate capped environment with the unfettered capacity of the NSW Government to create, shift and escalate costs.

While of merit, the aspirations of this inquiry carry the substantial risk of delivering perverse outcomes for councils and their communities by not looking at the whole picture and potentially introducing even more processes.

What is needed is a removal of rate capping, a freeze on cost shifting and a review of state and federal funding frameworks to minimise red tape and focussing on getting resources where they are needed. This is especially the case for disaster response funding.

Having said that, this region supports the [Draft-Terms-of-Reference-for-NSW-council-financial-model-review-January-2024.PDF](#) as they stand and suggests that the following are added:

- A definition of financial sustainability for councils;
- Identification of the key enablers and barriers to council financial sustainability including but not limited to:
 - the impact of the state and federal funding frameworks over council financial sustainability;
 - leading practice on council collaboration;
 - cost shifting;
 - the Special Rate Variation process and
 - rate capping.
- Costing of the impacts to councils and the NSW government of any recommendations.

A definition of financial sustainability for councils

This region asks that there be a shared understanding of council financial sustainability. An example of a potential definition;

“A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.”²

Identification of the key enablers and barriers to council financial sustainability including but not limited to:

- **The impact of the state and federal funding frameworks over council financial sustainability;**
- **Leading practice on council on collaboration;**

¹ Advice to the Central NSW Joint Organisation Board from Local Government Solutions

² Financial Sustainability of the New South Wales Local Government Sector Findings, Recommendations & Analysis” [\[here\]](#))

- **Consideration of financial impacts on councils of cost shifting and regulatory change;**
- **The Special Rate Variation process and**
- **Rate capping.**

The impact of the state and federal funding frameworks over council financial sustainability

Many Councils including those in this region, are continuously grappling with the disaster funding framework. Double auditing, funding timeframes and changing evidence requirements have put member councils in very challenging financial positions as they try to keep services to communities delivered in a timely way. The bigger issue of betterment is yet to be effectively tackled.

Leading practice on council collaboration

Recognised at the original Destination 2036 event in Dubbo over a decade ago through to today, regional collaboration of councils in all their forms including JOs are undertaking activities that offer costs savings and other value to councils. Any contemplation of changes to financial models should look to leveraging and preferably incentivising efficiencies through JOs. The measurable, in dollars, ROI for CNSWJO member fees is 9.4:1.

Consideration of financial impacts on councils of cost shifting and of regulatory change

There are innumerable reports from various entities on cost shifting onto councils that IPART could rely on. Historically, the rate cap has not effectively covered cost shifting from state agencies. There are also the costs of regulatory change that then escalate. Of note at present are the costs of the Auditor General, Electoral Commission and Emergency Services that are able to raise their imposts on councils unfettered and little if any accountability.

This region has consistently raised concerns about the cost of audit since the Auditor General has had carriage of council audits. For example, CNSWJO has seen the *same* auditor, now administered by the Auditor General rise its costs from \$4,000 as a ROC to \$14,400 as a JO of 7 FTEs with no assets. Happily, this JO enjoys *lower end* audit fees where other JOs report quotes for audit fees for this year of up to \$40,000.

A brief analysis of audit fees for JOs shows no understandable rationale while they consistently increase above and well above the rate cap.

The Special Rate Variation process

The Mayors of this region have requested a report on local government financial sustainability. This was called for because so many members have raised concerns about their financial positions in the medium to longer term leading to their need for Special Rate Variations to continue to deliver Business as Usual services to their communities.

The Special Rate Variation process is torturous, poorly understood and not for anything “special.” In the modern world, populated by social media keyboard warriors, this makes the financial sustainability challenge even more difficult. Ultimately local governance and council services are challenged as staff and elected representatives step away from depressing financial positions and toxic social media environments, over both of which they have little control. It is this lived experience that must be addressed in any review of council financial models.

Rate capping

Having been involved in the recent rate cap methodology IPART will be aware of the body of evidence that calls into question rate capping.

Costing of the impacts to councils and the NSW government of any recommendations.

Finally, some of the suggestions mooted in the Draft TOR will increase complexity and add to the financial burden of councils by adding more resourcing requirements. Any change should be codesigned with councils rather than imposed including making often incorrect assumptions. The preference would be that any changes are ground-truthed including in smaller less resourced regional councils. This ground truthing should come with supporting resources.

Conclusion

CNSWJO representatives would welcome the opportunity to support this review in any way. This region hopes the work undertaken will lead to genuine change and commends IPART and the NSW government for taking on the challenge.

Please contact Ms Jenny Bennett on 0428 690 935 or send an email to jenny.bennett@centraljo.nsw.gov.au

Yours sincerely



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