

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Goulburn Chamber of Commerce

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**NSW LEGISLATIVE COUNCIL'S STANDING COMMITTEE ON STATE DEVELOPMENT
INQUIRY INTO ABILITY OF LOCAL GOVERNMENT TO FUND INFRASTRUCTURE AND
SERVICES
SUBMISSION BY GOULBURN CHAMBER OF COMMERCE**

The announcement of this particular Inquiry indicated that a particular focus of the Inquiry will be the “rate peg”, noting that it has been a matter of some controversy over recent years.

The Chamber would submit that a significant part of the controversy in recent years has been the total lack of consideration given by the Government to the uncertainty of the environment in which business must operate stemming from not only the uncertainty of Councils’ funding streams but also from the timing of the recent IPART Review and now this Inquiry, both against the backdrop of IPART’s consideration of the application by Goulburn Mulwaree Council for a Special Rate Variation.

Timeline

03/2022	IPART announces Review of its Rate Peg Methodology
08/2023	some 15 months later, IPART releases Review of Rate Peg Methodology Final Report
21/11/2023	IPART sets Council rate pegs, before adjusting for population growth, for the 2024-25 financial year, ranging from 4.5% to 5.5%.
30/01/2024	IPART releases draft Terms of Reference received from NSW Government to investigate and make recommendations on the NSW council financial model, and invites submissions.
14/03/2024	Establishment of NSW Parliamentary Inquiry – this Inquiry.
15/03/2024	Last day for submissions to IPART on draft Terms of Reference on the NSW council financial model.
19/03/2024	IPART by email acknowledges receipt of submissions on draft Terms of Reference on the NSW council financial model, and reports on receipt of letter from NSW Government withdrawing the referral for the review of the financial modelling of councils to avoid unnecessary duplication, as the matter will now instead be considered by this Inquiry.

Meanwhile, 18 March 2024 was the last day for submissions to IPART on any Council’s SRV application.

The final entry on the Timeline for this Inquiry given on the Standing Committee on State Development website is 28 June 2024 being the last day for a Regional Hearing. There are no dates given for by when this Inquiry is to hand down its report.

The very next working day after the last scheduled day for a Regional Hearing, Monday 1 July 2024, the first part of Goulburn Mulwaree Council's proposed 51.2% SRV increase over three years comes into effect, being 22.5%.

The findings of this Inquiry will have no bearing whatsoever on the increase slated for 1 July 2024. A highly likely scenario is that the findings of this Inquiry will not have been considered 1 July 2025 on which date the second part of Goulburn Mulwaree Council's proposed SRV increase comes into effect, being 16%.

The Goulburn Chamber of Commerce is adamant that it is INCOMPREHENSIBLE that an application by ANY Council for a Special Rate Variation is to be considered and approved BEFORE the NSW Government has received and considered the findings of this Inquiry.

To avoid unnecessary duplication of time and effort by businesses which are members of the Goulburn Chamber of Commerce, rather than address this Inquiry's specific Terms of Reference, attached for this Inquiry's attention are the Chamber's submissions to IPART's Review of NSW Council Financial Model AND IPART's Review of Goulburn Mulwaree Council's SRV Application.

In conclusion, both Councils and businesses in NSW need more reliable funding streams. Councils should not have to rely on trying to win grant-writing competitions. It is no secret that an increasing component of some Councils' cost-base is the staffing costs of one or more Grants Officers.

26 April 2024

IPART REVIEW OF NSW COUNCIL FINANCIAL MODEL SUBMISSION BY GOULBURN CHAMBER OF COMMERCE

References to the system being broken have been frequently used in both learned and media coverage of the NSW State Government's, and to a lesser extent, the Australian Government's, transfer over the last decade to local government of costs without sufficient recompense, and IPART's rate peg methodology. The timing of this Review simply compounds the problem.

Business, particularly SME's, as rate payers have during that time been repeatedly called on to be the fix through increased rates. This at a time when thinking which could be described as "I PARTy" thinking is frustratingly apparent.

SME's (employing less than 20 people) in Australia added \$506 billion of value to the economy in 2021-22. This was 32% of Australia's total GDP. The vast majority of small businesses are family businesses.

The impact of any Council rate increase is a double whammy for small businesses. Having opened the rates and charges notices at the office, or the letter from the landlord advising that rent and or outgoings are to increase, that evening the business owner goes home (invariably late) to open the rates and charges notices for their residence, or the letter from the managing agent should they be renting their home.

I PARTy thinking - one

An Australian Local Government campaign is demanding the Federal Government restore the Financial Assistance Grants (FAG) for Australia's Councils to at least one per cent of Commonwealth Tax Revenue, an increase of just over \$3 billion.

In response to requests over more than a decade for an explanation why it has not increased FAG funding to one per cent of tax by an increasingly desperate sector - which at its very core does nothing else other than provide services to rate payers including local business owners and operators or their employees, the Australian Government points to a range of competitive grant-funding and other programs for 2023 that amounted to \$2.6 billion, some 83.9% of the current FAG amount.

Councils, and businesses, in NSW need more reliable funding streams, instead of Councils trying to win grant-writing competitions. It is no secret that an increasing component of some Council's cost base is the staffing costs of one or more Grants Officers.

I PARTy thinking – two

In August 2023, IPART handed down its Final Report on its Review of the Rate Peg Methodology. The new rate peg methodology determined by IPART was applied in October 2023 when it set the rate peg for the 2024-25 financial year. It reportedly produced rate pegs that more accurately reflect changes in inflation and costs incurred by councils by using forward-looking indicators to measure changes in Councils' base costs.

Of concern is that Councils can apply through the special variation process, if required, for an adjustment due to **past** inflationary impacts. This imposes more uncertainty, and potential costs, on business.

I PARTy thinking – three

The IPART Report notes that on average, the 128 Councils in NSW raise about a third of their revenue through rates with IPART determining how much each Council's total rates revenue can increase each year through the rate peg. The Report recommended the NSW Government commission an independent review of the financial model for councils to identify improvements.

On 30 January 2024, IPART published Terms of Reference received from the NSW Government to investigate and make recommendations on the NSW council financial model. IPART is seeking feedback on the draft Terms of Reference by 15 March 2024. Consideration of all the feedback may result in recommended changes to the Terms of Reference. Within 12 months of the Terms of Reference being finalised, IPART is to submit its Final Report to Government.

Two of the matters to be reviewed and on which improvements are to be recommended are:

- A) Whether the current budget and financial processes used by Councils are **delivering value-for-money for rate payers and residents**; and
- B) whether the current funding model **will sustainably support the needs of the communities**.

Meanwhile, effective 1 July 2024 the first or only stage of an SRV, if approved by IPART - as a separate process to its Review of the NSW council financial model, will be implemented by those Councils who have been granted an SRV. The timing of IPART's report to Government on the financial model will see its Report, at best, be handed to Government within weeks of, if not after, the second, and perhaps final, stage of an SRV when implemented 1 July 2025.

Business thinking – the fix

Rather than fine-tuning the Review's terms of Reference, IPART should be recommending to Government, or vice versa, that all SRV applications should be held in abeyance until:

- 1) Feedback on the Terms of Reference is in.
- 2) The Terms of Reference are finalised.
- 3) The Report to the Government on the NSW council financial model is submitted.
- 4) Government announces what improvements to the model have been recommended and which are to be implemented.
- 5) IPART, based on the improved model, announces the rate peg for, at the earliest, the 2025-26 Financial Year.
- 6) IPART only then considers SRV's for the 2025-26 Financial Year based on the new, improved rate peg; SRV's may not be necessary.

If business was responsible for the Review and did it any other way, business would be harshly criticised.

15 March 2024

IPART REVIEW OF GOULBURN MULWAREE COUNCIL SRV APPLICATION SUBMISSION BY GOULBURN CHAMBER OF COMMERCE

The Goulburn Chamber of Commerce is adamant that it is incomprehensible that an application by ANY Council for a Special Rate Variation is to be considered and approved BEFORE the NSW Government has implemented the recommendations for improvements in IPART's yet-to-be completed Report on the NSW Council Financial Model.

Councils, and businesses, in NSW need more reliable funding streams, instead of Councils trying to win grant-writing competitions. It is no secret that an increasing component of some Council's cost base is the staffing costs of one or more Grants Officers.

To illustrate the uncertain environment in which business must operate stemming from the uncertainty of Council's funding streams, of which, on average, an estimated one third comes from rates, it is informative to consider the below timeline.

Timeline

03/2022	IPART announces Review of its Rate Peg Methodology
08/2023	some 15 months later, IPART releases Review of Rate Peg Methodology Final Report
19/09/2023	Goulburn Mulwaree Council (GMC) votes to start a conversation with the community about a potential special rate variation, taking two special rate variations options to the community (a one-off increase of 43.5%, and an increase over two years totalling 51.2%), plus the status quo or base case relying on the rate peg set by IPART each year.
11/10/2023	Council representatives address Goulburn Chamber of Commerce (Chamber) meeting on proposed SRV.
31/10/2023	Chamber writes to Council putting a number of queries seeking clarification.
10/11/2023	Council responds to Chamber's enquiries.
21/11/2023	IPART sets Council rate pegs, before adjusting for population growth, for the 2024-25 financial year, ranging from 4.5% to 5.5%.

Independently, on the same day Council approves application to IPART for an SRV cumulative increase of 51.2% over the three-year period:

- A) 2024/25 – 22.5% (including the rate peg);
- B) 2025/26 - 16.0% (including the rate peg);
- C) 2026/27 - 6.4% (rate peg not applicable).

Of particular note is that Council approved the increase to be a **permanent increase retained within the rate base**.

- 30/01/2024 IPART releases draft Terms of Reference received from NSW Government to investigate and make recommendations on the NSW council financial model.
- 13/02/2024 Chamber writes to Council enquiring whether Council has lodged it application, and if so requesting a copy.
- 14/02/2024 Council responds advising it lodged its submission with IPART in the first week of February. No copy of Council's submission is made available, nor is an explanation given as to why not.
- Council confirms that IPART reviews the application and seeks additional feedback from the community. Further, that this process generally commences in late February and includes the publishing of Council's SRV application and associated documentation on their (IPART's) website.
- 29/02/2024 Goulburn Mulwaree Council posts to its Facebook page information about making submissions to IPART regarding the SRV. No copy of Council's application is forwarded nor formal advice given to the Chamber as to the application's availability.
- 15/03/2024 Last day for submissions to IPART's on draft Terms of Reference on the NSW council financial model.
- 18/3/2024 Last day for submissions to IPART on any Council's SRV application.

From the above, the last six dates specifically, it is apparent that IPART considers Council's application for a SRV of 51.2% over the three years with that increase to be a permanent increase retained with the rate base, **while it undertakes** at the request of the NSW Government a review of the NSW council financial model. From the first two dates above it will be noted that IPART took some 15 months to undertake a review of its own Rate Peg Methodology.

IPART is required to report back to Government within 12 months of the Inquiry's Terms of Reference for the Investigation of the NSW Council Financial Model being finalised. Potentially, this timing sees the ratepayers in the Goulburn Mulwaree LGA already having borne the brunt of the 16.0% increase programmed for introduction on 1 July 2025. Certainly, any recommendation for improvements to the model submitted by IPART to Government will not have been implemented by 1 July 2025, indeed they may not have been implemented by 1 July 2026, on which date the third and final year's increase (6.4%) is due to be introduced.

An analysis of the tables/spreadsheets submitted by Council to IPART in support of its SRV identifies that the Cashflow Base Case (ie; no SRV) – the fourth Spreadsheet Table in Part A – shows Cash at the end of each year steadily increasing from \$33,742,882 in 2023/24 to \$97,804,085 in 2033/34.

With such existing amounts of cash, and their predicted growth over the coming years, the Chamber submits that delay of any SRV Application for one year or two, if indeed one is necessary after Release of IPART's recommendations to Government for improvements to the Council Financial Model, will not impact Council such that it should fear "failing" the Long Term Financial Plan sustainability criteria.

The Chamber is perplexed that certain Council's have elected not to proceed with SRV Applications on the basis of adverse rate-payer reaction. On the other hand, Goulburn Mulwaree Council, along with other Councils, is persevering with its application, notwithstanding considerable and vocal adverse rate-payer action. Just how real are the consequences of "failing" the Long Term Financial Plan sustainability criteria.

In its email of 31 October 2023 to Council seeking clarification on certain matters set out in Council's supporting documentation released as part of the community consultation process, the Chamber noted that cash reserves have increased from \$88.842m in 2018 to \$130.128m in 2023. The Chamber acknowledged that some of these reserves are restricted for use on specific projects as designated by State or Federal Government, and that some funds have been earmarked for projects WITHIN Council. Other funds are, however, restricted and can be used for any project or expenditure. The Chamber enquired whether Morrison Low had been requested to advise what amount, if any, of the unrestricted funds could be used to offset the need for/size of an SRV. If not, why not.

For the sake of transparency, the exchange of correspondence with Council is attached to this submission. Council's letter dated 10 November 2023 sets out each of the Chamber's query immediately above Council's response. It is submitted that Council did not answer the Chamber's particular question at paragraph 4 as to what was asked of Morrison Low.

Also of concern is that Council in its response to the Chamber's query at paragraph 4 advises that part of internal reserves of \$19.298m over which Council has some discretion includes a Financial Assistance Grant reserve of \$6.487m. Further, that this amount is being kept in reserve to cover the eventuality of the advanced payment being stopped in which year Council will be left with a multi-million-dollar hole in its budget.

The Chamber would submit that this evidences Council having to "war-chest" funds to deal with the unpredictability of funding streams which, in turn, directly impacts businesses, and other rate payers, in the LGA.

Rather than considering any applications for SRV's at this time, IPART should be recommending to Government, or vice versa, that all SRV applications should be held in abeyance until:

- 1) Feedback on the Terms of Reference for IPART's inquiry into the Council Financial Model is in.
- 2) The Terms of Reference are finalised.
- 3) The Report to the Government on the NSW council financial model is submitted.
- 4) Government announces what improvements to the model have been recommended and which are to be implemented.

- 5) IPART, based on the improved model, announces the revised rate peg for, at the earliest, the 2025-26 Financial Year.
- 6) IPART only then considers SRV's for the 2025-26 Financial Year based on the new, improved rate peg; SRV's may not be necessary.

18 March 2024