

Review of Revenue Framework for Local Government

Dr Michael Keating AC

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Improving the current framework

- ▼ Revenue framework could be improved by:
 - ▼ a multi-year approach to revenue raising
 - ▼ a more independent, rigorous and transparent approach to rate setting
 - ▼ linking the framework to councils' strategic planning processes to link revenue, capital and operating expenditure plans for a number of years into the future
 - ▼ using an explicit and independently calculated price index
 - ▼ using a productivity adjustment factor to encourage efficiency gains.

IPART's recommended framework

- ▼ builds on the proposed Integrated Planning and Reporting Framework (IPRF) to improve accountability and community engagement
- ▼ provides greater transparency and certainty
- ▼ provides an option of greater autonomy for councils whilst maintaining rate pegging

Recommended framework – Option A

- ▼ Option A
 - ▼ Improves on existing rate pegging arrangements
 - ▼ Focuses on a medium term revenue path and improved links between rate setting and strategic planning
 - ▼ Default for all councils
- ▼ Key features:
 - ▼ IPART publishes cost index (including a productivity adjustment)
 - ▼ Minister determines annual rate increases
 - ▼ Councils may apply for a (special) variation by preparing four year revenue plan
 - ▼ Minister approves/disapproves special variation

Option A – how it would work

- ▼ each year, IPART would calculate and advise the Minister of the percentage change in a local government cost index, after an adjustment for productivity;
- ▼ the Minister would then determine the increase in rates by setting the rate peg amount each year after having regard to changes in the Local Government Cost Index
- ▼ councils may apply to the Minister for a rate path over four years (ie special variations), which might exceed the rate peg if they comply with the Integrated Planning and Reporting Framework
- ▼ clear statement of the factors that the Minister would consider in deciding whether or not to approve applications for a medium term rate path (ie special variations).

Possible assessment criteria

- ▼ the demonstrated need for a special adjustment on the basis of service requirements for the community, including evidence of unmet demand and evidence of community support for the provision of these services
- ▼ special or unique cost pressures faced by the council
- ▼ implications for amenity, safety and health of community financial sustainability
- ▼ demonstrated adequate use of other sources of funds
- ▼ regard to the impact on taxpayers

Recommended framework – Option B

- ▼ Option B - Earned autonomy
 - ▼ **With Minister's approval**
 - councils may be exempted from rate pegging for up to 4 years
 - councils develop costed list of major projects in consultation with community
 - councils develop revenue plan for next four years
 - councils either seek community support through surveys or at the council election (see later slide)
 - ▼ If application for exemption is not approved, or if community rejects council's proposal, council shifts back to Option A (ie rate pegging)

Option B - eligibility

- ▼ Councils would become eligible by demonstrating:
 - ▼ a track record of sound financial management
 - Positive operating results
 - Reasonable liquidity ratio
 - Sustainable debt levels
 - Responsible funding policy
 - Track record of good asset management
 - Comprehensive asset management plan
 - ▼ that they have developed a medium term approach to revenue, expenditure and service delivery plans; and
 - ▼ that they have obtained a community mandate for the council's proposed medium term approach.

Option B - community engagement

- ▼ Two approaches for councils engaging with community
 - ▼ Both require councils to produce information about their program of works and the revenue plan
- ▼ Community survey option
 - ▼ Council sends material and survey documents to community
 - ▼ Guidelines for reasonable response rates (eg 25-30%) and level of support (eg 50-60% or respondents)
- ▼ Voting option
 - ▼ Revenue plan would form the basis of debate at election
 - ▼ Once elected incoming council would need to support this plan before submitting final application to Minister
 - ▼ Minister would determine whether council has received a mandate for the 4 year revenue plan from community

Roles

- ▼ Minister
 - ▼ Determines annual rate increase
 - ▼ Under option A, approves special variations
 - ▼ Confirms eligibility for council to consult with community under Option B
 - ▼ Determines whether councils have achieved mandate for their plan under Option B
- ▼ Department
 - ▼ Ensures integration with IPRF
 - ▼ Monitors rate increases
 - ▼ Establishes minimum performance requirements and monitors compliance with performance and accountability criteria
- ▼ IPART
 - ▼ Develops index, reviews index and weightings, proposes productivity adjustment, publishes index

Discussion points

- ▼ What are the relative strengths and weaknesses of Options A and B?
- ▼ Are the proposed changes under Option A a significant improvement over the existing arrangements?
- ▼ Are the eligibility criteria for entering into Option B stringent enough, and would they work in practice?
- ▼ Would the arrangements for engaging with the community under Option B work in practice?



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