

## FACT SHEET

# Draft Report – Revenue Framework for Local Government

July 2009

IPART has undertaken a review of the regulation of council rates and charges for the NSW Government. In the review, IPART examined the current rate setting system and recommended improvements to the revenue framework for local councils.

### 1.1 IPART assessment of the impact of rate pegging

IPART found that:

- ▼ Overall revenue and expenditure growth has been strong in NSW; debt levels of most councils have been contained; and the average financial position of councils in NSW is not worse than in other states.
- ▼ Capital expenditure by NSW councils on new infrastructure assets is lower and has grown more slowly than that of councils in other states and there appears to be a backlog of council infrastructure works. However, backlogs also exist in other states and the evidence suggests that this is no worse in NSW than elsewhere.
- ▼ Councils in NSW have generated larger surpluses and have tended to accumulate less debt (on a per capita basis) than councils in most other states. This may suggest some scope for debt financing of infrastructure programs within the current rate pegging framework.
- ▼ There is significant variation between councils and their financial capacities, specifically, rural and remote councils have lower capacity to generate revenues and have less flexibility than metropolitan councils.

IPART has also issued an Information Paper titled *Comparative Analysis of Local Government Revenues and Expenditure in Australia* that contains further analysis of revenues and expenditures.

### 1.2 Recommendations to improve the current revenue framework

IPART supports the recent introduction of the Government's Integrated Planning and Reporting Framework. IPART's recommendations improve the link between

rate setting and the strategic planning and reporting framework. IPART recommends that the current rate pegging arrangements should be improved by:

- ▼ adopting a multi-year approach to revenue raising, as has been adopted for strategic planning, with the Integrated Planning and Reporting Framework
- ▼ linking the revenue framework to councils' strategic planning process
- ▼ adopting a more independent, rigorous and transparent approach to rate setting
- ▼ using an explicit and independently calculated input price index, to link revenue requirements to movements in costs from year to year
- ▼ adopting productivity adjustment factors to encourage efficiency gains.

IPART is proposing a revised framework for regulating local government rate increases. IPART has developed two options, Option A and Option B.

### **Option A**

Option A is the minimum or default option for all councils under the framework. It maintains the essential ratepayer protection elements of the current system while improving the rigour, transparency and independence of the rate pegging process by introducing:

- ▼ a local government cost index (adjusted for productivity)
- ▼ a new, multi-year medium term rate path (eligibility based on council compliance with the Integrated Planning and Reporting Framework).

### **Option B**

Option B would operate in conjunction with Option A. Option B provides greater council flexibility, but with higher standards of accountability. Councils would seek autonomy in setting revenue requirements and annual rate increases above the regulated rate of annual increase. However, councils would need to earn their independence by demonstrating a track record of sound financial management and a community mandate for the council's proposed medium term revenue plan.

### **Timetable**

IPART recommends that:

- ▼ the proposed methodology for the Option A Local government cost index based regulated annual rate increase come into effect in 2010/11
- ▼ the proposed medium term (special variations) under Options A and B come into affect following the conclusion of the 2011/12 financial year, prior to council elections
- ▼ IPART undertake a survey councils' costs in 2009/10 to determine the weightings for the cost index model to apply from 2010/11.

## A Terms of Reference for this Review

In May 2008, the then Premier of NSW asked the Independent Pricing and Regulatory Tribunal of NSW (IPART) to assist the Department of Local Government (DLG) by conducting a review of the regulation of council rates and charges in NSW under Section 9 of the Independent Pricing and Regulatory Tribunal Act 1992 (IPART Act).

IPART was asked to make recommendations on three matters:

1. an appropriate inter-governmental and regulatory framework for setting rates and charges that facilitates the effective and efficient provision of local government services
2. a role for IPART in setting rates and charges in future years
3. a framework for setting the charges levied by certain public authorities, such as Sydney Harbour Foreshore Authority (SHFA), Redfern Waterloo Authority (RWA), Sydney Olympic Park Authority (SOPA) and the Growth Centres Commission (GCC), to enable these authorities to recover costs for the provision of services that are normally provided by local government.

IPART has conducted the review by:

- ▼ releasing an issues paper and invited submissions from all interested parties
- ▼ conducting a series of Public Workshops in Sydney (on 29 September 2008) and in regional centres (during October and November 2008) - see Appendix D
- ▼ considering all the submissions and analysed the information it received
- ▼ analysing available data on revenues, expenditures and financial positions of councils in NSW and other states
- ▼ undertaking an analysis of eleven case study councils
- ▼ releasing an Information Paper - Comparative Analysis of Local Government Revenues and Expenditure in Australia
- ▼ submitting a draft report to the Minister for Local Government prior to making it publicly available.