

# Review of Revenue Framework for Local Government

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# 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.

# Draft report

- ▼ Released 23 July
- ▼ Includes 45 recommendations
- ▼ Most relate to the future arrangements for rate pegging with a key element being the Local Government Cost Index
- ▼ Two approaches for consideration (discussed in next session)
  - ▼ Option A
  - ▼ Option A and Option B

# Key findings – rate pegging

- ▼ Rate pegging has achieved the Government's original objective of restraining rate increases
  - ▼ Rates have increased by less than in other states, but by more than the rate peg due to extensive special variations
  - ▼ Fees and charges and other revenues have increased by more than other states
  - ▼ Increases in total revenue has been around that of other states
- ▼ Over most recent 9 years, while half councils have increased rates by less than the pegged amount, half have increased rates by more than the pegged amount

# Key findings – rate pegging processes

- ▼ Process for determining the amount by which rates may increase under rate peg is not transparent
- ▼ The allowed increases do not necessarily reflect council costs
- ▼ Processes for assessing special variations are not transparent

# Key findings - accountability

- ▼ Councils accountable to both the NSW Government and the local community at the same time
- ▼ Limited engagement of community in determining community preferences about revenue and expenditure options

# Key findings – diversity of councils

- ▼ There is considerable diversity amongst councils which the revenue framework must take into account
- ▼ There are significant differences in councils' ability to raise revenue. For many rural councils this is reflected in higher reliance on grants.

# Key findings - sustainability

- ▼ Most councils are financially sustainable and rate pegging has not adversely affected their financial sustainability
  - ▼ NSW councils have met their expenditure and revenue needs through greater use on user charging than has been the experience elsewhere
  - ▼ Many councils have applied for and received special variations
- ▼ A minority of councils are not financially sustainable
  - ▼ however removal of rate pegging may not remove their structural problems
- ▼ The financial position of local councils in NSW is no worse than in other states
- ▼ Evidence suggests that a number of councils may be using revenues for capital purposes to fund recurrent expenditure



# Key findings – capital expenditure

- ▼ Reporting and accounting of capital expenditure and maintenance is not consistent across councils
  - ▼ the evidence on the extent of backlogs is not conclusive
  - ▼ backlogs do not appear to be worse than in other States
- ▼ Councils overall are net lenders
- ▼ Councils use less debt for capital than they could and they have capacity for a greater use of debt to fund infrastructure works

# Key findings - cost shifting

- ▼ IPART has a more narrow definition of cost shifting
  - ▼ Occurs where a higher level of government requires local government to undertake a function without adequate funding eg when the state transfers a function it previously undertook with no funding
  - ▼ Does not include changes that would apply more broadly than to local government eg new reporting requirements
  - ▼ Distinguishes between those cases where local government is required to undertake a function and those where local government decides to take on a function
  - ▼ Consistent with autonomy in decision making and accountability to local community
- ▼ Draft report is not explicit on how increased costs from these sources could be funded
- ▼ Options – cost index, special variations

# Recommendations - general

- ▼ Improved financial reporting
  - ▼ Net Operating Result excluding capital revenues
  - ▼ Maintenance costs relating to public works
  - ▼ Annual expenditure on renewal capital works
- ▼ Improved asset management based on consistent definitions
- ▼ Regular surveys of community satisfaction published in Annual Report
- ▼ A catch-up mechanism for recovering foregone rate increases
- ▼ Regulation of rate revenue not total revenue

# Local Government Cost Index

- ▼ Based on annual movement in costs of councils and a productivity factor
  - ▼ State-wide index
  - ▼ Basket of costs
  - ▼ Retrospective using published indicators
  - ▼ Weights established every 5 years based on survey of council costs
- ▼ Independently calculated
- ▼ Minister would determine the annual increase in rates for most councils

# Timeframes

- ▼ LGCI could be in place for rate increases in 2010/11
- ▼ Medium term arrangements under Options A and B would commence around the time of the next council election ie after the 2011/12 financial year

# Review timetable

- ▼ Release Issues Paper 14 July 2008
- ▼ Receive public submissions 29 August 2008
- ▼ Public Workshops Oct-Nov 2008
  - (Sydney, Griffith, Queanbeyan, Dubbo, Maitland, Coffs Harbour)
- ▼ Public Release of report 23 July 2009
- ▼ Receive public submissions 18 September 2009
- ▼ Public workshops August/September 2009
  - (Sydney, Dubbo, Wagga Wagga, Coffs Harbour)
- ▼ Final Report to Minister mid November 2009

# Questions and comments

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