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DUBBO
CITY COUNCIL

29 August 2008

Review of the Revenue Framework for Local Government
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Sir

REVIEW OF THE REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

Council submits the following comments on the report. Comment has not been made on every issue raised within the report, but only those issues relevant to this Council and Council's in rural areas in general. These issues are addressed under the relevant headings in the report.

Role of Local Government.

Regional Roads – Local Council's provision of infrastructure should be confined to items that fall within the area of its services (Allan Report). – Within the report it is suggested that State Government be responsible for regional roads, rather than rural Councils. This is strongly supported. To provide a consistent level of service from Regional Roads, the State should be responsible for the maintenance of these roads. These roads pass through several Council areas, and to have consistency in the level of maintenance, the State should be responsible. With Council's being responsible, different levels of maintenance will be undertaken within different Councils, and hence the overall maintenance programme may not meet the maintenance requirements of the road in its entirety.

Appropriate Role of Councils.

It is agreed that the Charter for Local Government is very wide, and cost shifting increases the burden of service provision. However, rate pegging limits the capacity of local government to address the service requirements and expectations of their communities. It also inhibits Council's ability to maintain its infrastructure. An additional issue faced by rural Council's is the inability to attract skilled staff in some areas, which necessarily involves offering higher salaries or other salary package items to attract staff away from the East Coast.

Variations in Role of Council's.

Service level variations are significant in small rural Council's, who are struggling to attract professionals such as doctors and dentists to their communities. There is an urgent need for them to provide the infrastructure to attract these professionals. Without these services, small rural towns decline rapidly.

Growth areas such as regional cities face extreme pressure in coping with the growth in infrastructure as the city expands, and the ongoing asset management and maintenance of infrastructure. Without the flexibility to increase rates to meet these ongoing infrastructure maintenance needs, decisions need to be made as to whether the infrastructure will not be maintained into the future, which will result in failure of infrastructure, the cost of which will be bourne by future generations, or have an increased cost in the form of rates to fund the maintenance. Alternatively, current services have to be reduced to fund maintenance of infrastructure to avoid failure of infrastructure in the future.

Scope for Councils to Make Greater Use of User Charges.

This Council currently has a very high level of user charges to total revenue. In the 2005/2006 New South Wales Department of Local Government Comparative Information for Council's, in Group 4 this Council's user charge revenue was 30.29% of total revenue, the average for Group 4 is 20.58% of total revenue, and only 3 Councils out of 33 within Group 4 have a higher percentage of user charges to total revenue.

From the above it is clear that there is not much scope for expansion in the level of user charges.

Growth in Expenditure Versus Growth in Rates Income.

The increases permitted via rate pegging do not necessarily reflect the increases in costs experienced by Councils. The inputs into infrastructure maintenance costs have increased far in excess of the growth in rates. Inputs such as any fuel based products, which are used for road construction and maintenance (diesel and bitumen emulsion), have had substantial increases in current years. The cost of steel for maintenance and construction works has increased dramatically within the last few years, well in excess of rate pegging increases and CPI. Labour costs Australia wide between September 1997 and June 2004 grew by 1.03% more than the CPI all groups (source ABS CPI Statistics and Labour Cost Index). So even though rate pegging may be keeping pace with movements in the CPI, this does not necessarily mean that Council's costs are increasing at the same rate as CPI, due to the types of expenditure Council's are involved with.

Council has borrowed up to a level that is financially responsible, and would not contemplate borrowing significantly in the near future. Council's estimated debt service ratio at the end of the 2010 financial year is 8.82%. From this, it is clear that Council's capacity to expand borrowings further is limited.

Efficiency improvements to improve financial sustainability - Local Government is constrained because many of the services that are provided by Local Government are provided because there is market failure (not commercially viable to provide a good or service). User charges in these instances are often not full cost recovery to ensure that there is wide availability to the community.

Benefits of Submitting a Special Variation Under s508A Rather Than Under s508(2).

An application for a special variation under Section 508(2) is only in force for 1 year, whereas an application under Section 508A gives a known percentage increase (independent of the general variation increases in future years) over the period of the application, and up to a maximum of 7 years. An application under Section 508A does not have to be approved each year.

Goals and Objectives of Rate Pegging as Set Out on Page 55.

- Prevents misuse of monopoly power in supply of basic community services.
- Controls cross subsidisation and restricts the provision of non core services and infrastructure that might prove unsustainable.
- Manages the risk of poor governance.
- Limits Council's ability to divert funds from essential infrastructure to other projects or marginal services better provided by the private sector.

Rate pegging does not achieve its objectives if measure by the above criteria. Local Government has a natural monopoly on some services because of market failure, rate pegging has no effect on the monopoly situation. It could, in fact, have the reverse effect of driving up user charges revenue in these areas to compensate for inadequate rate revenue to fund these services rather than limiting the impact of monopoly power.

Rate pegging has little impact on cross subsidisation. Some community services must be cross subsidised otherwise they would not be provided at all.

Rate pegging does not limit a council's ability to divert funds. This can be done with or without rate pegging.

All of the above criteria totally ignore the fact that the Council is answerable to its constituents, and that the Council is there to provide the best possible mix of services and infrastructure to meet the needs of its community. It is very strongly agreed that rate pegging is counter to the principles of democracy.

Rate pegging definitely prevents the addressing of infrastructure backlog problems.

Rate Pegging Special Variations – Should Alternatives be Considered.

Alternatives should definitely be considered.

Ultimately it should be the Council that determines the level of rates and the community determine what services and facilities are provided by Council, via how much they are prepared to pay for infrastructure. There have been instances where Council has approved a special variation, and the application to the Department of Local Government has not been approved. Ultimately the Councillors and Council are accountable to the ratepayers. If the ratepayers are not happy with the performance of a Council or individual Councillors, they will not vote for them in the next election.

Does Rate Pegging Constrain Councils-

Definitely where there are major infrastructure maintenance and replacement requirements. By necessity, an infrastructure maintenance planning process spans in excess of 20 years into the future. Year by year special variation applications, which may or may not be successful, do not assist in long term planning to maintain infrastructure.

Development of Performance Measures for Councils

Council is total agreement with the concept of development of performance measures designed to assist Councils in assessing their performance in delivering services to their communities. These measures should be used to allow a Council to analyse its progress over time, and to develop strategies to address their community's needs. These measures should not, however, be used to compare Council's across the state, as each Council has its own individual requirements and needs, and is not comparable to any other Council.

Alternative Regulatory Models.

Option 5 set out in the draft report is supported by Council. The implementation of financial planning horizons of at least 10 years is supported. To support asset management and infrastructure planning, Councils should be encouraged to produce 20 year financial plans to substantiate the need for rate increases to fund long term infrastructure maintenance and replacement programmes. This substantiation should be to the Council's ratepayers. Rate increases should not be regulated by the State Government, Council needs to be accountable to the ratepayers of its community.

Council welcomes this opportunity to provide input into the draft report, and thanks IPART for its willingness to invite views of Councils throughout New South Wales.

Yours faithfully

Mark Riley.

Mark Riley
General Manager