

IPART RELEASES NEW MODEL FOR LOCAL GOVERNMENT REVENUE

Embargoed until 1pm 23 July 2009

The Independent Pricing and Regulatory Tribunal (IPART) today released a draft report which recommends changes in the way that local government rates are regulated. IPART's draft recommendations would, if implemented by the Government, make the process for setting rates more transparent and more objective, while still continuing to protect rate payers from excessive rate increases.

IPART considers that essentially there are two approaches to achieving proper control of local government rates. The State Government could continue to intervene and regulate the increase in rates, albeit possibly on a more transparent and objective basis. Alternatively, we can try to make democratic accountability to the community sufficiently effective to ensure that rates rise commensurate with the community's demand for services and its preparedness to pay for them.

After widespread community consultations, IPART has put forward two options, consistent with these two basic approaches, for further consideration. Option A retains a system of rate capping that applies across all councils, but would provide more predictable outcomes and a better basis for assessing councils' costs than the existing system. It would complement the Government's recently announced Integrated Planning and Reporting Framework and thus strengthen medium term financial planning. Option B would operate alongside Option A, but is intended to make councils more democratically accountable to their communities. Under Option B councils that can demonstrate good financial performance and community endorsement of their fiscal strategy would be exempted from rate pegging for up to four years.

IPART recommends that it should calculate and publish a Local Government Cost Index for each year, from 2010-11. The index would reflect changes in councils' average costs and productivity levels. Under Option A, the Minister for local government would set the rate peg amount each year after having regard to changes in the Local Government Cost Index. Councils that comply with the Integrated Planning and Reporting Framework will also be able, under Option A, to apply to the Minister for a rate path over four years, which might exceed the rate peg. There would be a clear statement of the factors that the Minister would use in deciding whether or not to approve applications for a medium term price path.

IPART's Chairman, Dr Michael Keating, said that "Rate capping has been in place for over 30 years. While it has provided important protections for ratepayers there are also concerns about its impact on councils and their accountability to the community. Rate pegging has not succeeded in restraining the total revenue of councils relative to other states – partly because of the increased reliance on user charges and partly because of the many exemptions allowed, although the basis for these exemptions is not clear. IPART's recommended framework seeks to address these concerns, while not jettisoning the protection of ratepayers that has been a longstanding feature of public policy in NSW.

“Option B of the proposed framework will protect rate payers through greater community involvement and will provide councils with a longer term financial horizon in which to deliver services to the community more effectively.”

Rate payer protection will be achieved under Option B by requiring proponent councils to demonstrate to the Minister that they have (i) a track record of sound financial management, and (ii) broad community support, rather than pockets of support for their fiscal strategy.

Dr Keating added that there would be clear guidelines on what councils needed to do to demonstrate this community support. For example, where councils relied upon community surveys, IPART proposes that at least 25-30 per cent of ratepayers would have to participate in the survey with 50-60 per cent support for a council's proposal for it to pass. Alternatively, where a four year financial plan was adequately debated in the run-up to a council election, and supported by the incoming council, that could be considered to provide a mandate from the community for that plan.

The proposed system, with its two tracks under Option A and B, would allow regulated annual rate increases and multi-year revenue paths to operate together. Dr Keating added “The processes for setting the rate cap and approving variations will be more understandable and predictable. Those councils that do not want to move beyond the regulated annual rate increase can remain under the rate cap while other councils can apply to the Minister to have multi-year price paths. This would allow councils that wish to do so, the opportunity to develop a medium term strategy for its rate setting, rather than focusing on annual increases.

“IPART is seeking feedback from councils and the broader community on its proposed framework. Submissions on the draft recommendations are due by 18 September 2009 and we look forward to receiving responses from a wide range of stakeholders on these important issues. Prior to the closing date for submissions, we will also be holding workshops on the draft report in Sydney, Coffs Harbour, Wagga Wagga and Queanbeyan to promote debate and discussion.”

Ends

The draft report and an information paper are available on IPART's website <<http://www.ipart.nsw.gov.au>>.

For further information, contact: Dr Michael Keating, Chairman
T (02) 9290 8411

Background Information

Terms of reference

IPART is to investigate and make recommendations on the following matters:

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

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.

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 for implementing the framework

If IPART's proposals were to be introduced IPART recommends that the framework would be introduced over a number of years:

- ▼ The proposed methodology under Option A for the local government cost index based annual rate increases should come into effect for the financial year 2010/11.
- ▼ The proposed medium term (special variations) under Options A and B should come into effect following the conclusion of the 2011/12 financial year, prior to council elections.
- ▼ IPART should commence a survey of councils' costs during 2009/10 to determine the weightings for the cost index model to apply from 2010/11.
- ▼ Councils with existing special variation applications or approvals may continue to implement these beyond the starting point for the new framework.
- ▼ For the years 2010 and 2011/12, the cost index methodology will be used to inform the rate capping process and will operate in conjunction with the current special variation system.

Following the conclusion of the 2011/12 financial year, the current special variation system will be abolished and replaced by the medium term revenue path outlined under Options A and B of the proposed framework.

Consultation on the draft report

The draft report is available on IPART's website (www.ipart.nsw.gov.au). If interested parties do not have access to the internet, a paper copy of the report may be obtained from IPART's offices by telephoning (02) 9290 8400.

IPART will be conducting public workshops to discuss its report and provide stakeholders with an opportunity to make comments.

IPART also invites written comment on the draft report and encourages all interested parties to provide submissions addressing the matters discussed. **Submissions are due by 18 September 2009.** IPART prefers to receive them by email ipart@ipart.nsw.gov.au. Interested parties can also send comments by fax to (02) 9290 2061, or by mail to:

Review of Regulatory Framework of Local Government – Draft Report
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Timetable for completing the review

Action	Date
Public workshops	
Coffs Harbour	18 August
Sydney	2 September
Wagga Wagga	8 September
Dubbo	9 September
Submissions	Fri 18 September
Deliver Final Report to Minister	November 2009