

**BURWOOD COUNCIL**

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Mr James Fox  
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Independent Pricing and Regulatory Tribunal (IPART)  
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29 August 2008

Dear Mr Fox

**Submission on Issues Paper – Revenue Framework for Local Government**

Thank you for your invitation to make a submission on IPART's *Revenue Framework for Local Government* issues paper.

Burwood Council is the State's second smallest local government area in terms of geographic size (7.2 square km) and one of the smallest urban Councils in terms of population (approx. 31,000).

As Burwood Council has previously made a submission to IPART regarding proposed reforms to NSW taxes impacting on local government, this submission is solely based on Council's ability to generate revenue. Obviously Council's income generation capabilities will need to increase should the proposed 'fire levy increase' and 'payroll tax exemption removal' impositions be adopted by the Government.

Regarding the specific areas that IPART has indicated as being important to the review (as outlined in Section E – Issues), I offer the following comments:

**How effective is rate pegging and what are the implications for councils and ratepayers?**

Rate pegging was initially aimed to provide a form of regulatory control over the income of councils. It was also used to provide surety to the ratepayers that they would not be subject to large increases of rates in non-election years and then none or minimal in election years. A side effect of the rate pegging regime was to commence a period of reform and streamlining of Council's operations to become more efficient.

However Council's since that time have used the savings gained from the increased efficiencies to provide other services based more on human and social areas, which were transferred from other level of governments, initially with significant funding sources, which have now even being removed or are at significantly reduced levels.

Councils are now facing a modern change in business/government focus, and are faced with the concept of sustainability, which was not considered when rate pegging was originally introduced. Councils have been subjected to rate pegging for over 30 years and many have streamlined their business operations to a maximum level.

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Also the expectations of services to be provided, to ratepayers, have significantly increased and Councils have made significant investments of resources to provide the required services, which are often not charged or are not charged on cost recovery basis, as they are seen as being under the expectation of the rates umbrella.

As Councils have not been able to control the level of income received from its major revenue source for a very significant time period, decisions have been made to maintain assets at base levels, rather than plan and provide for their replacement at optimal times in the asset life cycle. It is therefore becoming a tool to severely restrict Council's ability to address the looming asset replacement issue for its community, as can be demonstrated from the number of special rates and infrastructure levy variations being applied for.

As indicated in previous reviews on Local Government, including the Allan inquiry, Rate Pegging has long outlasted its used by date and needs to be replaced with other methodology for setting a fair level of increases for individual Councils.

**How does the current regulatory framework for council revenue, or any alternative framework:**

**a) Promote the effective and efficient provision of services?**

As noted above a side effect of rate pegging was a review of operating efficiencies, however these gains have been eroded by level of intergovernmental service shifting that has occurred since the 1980's.

The maintenance of the services shifted from other level of government, when funding has been removed or reduced has been at the expense of asset renewal at optimal times in the asset life cycle.

**b) Enhance the financial sustainability of local government?**

The current regime of rate pegging, is in direct conflict with idea of sustainability for local government, which requires a suitable revenue base to provide funding sources for the maintenance and effective replacement/renewal of an asset base that enables Council to provide the services required by its local community.

**c) Meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency?**

The current system does not meet the standard principles for good regulation and taxation, as there appears to be no science to the setting of the rate peg each year and the application for variations to the approve level is on a case by case basis, with little consistencies in the approval process.

**d) Enhance the accountability of local government?**

Rate pegging does not enhance the accountability of local government as Councils modifies the services to be provided to ensure that it can operate in its revenue base. This is usually done at the expense of capital investment in infrastructure assets.

An alternate framework would be one where an independent body (IPART) would review the proposed rates and charges revenue base each period or defined period if long term plan available and set revenue at appropriate level.

**What role should IPART play in setting local government rates and charges, including charges for non-business activities?**

Councils should submit details of its objectives over the short term (3-4 year period) and long term (10 years) identifying the estimated costs of completing these objectives and the level of revenue required. This process would also require evidence of community consultation and agreement with the plan. IPART would then review the proposed funding methods and make recommendation to Minister of Local Government in relation to the setting of local government rates and charges.

It should be noted that at the present time the format of Council's reporting framework is under review by the Department of Local Government and its preferred option for reporting framework and management plans are in accordance with above.

For Councils that are not able to meet this requirement, IPART should receive a submission detailing the requirements for the short term, i.e next year only and then set the increase for the rates and charges for this period.

**Is the Department of Local Government modification of the Australian Classification of Local Governments (ACLG) a suitable framework within which to consider the differences between councils?**

The current DLG modified set of ACLG is overall appropriate, however it should also considered factors such as the regional areas identified in the state plan.

**How does the current regulatory framework impact on the efficiency of rate setting by councils?**

Under the current regulatory framework, Councils are restricted in setting its major revenue source at a level that is required to fund its objectives as identified in its management plans. The costing of the expenditure required to deliver these objectives, provide services and fund the required maintenance and replacement of assets are not considered in the general rate peg setting. The regulatory framework also does not take into account the significant increases in the costs of providing services and cost/service shifting that has occurred.

**What demographic, intergovernmental, economic, social, technical and environmental changes are affecting Councils now and their future revenue requirements?**

As with all levels of Governments in Australia, Councils are facing an ageing population base, a deteriorating infrastructure asset base (which for developed areas was significantly originally funded by the other levels of Governments).

Councils have diverted resources to the provision of housing and community services and have also investigate other sources of revenue affairs, to attract business investments into their LGAS. As with the cost shifting process, Council's have begun to play a larger role in the areas of public order and safety as these are major areas of concerns among its community. Council's have become very responsive to the needs of its community and this is supported by the increases in expenditures in these areas. However these areas are often not generating the revenue base to supply funding of the expenditure and are therefore further diluting funds from the Rates base that may have been available to fund infrastructure works.

In the future Council's are likely to be negatively impacted financially, under proposed carbon trading schemes. For instance in metropolitan Sydney the last period major redevelopment of

civic precincts was in the 1970's and a number of these areas will require significant investment to reduce the carbon footprints of the Council.

**What scope is there for councils to make greater use of user charges?**

Councils are generally where possible charging cost recovery on user charges, however in specific areas such as child care, Council's are not charging at the same level as private centres due to a perceived responsibility to provide a more cost effective service for lower socio-economic groups. A number of User Charges are also set at statutory levels, especially in development areas, and these do not reflect the increase in costs of providing services, i.e. market premium on employment costs of town planners due to skill shortages.

Therefore there is limited scope in this area, and as another form of cost shifting, the NSW Government is now claiming 15% of gross revenue from the use of the Crown Land under Council's control, without a contribution to the costs of maintaining and developing these assets other than the occasional grant to capital costs. Council's provide these areas to various community groups, in the case of play fields sporting groups and they are not charged at full cost recovery levels, as this would be beyond the capacity of these groups.

Another example of State Government policy that disadvantages Council's efforts to generate income is the administration of Council issued penalty infringement notices. Whilst the gross income is potentially significant, the net financial benefit is reduced as the Office of State Debt Recovery charges excessive fees for the administration function of processing Infringement Notices.

**To what extent has the control of rates revenue under the rate pegging regime limited overall revenue growth or encouraged greater use of non-rate revenue?**

Councils have taken many offers of providing funded services from other levels of government in the past and now are providing these services when the cross support funding has been eliminated or significantly reduced.

Council's have attempted to seek alternative methods of non rate revenue, but significant restructuring of the use of significant assets (property) is prevented due to the utilization of facilities for the provision of services noted above.

**To what extent are local governments' expenditure requirements likely to grow in the future?**

In the current context of sustainability and the associated focus of government and public groups on the state of base infrastructure, as identified in the Allan Report and the recently published Fiscal Star reviews and recognized in other states including South Australia the need to address the infrastructure funding deficit is going to require a significant increase in the level of expenditure in the future.

Under the current rate pegging regime Council's are severely restricted in raising the required funding to complete the works required. It is also likely that Council's will also need to receive an increased share of the GST revenue base to assist funding this significant program over a number of years.

**What are the implications of this expenditure growth for rate pegging or alternative regulatory frameworks proposed by submitters?**

Under the current rate pegging regime Council's are severely restricted in raising the required funding to complete the works required. It is also likely that Council's will also need to receive

an increased share of the GST revenue base to assist funding this significant program over a number of years.

**What is an appropriate level for the net liability ratio and what obstacles prevent local government from making greater use of loan borrowings (debt) as a means of financing priority infrastructure renewal/replacement?**

As with all forms of Governments in Australia in recent years, loan funding has been seen as a negative alternative in a political sense. In the situation of the State Government many road infrastructure projects have been financed by private funding and the hand over of these assets for a period of time and then used on a user charge basis for operators. The 2008-09 NSW budget is the first in many years to include plans for material loan funding of infrastructure projects.

In this respect Councils are no different from the other levels of government, yet it has developed a particular resistance to the use of loan funding for major projects, as it is not seen as a politically desirable option to regularly draw down borrowings to fund infrastructure projects.

**Are there any other significant factors affecting financial performance of local government?**

The single most important issue is cost-shifting. The level of service and cost shifting that has occurred since the 1980's has had a significant impact on the financial performance of local government. It has resulted in the reduction of expenditure on the asset renewal/replacement programs of local councils.

The funding for the services shifted to local government and increasing role in the public and order areas should be funded via a defined percentage of the GST revenue as an appropriation back to local government. As reported in other reports this should be around 12% of revenue, which should be used to fund the services provided to its local community.

An example relevant to Burwood Council (and many others) is the provision of library services. Libraries are unique institutions that provide equity of access to life long learning, recreational and cultural services for all members of the community under the *Library Act* (section 10) which requires libraries to provide the following core services free of charge:

- Membership
- Access
- Loans
- Basic reference service
- Housebound services to any member of the community who, for reasons of ill health or disability cannot reasonably be expected to attend the library in person.

Public Libraries in NSW have suffered from a drastic proportional decline in State Government funding. In 1980 the State Government provided 23.6% of funding to operate public libraries, in 2006/07 this had dropped to 8.3%. NSW public libraries receive the lowest State Government per capita contribution in Australia (Source: National & State Libraries Australia, Australian Public Libraries Statistics Report 2005-2006, pp. 28 & 34).

Despite this low level of state funding libraries provide a range of services that support state government activities:

- School Libraries close at approximately 3.00 pm. Public libraries are havens for students studying, accessing ICT and traditional print information from 3.00 pm onwards.

- The Premier's Reading Challenge (PRC) has become so successful that it has placed significant demand on children's collections in libraries, with multiple copies purchased and identification labels placed on each item to assist readers locate PRC titles.
- Summer Reading Clubs support literacy levels during the long summer school holiday period, helping to ensure students return to school with reading skills enhanced.
- Learner drivers frequent public libraries' public access PCs to use the RTA website practice tests.
- Many seniors and residents of lower socioeconomic backgrounds are increasingly forced to access e-government services through public libraries' PC networks, and for those with little or no experience with computers, library staff provide individual assistance and internet tutorials.

Public achieve outcomes identified in the State Plan, a fact recognised by the Report of the review of public library funding (Parry, Thomas. April 2008). This report also recognised the value public libraries add to the community: "...It is therefore recommended that consideration be given to a proper examination of the broader benefits as well as the savings across Government which can be generated by library services to various groups, including school students and the elderly. A comprehensive review of the costs and benefits of library services across key areas of State Government services could be conducted by a body such as the Independent Pricing and Regulatory Tribunal (IPART)." p. 7.

#### **To what extent does rate pegging affect financial sustainability?**

Rate pegging is in direct conflict of financial sustainability, as they main source of revenue is restricted under rate pegging, while under the principles of financial sustainability Councils would be able to set revenue levels to meet expenditure requirements. The base concept of sustainability in a local government setting has an origin in the maintenance and replacement of assets utilised to provide services for the local community.

#### **To what extent have councils undertaken efficiency reforms and has this been effective?**

Council's have under taken significant efficiency reforms under rate pegging and in an operational sense, this has been effective.

However under the current focus of sustainability, this will become a restriction on Council's ability to provide the funds required and the resource availability to complete the required works on the infrastructure assets.

Council's have gained efficiencies in its outdoor work forces, streamlined administration processes and has a relatively high uptake of internet technology to provide services to its community.

#### **How does rate pegging and other constraints on councils' revenues affect the efficiency of councils' operations?**

However under the current focus of sustainability, this will become a restriction on Council's ability to provide the funds required and the resource availability to complete the required works on the infrastructure assets.

**If variations under Section 508(2) provide for an escalated base for future rate increases under rate pegging, what benefits do councils gain from making application under the alternative Section 508A?**

Council's can gain political benefits by making applications for rate increases under Section 508A as these can be sold to the community as funding for a specific project/or projects for a defined period of time.

**What is the frequency and pattern of individual council requests for special variations to the rate cap?**

It is likely that if rate pegging continues into the future that Council's will be making regular requests for special variations every 5 years or so, as they will require a regular source of additional revenue to fund the required works under the era of sustainability.

**Are rate pegging special variations becoming the norm rather than the exception with local councils and should alternatives to existing rate pegging practices be considered to provide greater certainty for councils and reduce the need for Government approvals?**

Yes the special variations are becoming the norm. This process is expected to increase as the proposed changes to the regulatory reporting framework and its focus on sustainability comes into force. Part of the proposed changes will require Council's to developed longer term financial plans that relate to its asset management processes and this will further expose the infrastructure funding deficit. The result of this process will be an increase in the level and size of special variations being sought by Council's.

It is imperative that alternative to the existing rate pegging practices be considered and rates should be set for at least 3 years with the opportunity to review on an annual basis if there are significant changes to the original plan, assumptions used, or changes to economy beyond Council's control.

**Given the role of special variations and the other revenue sources for local government, does rate pegging effectively constrain the level of rates and total revenues for local government?**

Yes rate pegging does effectively constrain the level of rates and total revenue for local government. This is due to the fact that there are no guarantees that Council's will be successful in any special variation applications and that other revenues are often limited to cost recovery or partial cost recovery basis only.

**Should councils be able to achieve a permanent increase in revenue by applying for a special variation?**

If the increase is justifiable as a permanent increase then this should be permissible via the special variation in the current rate pegging regime. This is due to the nature of rate pegging and the length of time that it has been in operational force and the fact that Council's generally have investigated other revenue and/or cost efficiency opportunities prior to seeking the variation.

**Does rate pegging increase the affordability and/or availability of local government services especially for poorer regions and sections of the community?**

In many ways the current rate pegging regime does not increase the affordability and/or availability of services provided by local government. As Council's revenue base is restricted it

is unable to generate the revenue sources to provide all the services that its local community requires. Therefore rate pegging only provides an artificial level of affordability and availability of services to the poorer regions and sections of the community. In reality assistance to these areas of the community should also be borne by the other levels of government as higher levels than currently being provided.

**What alternative regulatory models could be used to regulate rates and charges in NSW?**

A modified version of the South Australian model with a review by an independent body, such as IPART, of the Council set rates and charges. Part of the conditions for this would include requirements for Council's to established long term financial plans, service / management plans and asset maintenance programs / plans. Also under this scenario, Council's should be able to apply for increases over a set number of years, i.e. 3 to 4 years, with annual reviews if significant variations to plans are approved by the Council after consultation with the community. For Council's that are not able to provide these long term plans in the immediate future, a period of annual reviews of the rates and charges based on known factors, such as CPI and other price indices should be applied.

**How do the various alternatives rate against the criteria listed above ie, financial accountability and governance, financial sustainability, comparative efficiency and effectiveness indicators including affordability and availability of local services and facilities?**

The above alternative would rate very highly, as they would include an independent body for review and a high level of community consultation of the proposed services and facilities to be provided and funded over the term of the Council.

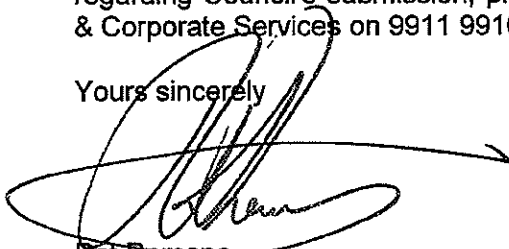
Further disclosure requirements should also be made mandatory in the annual report, such as KPI's on service improvements delivered, KPI's on the infrastructure works progress and KPI's on the impact on the lower socio-economic groups to ensure that there is sufficient support provided.

**What role should IPART play in setting local government rates and charges in future years?**

IPART or similar body should be the independent reviewer of the proposed rate and charges setting in the future. It should make recommendations to the minister for ratification and setting of individual Council rates and charges.

Thank you kindly for the opportunity to make the above submission. If you have any queries regarding Council's submission, please contact Mr Robert Cummins, Director of Governance & Corporate Services on 9911 9910.

Yours sincerely



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