



**City of Canterbury**  
*City of Cultural Diversity*

Our Reference: V-3-5

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Mr James Cox  
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Independent Pricing and Regulatory Tribunal  
PO Box Q290  
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Dear Mr Cox,

**Subject: Submission on Review of Revenue Framework for Local Government**

Thank you for the opportunity to comment on the issues paper 'Revenue Framework for Local Government'. The paper provides an important summary of the issues in relation to local government revenue and expenditure, financial position and sustainability in NSW. It also outlines several useful options for alternative regulatory frameworks for setting local government rates and charges.

We have prepared a submission that provides comments in response to each of the key questions posed by IPART and concludes with a preferred position in relation to the five options outlined by IPART for a regulatory framework. The questions in relation to government authorities have not been considered as they have limited impact on the City of Canterbury.

Please contact our Manager – Corporate Strategy, David Coleman, on 9789 9640 if you require any further information.

Yours sincerely

Jim Montague PSM  
**GENERAL MANAGER**

25 August 2008

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# **Independent Pricing and Regulatory Tribunal Revenue Framework for Local Government Submission by the City of Canterbury**

## **Introduction**

This submission has been prepared by the City of Canterbury in response to the invitation, extended by the Independent Pricing and Regulatory Tribunal to comment on the issues paper '*Revenue Framework for Local Government*'.

This submission provides comments in response to each of the key questions posed by IPART and concludes with a preferred position in relation to the five options outlined by IPART for a regulatory framework. The questions in relation to government authorities have not been considered as they have limited impact on the City of Canterbury.

## **Response to Questions**

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

The role of local government is to provide infrastructure and services to achieve the outcomes our communities want. In the future the Department of Local Government (the Department) envisages that these outcomes will be described in a ten year Community Strategic Plan, and that the activities a local council will undertake in obtaining these outcomes will be outlined in a Council Delivery Plan. These documents will be supported by at the very least asset management, social and cultural, environmental, economic development, and governance planning processes. The Community Strategic Plan will be developed through a process of community engagement that allows residents and ratepayers to articulate the aspirations for the places in which they live and/or work across these various dimensions

Whether this is – to use the terms of the Allan report – a maximalist or minimalist view depends very much on the community represented by the local council. It will be the role of the local council – both the elected representatives and the organisation – to engage the community in the creation of the Community Strategic Plan, and to facilitate the setting of priorities depending on the resources the community has available to make the Community Strategic Plan a reality. With open and transparent communication and well-planned and implemented engagement communities will have the opportunity to clearly see the implications of their aspirations, and to make decisions around what they are prepared to pay for. A community may only be willing to pay for 'roads, rates and rubbish' – a minimalist approach, or they may be willing to pay for much more than that.

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

Rate pegging appears to be based on a premise that a) councils are irresponsible and need to be protected from themselves by the imposition of a constraint on their ability to spend community funds on projects that may not be in the interests of that community, and b) councils are inefficient and need to be forced to become more efficient in some way.

Rate pegging has had the result that local councils that are responsible have had to become more efficient in order to continue to provide infrastructure and services that their communities need. Those with the capacity have been able to apply for special variations to expand their activities in ways that their communities support. In this sense rate pegging has been effective. There is no guarantee of success with a special rate variation application, however, and as a result the current framework has prevented some communities from receiving infrastructure or services that they need and are willing to pay for.

Rate pegging can protect ratepayers from dramatic increases in local council rates, and in the very few situations where local councils have been irresponsible or incompetent the damage has been limited to a certain extent.

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

The objectives of any regulatory framework for local government revenues should be to provide a reliable source of revenue that is linked to economic growth rather than inflation, that is inexpensive to collect, and that is easy to calculate and understand by the average ratepayer.

### **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 principles for good regulation and taxation – efficiency, equity, simplicity, transparency?**
- **Enhance the accountability of local government?**

Rate pegging doesn't necessarily promote the effective provision of services – as councils can choose to provide those services that cost the least, rather than those services that the community wants or needs. Rate pegging doesn't necessarily promote efficiency, as councils can choose not to provide infrastructure or deliver services rather than pursue efficiencies. Rate pegging must work in conjunction with strategic leadership and good management to promote the effective and efficient provision of services. Rate pegging has failed to prevent the situation, for instance, which IPART and other reviews have recognised, where local government in NSW faces a huge cost to renew and maintain its existing infrastructure. Rather it has been a lack of stewardship and good asset management practice that has brought about this situation. Rate pegging (together with grant creep and cost shifting) has merely exacerbated the situation.

Financial sustainability – the ability of local councils to meet their financial commitments now and into the future – requires firstly that the council define clearly what infrastructure and services must be provided and maintained, then identify what resources will be required to do so, and finally ensure that sufficient resources are available to do so. Rate pegging features in this context only as a constraint to one of several sources of funding (rates, grants, user charges, and borrowing). As such the current framework does not enhance financial sustainability – it is the capacity, skill and resourcefulness of council officials in understanding the funds necessary to deliver the range of services and infrastructure required, and applying the funds available from all sources to the best effect, that can ensure financial sustainability.

Rate pegging does not promote accountability to communities. It rather causes the alienation of communities from the democratic process by denying them the opportunity to participate fully in decisions that most closely affect them, namely the allocation of resources to infrastructure and services in their local area. Whilst the ability of councils to apply for special rate variations does provide a limited means to participate in such decision making, this process really only promotes accountability to the Department, not of elected representatives to their community. In addition, the Department's process for setting the rate pegging limit, and for evaluating applications for special rate variations is not transparent to the local communities which these decisions affect.

Whilst not transparent, the current framework does meet the other standard principles of efficiency, equity and simplicity.

A future regulatory framework should ensure that:

- communities participate in determining the services and infrastructure they want and are willing to pay for (effectiveness);
- local councils transparently demonstrate the costs incurred in delivering the services and infrastructure are as low as possible (efficiency);
- a local council's rates revenue stream can be set at a level where the services and infrastructure their community wants to pay for can be provided (financial sustainability);
- applications for and determinations of changes to rates revenues are transparent and based on consideration of social, economic, environmental and governance (quadruple bottom line) factors;
- elected representatives (and council organisations) are accountable to their communities to deliver the services and infrastructure they said they would for the price the community has said it would pay (accountability).

Five options for regulatory frameworks have been outlined by IPART:

1. Retain existing rate pegging arrangements but provide great transparency;
2. Disaggregate rate pegging for individual local councils or groups of councils;
3. Apply rate pegging only to operating expenditure;
4. Exempt individual councils from rate pegging where they satisfy certain criteria;
5. Remove mandatory rate pegging altogether.

Any of these options is better than the current regulatory framework. Option 4 is the option that best meets the criteria outlined above. Implementation of this option could operate in conjunction with the changes to management planning envisaged by the Department.

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

There is value in IPART playing a role in setting local government rates and charges because of the independence and transparency it could bring to the process. A critical question is whether individual local councils have the resources or capacity to make applications that would withstand the rigor IPART would apply.

**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?**

The value of IPART's participation in setting local government rates and charges – independence and transparency – would only be realised if that role were determinative.

**Conclusion**

This submission has been prepared by the City of Canterbury in response to the NSW Independent Pricing and Regulatory Tribunal's Issues Paper '*Revenue Framework for Local Government*'. The paper provides an important summary of the issues in relation to local government revenue and expenditure, financial position and sustainability in NSW. It also outlines several useful options for alternative regulatory frameworks for setting local government rates and charges.

Our submission highlights the shortcomings of the current framework for setting local government rates revenues in relation to effectiveness and efficiency, financial sustainability and accountability. Any of the options for regulatory frameworks outlined by IPART would be an improvement, but it is Option 4 – the exemption of individual councils from rate pegging where they satisfy certain criteria – which would provide the most improvement whilst at the same time retaining the protection for which rate pegging appears to have been conceived. Implementation of this option could operate in conjunction with the changes to management planning envisaged by the Department.

There is value in a determinative role for IPART in setting local government rates and charges arising from improved independence and transparency.

We would like to thank IPART for the opportunity to comment on the issues paper and look forward to the final report.