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26 August 2008

Review of Revenue Framework
for Local Government
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
SYDNEY 2000

Dear Mr Cox

REVIEW OF REVENUE FRAMEWORK FOR LOCAL GOVERNMENT – ISSUES PAPER

Thankyou for the opportunity for input to the above Review.

My Council welcomes the review of revenue framework for Local Government as it is clear that the present framework is both jeopodizing the underlying financial sustainability of Councils and their ability to meet the legitimate needs of their communities.

The major concerns of Berrigan Shire Council in relation to the present system of rate capping are:

- The process of calculating allowable rate increases lacks credibility.

  There is no clear public methodology for calculation of allowable rate increases.

  Whatever methodology is being used is not accurately assessing the legitimate financial needs of Councils.

  In my Council's case, a simplistic assessment of the 2008/09 situation is:

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Award wage increase	$150,000
Increase fuel costs (est)	$125,000
Increased election costs	$40,000
	$315,000
3.2% allowable rate increase – natural growth	$120,000
Shortfall	$195,000

The above example only reflects some larger known cost increases and does not include items such as:

Increased utility costs
Increased plant replacement costs
Increased risk management costs
Increased cost of insurance
Increased statutory and regulatory compliance costs

Regardless of the above unspecified costs, the $195,000 reflects a rate capping shortfall of about an additional 5%.

Interestingly, the total of a little over 8% (3.2% + 5%) required as a maximum allowable increase to sustain existing activity levels is relatively close to the average apparent rate increase of 7% that the unrestricted Victorian Councils, that operate in the vicinity of Berrigan Shire Council, have applied for 2008/09.

- The process for setting allowable rate increases is politically determined.

  Given the State announcements accompanying the release of the 2008/09 allowable rate increases it is clear that the process for calculating the increases is politically rather than economically driven.

  The State indicated that it had limited the level of allowable increase for 2008/09 to provide some relief for families suffering mortgage and fuel cost stress. These comments indicate political point scoring at the expense of long term sustainability for Councils.

- Rate capping reduces the accountability of Councils and denies them the opportunity to shape future service provision with the community.

  The process of rate capping eliminates the process of Councils and communities working together to determine quality and quantity of future services as occurs in other States.

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Rate capping also undermines the basic accountability of elected government and eliminates basic community choice about levels of service provided.

- Rate capping distorts expenditure patterns.

  Traditionally, the shortfalls required in Council's revenues created by inadequate rate capping allowances were absorbed by Councils through reductions, or at least lack of increase in, infrastructure spending and typically roads and associated infrastructure. The long term results of this are clear.

  With the introduction of Roads to Recovery funding from the Federal Government and it's "no nett reduction" tests, Councils are now forced to redirect funding shortfalls to other infrastructure areas such as recreational facilities, parks and gardens and environmental programs so that funding is not jeopodised.

  Thus, in Berrigan Shire Council's case, we are now seeing roads infrastructure expenditure maintained at lower than required levels and expenditure on other infrastructure declining to new and inadequate levels.

- No inquiry is made of Councils as to what resource commitments are being imposed on them.

  In assessing allowable rate increases no inquiry is being made of Councils as to what other cost increases they are being exposed to that the State is probably unaware of.

  Berrigan Shire Council would question whether those assessing allowable rate increases are aware of:

  - Increased risk management obligations imposed by Council insurers and others.
  - The increased cost of attraction and retention of staff over and above award wage movements.
  - The cost of basic items such as replacement Local Environmental Plans now imposed by the Department of Planning.
  - The cumulative cost of increased regulatory compliance.
  - The infrastructure demands created by growing populations and not accommodated by developer contributions.
  - The increased demand for increased quality of service particularly that associated with "tree changers".

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- Rate capping is unlikely to produce any further significant efficiency gain.

  Rate capping has been with the local government industry for approx. 30 years.

  Whilst its introduction all that time ago may have realised some significant efficiency gain, it is unlikely that anything but incremental gain can now be achieved.

  Incremental gain can/will be achieved through sound management more so than the continual application of rate capping.

- The reversal of funding of infrastructure shortfalls now appears to be beyond the scope of existing council resources.

  The reversal of the continued failure of Council infrastructure at a national level would appear to be now beyond the scope of current Council revenue capacities.

  Whilst the Roads to Recovery funding has slowed the rate of infrastructure failure, it realistically is only provided at 50% of the required level.

  If the infrastructure decline is to be addressed, the costs associated with this will have to be met by other levels of Government – most likely the Federal Government, given its revenue capacity and levels of surplus.

- One size does not fit all.

  Rate capping applies a uniform rate increase across the State.

  Whilst it is acknowledged that Councils can apply for Special Variations to the rate capping allowance, the State does not systematically recognise that differing functions and circumstances create differing needs for Councils.

  No systemic attempt has been made to address the differing needs of Councils.

- The ability to supplement rates increase through the use of user charges is very limited for rural Councils.

  Whilst metropolitan and regional Councils have a significant opportunity to supplement their income through the use of user charges, this is not the case for rural Councils.

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With low populations, high levels of sparsity and low average incomes, rural Councils do not have the ability to raise significant levels of untied income, yet rate capping is applied on a uniform basis across the State.

- Levels of State and Federal Grants are declining.

  Both the State and Federal Governments have reduced the real value of grants to local government over an extended period.

  Those levels of Government have also reduced the range of grants available to Councils.

  Both State and Federal Governments have failed to invest in essential public infrastructure whilst significantly increasing revenues and in the Federal Government's case, maintaining huge budget surpluses on a consistent basis.

The future of rate capping is a matter for the NSW State Government, however, it is clear that the present framework cannot adequately assess Council's revenue needs and is in fact undermining the ongoing financial sustainability of creating a growing network of crumbling public infrastructure.

If rate capping is to be maintained a complete and transparent calculation methodology must be developed with local government practitioners that can be implemented in an environment free from political intervention.

If you have any queries please do not hesitate to contact me.

Yours faithfully

ROWAN PERKINS
GENERAL MANAGER