

IPART Review of the Revenue Framework for Local Government

North Sydney Council Submission

In this submission, comments are made in relation to the nine key questions asked by IPART. In some instances, comments have also been made to the subsidiary questions in each section of the review document.

1. What is the role of local government and how is it determined?

The role is determined in a number of ways:

The Local Government Charter

The role of local government is identified in general terms through the Charter in the *Local Government Act 1993*. The Charter is quite broad, and does not limit councils to "roads, rubbish and rates". Indeed the Charter states that councils are required, amongst other things, to:

- provide (either directly or on behalf of other levels of government) adequate, equitable and appropriate services and facilities for the community.
- Manage the assets for which they are responsible
- Exercise regulatory functions, and
- Raise funds for local purposes by the fair imposition of rates, charges and fees, and by income earned from investments.

The local community which the council serves

Appropriate services are those identified as needed by the community, and the definition may be wide-ranging limited by councils (and the community's) ability and willingness to pay for these services from locally raised funds.

The IPART report refers to the Percy Allan report on the Financial Sustainability of Local Government, and the proposal that "local governments should provide services with local benefits". This is generally supported, but it is difficult, if not impossible, to limit access to the majority of services provided by councils just to those people who reside in the council area. Apart from those services which are provided to a property, such as waste services, Council services are not limited to local residents. For example, parks and libraries are freely open to anyone who wishes to visit them, as are recreation and cultural facilities so long as people are prepared to pay the entry fee.

Other levels of government

Other levels of government determine the role of local government, with or without the agreement of councils. Apart from the *Local Government Act*, other State legislation, such as the *Environment Planning and Assessment Act* and the *Protection of the Environment (Operations) Act* amongst others, mandate roles for councils. Sometimes roles are determined by other levels of government without the requisite funding to undertake those roles. Sometimes grant funding is provided for services, and that funding is later withdrawn or diminished, leaving councils to make up the difference.

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

Councils must be in the position of managing their own revenue, and that includes determining the level of rates income required to pay for the provision of infrastructure and services to the local community. Rate-pegging does not exist in any other State of Australia, apart from NSW. In all other States, Councils determine on an annual basis what will be the rates payable by the rate-payers of their communities, and they are accountable to their communities for these decisions.

Rate-pegging is a totally ineffective way of enabling Councils to determine the revenue required to cover the true costs of providing services. The maximum allowable increase determined each year by the Minister is not based on any objective assessment of the increases in costs of continuing service delivery to the community. For example the allowable increase for 2008/2009 of 3.2% whereas costs on average, for the same level of service provision at North Sydney, rose by 5%. The Fire Services levy, for example, which local government is required to pay, have increased on average over 6.5% per annum while rate increases have averaged 3.5% per annum.

Rate-pegging has also cemented in significant differences between the rates charged across councils. For example, neighbouring councils such as North Sydney and Mosman councils have vastly different average residential rates because of the level of rates in each of the council areas when rate-pegging was first introduced. Therefore a person may live on one side of the street in the North Sydney Council area and pay half the amount of rates of a person living in the same sort of property on the other side of the street in the Mosman Council area.

As a result of rate-pegging, councils have been obliged to look at other means of raising revenue to pay for existing and new infrastructure and services. However the capacity of councils to raise revenue by other means are limited and changes in the financial environment can have a

significant impact on that capacity. For example, councils have come to rely on developer contributions for the development of new infrastructure. With changes to the planning legislation and the development contributions framework, councils will now face restrictions on their ability to provide community infrastructure to meet growing community need.

Rate-pegging effects councils' financial sustainability because it places an ongoing very tight restriction, not reflective of rising costs, on Councils' ability to raise the amount of revenue needed to meet commitments. Rate-pegging, with annual decisions based on a maximum rate increase, makes a nonsense of councils' ability to undertake meaningful long-term financial planning.

3. *What are the objectives for a regulatory framework for local government revenues?*

The objectives for a regulatory framework for local government revenues should generally be those outlined in question 4 below:

- To enable the effective and efficient provision of local government infrastructure and services
- To enhance the financial sustainability of local government
- To meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency
- To provide for accountability of local government to its community for financial management

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

- *Promote the effective and efficient provision of services?*
- *Enhance the financial sustainability of local government?*
- *Meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency?*

This question will be addressed in two parts:

(a) the current regulatory framework

The current regulatory framework involves the pegging of rates to a percentage increase approved by the Minister for Local Government each year; the capacity for councils to apply for approval for special rate variations; and the setting of statutory fees and fines.

The current framework has certainly ensured that councils are efficient in their provision of services. Even though increases in rate revenue are restricted, councils are still expected to continue to provide services at the levels expected by their communities. However the current system does

not necessarily promote effectiveness, ie. the quality of service delivery may suffer if insufficient resources are available.

Councils may apply to the Minister for approval for special rate variations, and many councils, including North Sydney Council, have sought such variations. Generally, however, the special variations have been sought for particular purposes, ie. infrastructure improvements; environmental programs; commercial precinct improvements. The special variations have not addressed the underlying problem of restricted rate revenue to fund councils' ongoing operations.

Statutory fees, such as fees for development assessments, also do not cover the true costs of providing such services. Councils therefore have to make up any shortfall through rate revenue or other revenue sources.

Councils, particularly those in the metropolitan area of Sydney and in regional centres, have been able to generate revenue from other sources, for example rental income from Council-owned properties and fees from parking stations and meters. However such revenue is naturally limited to what the community can or is prepared to pay, and there are limited opportunities for expansion.

The current system also does not meet the principles for good regulation and taxation in that there is no transparent methodology for how the rate-pegging increase is arrived at each year. Councils have no opportunity for input into what the figure should be. The same applies to the setting of statutory fees. The problem is also that the rate peg increase is a flat maximum percentage applicable to all councils. However individual councils will have different cost drivers in any one year. The flat percentage rate increase does not take these individual local differences into account.

The current regulatory system does therefore not enhance the financial sustainability of local government.

(b) an alternative framework

The IPART report identifies an alternative, which is to institute measures to enhance accountability to the local community and remove mandatory rat-pegging. This option identifies accountability and reporting measures to enable comparisons to be made between councils and for a default rate cap to apply where councils fail to meet the accountability measures. This alternative would provide councils with the capacity to determine their own rates, albeit within a framework that guards against excessive increases.

For this reason this option is supported.

However, if rate-pegging remains in place as government policy, then there needs to be an independent and transparent means of determining what the maximum rate increase will be, with councils having the opportunity to have input into the rate peg determination process. There also needs to be a transparent process for determining councils' applications for special rate variations.

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

IPART is the independent economic regulator for NSW and its primary purpose is to regulate the maximum prices charged for monopoly services by government utilities and other monopoly businesses.

If councils are not able to have the freedom to set their own rates, then an independent body like IPART would be in a reasonable position to establish a clear and transparent methodology for establishing a maximum rate increase for councils. An independent body like IPART would then receive submissions from councils or representative associations about what the rate increase should be in any one year. IPART could also be involved in the setting of statutory fees.

However IPART should not be involved in setting charges for other areas of local government activity. Local government has an extensive list of fees and charges including such items as hire of sporting fields and hire of rooms in community centres, by way of example. It would make no sense for IPART to be involved in the setting of such charges, which very much reflect local conditions.

6. *Should IPART have a determinative role provided by legislation or should IPART's role be limited to making recommendations, if and when requested by the Minister?*

If an independent body such as IPART is to have a role in setting local government rates, then it should be a determinative role rather than one of making recommendations, which may or may not be accepted by the Minister of the day.

The following questions are not applicable to the North Sydney Council area, therefore only general comments are made in response.

7. *To what extent do government authorities – such as SHFA, SOPA, RWA and the GCCs – provide services that duplicate or overlap those of local government?*

A difference needs to be made between those authorities responsible for precincts, such as SHFA, SOPA, RWA, and a strategic land release planning agency, which are the GCCs.

The agencies responsible for precincts have the capacity to generate revenue from property rents and hire of spaces. These revenues then fund asset management and service delivery within the precincts, for the benefit of tenants, hirers and visitors. The services are focussed on the precincts and therefore do not duplicate local government services, which are applicable across whole local government areas.

The Growth Area Commissions undertake strategic land use and land release planning for the State Government and should be funded by Government for these purposes.

8. *What are the implications for local government rates where these authorities provide services normally provided by local government?*

Local government rates fund programs and services for whole council areas, and should not be diminished by authorities with the responsibility of raising funds from property activities for application within a specific precinct.

9. *Should a common regulatory framework be introduced for these authorities?*

These authorities do not take the place of local government and therefore a different regulatory framework should apply.

Penny Holloway
General Manager
North Sydney Council
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