



## DUNGOG SHIRE COUNCIL

All Communications to be addressed to:

The General Manager  
Dungog Shire Council  
PO Box 95  
DUNGOG NSW 2420

Telephone: (02) 4995 7777  
Facsimile: (02) 4995 7750  
Email: [shirecouncil@dungog.nsw.gov.au](mailto:shirecouncil@dungog.nsw.gov.au)  
Website: [www.dungog.nsw.gov.au](http://www.dungog.nsw.gov.au)  
ABN 62 610 350 056

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File EF08/540  
CFD  
29 August 2008

Dr Michael Keating  
Review Chairman  
Independent Pricing & Regulatory Tribunal  
PO Box Q290  
QVB POST OFFICE 1230

Dear Dr. Keating

### **Review of the Revenue Framework for Local Government**

Council welcomes the opportunity to provide input into the review of the revenue framework for Local Government. But would like it noted that a six week timeframe provides limited opportunity for detailed input for such a complex area let alone informed discussions with our elected members.

It is important for IPART as they undertake this review to get out into the regions and have an "on ground" assessment as regards what local government is doing in their communities as each local government area is unique and in many cases Councils of today are having to deal with past decisions that may have well been made in the interests of the community at that time without adequate analysis as regards the longer term implications of their decisions.

The Local Government Act 1993 and the development of the Charter (Sec 8) now reinforces what the role of local government is and in the broader context what each local community requires as the needs of different communities are diverse. As mentioned in the papers the Allen inquiry for local government raised both the minimalist and maximalist views, in effect the minimalist view is too late, it is something that will not be achieved as I cannot see local government divesting themselves of roles which would place their communities at risk.

This is particularly evident in rural and remote areas where local government is already one of the major employers, they have had to take on additional roles and provide services to sustain their communities, they are major investors and support small businesses within the local economy.

Rural communities have experienced decline in the provision of services from both State and Federal Government and also from the private sector across a range of business sectors including the finance/banking and even agricultural sectors and whilst regional communities flourish as a consequence from regionalisation the surrounding areas being typical rural Shires and communities experience economic leakage which results in limited growth opportunities for surrounding areas whilst the regional areas continues to grow.

This is why it is important for IPART to look on the ground at various local government entities across the State and not just rely upon data gathered from a range of statistical reports. The sheer size of many rural Councils will highlight some of the recurring issues such as duplication of services and facilities, the difficulty of recruiting professional staff and the most critical of all is the ability to adequately maintain the road network which is the lifeline of rural and regional communities.

The continual cost-shift from State Government and the lack of access to a fair share of the Federal Governments taxation streams are two of the major impediments to the sustainability of local government. Local government needs an alternate revenue stream as we cannot keep burdening our communities with ever increasing rate burdens to effectively address the infrastructure renewal gap. Many local ratepayers do not have the capacity to pay the amounts that are required to fund the infrastructure renewal gap and this crisis is going to perpetuate even further as a consequence of climate change.

Furthermore it is unfortunate that whilst the NSW Government can impose a rate-pegging limit upon local government many government departments seem oblivious to this restraint on local government and continually build their departments knowing that whatever the cost they can just pass it on, the NSW Rural Fire Service is one clear example and this will demonstrated further on in my supporting papers.

Through the Local Government & Shires Association rating taskforce that has previously put forward submissions that would enable Councils to progress rate variation increases in a more transparent manner than at present, I find it difficult to understand why IPART has now been called upon to look at the revenue framework for local government. I hope that the work previously undertaken is taken into consideration when looking at the rate-pegging issue.

The following attachment is a broader response and includes a synopsis of Dungog Shire Council which will reveal a local government area that has been in "catch-up" mode due to the Councils past decisions of not taking up the rate-pegging limit in the early 1980's. It will further highlight some of the impediments to alternate revenue raising and the absolute lack of equity in relation to the "non-rateable" status of Government business entities. This problem will be further exacerbated in the not too distant should the proposed Tillegra Dam construction project proceed in our local government area.

Should you wish to discuss this situation further please do not hesitate in contacting me.

Yours faithfully



Craig Deasey  
General Manager



Dungog Shire  
Life as it should be

COUNCIL'S VISION:

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

The role of local government is diverse and is as much driven by the community for which it serves. The Charter as detailed in Sec 8 of the Local Government Act effectively provides the framework from which to build.

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

Rate-pegging for Councils is not effective, the existence of a rate-peg generally finds Councils lower service levels to fit the capped income stream as opposed to maintaining service levels. It is not transparent and the rate-pegging limit at times has been set on the basis of political influence without consideration of the economic consequences.

Rate-pegging also creates confusion within communities in regards to the manner in which it is applied across the general rates base, particularly in years of land revaluations.

In Dungog Councils case the 2006 revaluation resulted in significant land value increases in certain categories, particularly farmland with land value increases ranging from 22% to a high 700% and the average increase of 124% within this category. With the 20% capping introduced within the farmland category by the Department of Local Government associated with the impacts of the split of water values from properties in the farmland category this has resulted in no end of confusion for ratepayers within our Shire, with Council having to apply the rate cap to approximately 43% of all farmland assessments in the first year of the revaluation.

Whilst it is simple to explain that it is Councils overall rate income that is pegged it is difficult for members of the community to understand when there have been significant shifts in land values and large adjustments to the rates that are paid by some ratepayers.

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

The objectives should relate to the underlying principles of a fair taxation system being:

- a.) simplicity
- b.) transparent
- c.) equitable
- d.) efficient

That is also reinforced through the application of all other statutory fees and charges associated with the broader legislative base that local government works within also reflects a similar set of principles. Examples include Freedom of Information Act,

Environmental Planning & Assessment Act etc., where some of the statutory user fees and charges have remained unchanged since the implementation of the legislation.

Furthermore government business enterprises should meet local taxation requirements as opposed to the current legislative impost on communities.

**4. How does the current regulatory framework for Council revenue, or any alternate revenue 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?**
- **Enhance the accountability of local government?**

I cannot speak in positive terms as regards meeting any of the criteria. The Allen inquiry highlights the current plight of local government, how can local government continue to operate in an environment whereby even with the support of your community you cannot guarantee that you will receive a special variation in your rate income.

The work involved in gaining the confidence of your community to support a rate increase is significant, let alone the work involved in then having to achieve a “pass” mark from the Department of Local Government and finally the Minister. It is not an efficient or effective process let alone the ongoing reporting obligations once you have achieved such.

At the same time some of local governments other obligations under the Bushfire Act etc, can see local government incur significant increases in statutory contributions, which are in no way transparent or “capped”. These increases alone result in further reductions on service provision and impact on the sustainability of local government.

Furthermore how does the “non-rateable” status of a State owned corporation meet the principles of “competitive neutrality”. Dungog Shire is at present the home of Chichester Dam that is utilised to supply water to the residents of our Shire and the people of the lower Hunter. Hunter Water Corporation supplies water from this dam at a cost to users, pays dividends to the State Government but does not pay our community for the land under water from which it generates its revenue.

Council and the community is also awaiting determinations on the proposed Tillegra Dam which will be a further water supply dam for the lower Hunter to drought proof the lower Hunter and Central Coast. The proposed land that will be inundated is prime agricultural land and will result in a direct reduction in the rate income of the Shire in the order of \$80,000 p.a or in other words 2% of our rateable income. The question for IPART to consider is when will the above criteria equitably apply to State Owned corporations.

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

If there is any role for IPART to play it should only be in the provision of assisting in the determination of the rate-pegging limit if the State Government is not prepared to remove such.

The charges that apply in each local government area are different based upon circumstance and the need for that flexibility needs to continue particularly in relation to water supplies, sewerage services, domestic waste management charges. Furthermore there is local pricing for a range of fees and user charges that again differ based upon full cost recovery to subsidised user fees for swimming pool admissions etc. Accordingly it is recommended that if IPART is to have any role it should purely be in the area of general rate income increases.

**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 role of IPART should be determinative and provided by legislation so that the process is de-politicised. However that legislative mandate should be limited to the determination of the rate-pegging limit.

**Issues 7 to 9 not relevant to Dungog Shire Council.**

**The following responses are in relation to issues raised that have a greater importance to Dungog Shire Council.**

**10. 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?**

Quite frankly no. As implied within the letter to IPART you need to do some ground truthing on this subject matter. As the groupings of Councils has no consideration to the variances in natural barriers (topography, rainfall, isolation) let alone services that are provided or duplication thereof.

**11. How does the current regulatory framework impact on the efficiency of rate setting by Councils?**

The framework as it presently exists is inefficient and staff are reliant upon having to predict what the rate-peg limit will be which results in budgets having to be adjusted once the official rate is determined.

Coupled with the degree of statutory obligations when a Council does seek a special rate variation the ongoing workload associated with an approval under Sec 508 A is why Dungog Shire Council did not proceed down this path when seeking a special variation. Council identified that we needed to increase our rates base by 15% we were prepared to work on a 3% increase over 5 years but given the ongoing workload

such a process would require it was not an efficient process from a resource demand perspective.

**12. What is the current role of local government and its limits? Where does this role come from? Is it self imposed or is it legislated?**

As mentioned previously the role of local government is as much determined by the community which it serves. Many Councils have had to pick-up services to meet the needs of their community from aged accommodation, provision of medical services etc., the list would be as diverse as the communities in which we live.

Having said that local government is mindful of sustainability and is very cautious in regards to picking up additional services that should be the responsibility of the other tiers of government.

**13. What should be the limits on the role of local government?**

Again this will differ between local government areas but it as much will be driven by the community and how much they are prepared to pay for the various roles that local government now plays within the community.

**14. What infrastructure and services do councils currently provide?**

Again as mentioned previously this will vary dependent upon the locality of the local government area, more remote Councils have to provide a diverse range of services and infrastructure to support their communities.

Dungog Shire Council attempts to meet their obligations under the Charter as best as practicable, however in certain areas we can only afford to provide support for our communities to access services which in other local government areas provide i.e childcare services, youth services.

Dungog Shire Council previously operated water and waste water infrastructure for our communities, however the Council vested those infrastructure assets to Hunter Water Corporation effective 1 July 2008 to ensure that the Clarence Town Sewerage Scheme could be constructed. That decision by Council was made in the interests of our community and whilst it may well jeopardise the sustainability of Dungog Shire Council into the future the decision will result in the community of Clarence Town receiving a service that is more affordable as opposed to what Council would have been required to charge.

**15. What infrastructure and services should Councils be responsible for?**

This will be driven as much by the communities that Councils serve. The other tiers of government continually walk away from projects and leave it up to Councils and their community to keep on running.

**16. To what extent is there overlap with other levels of government?**

There is overlap and also conflicting boundaries that arise as a consequence of legislation in terms of service provision. This Councils experience with a recent LEP

amendment has seen nothing but absolute duplication and confusion by certain government agencies and their respective roles. The ideologies of the different agencies DECC, DPI and CMA certainly highlights that in terms of environmental issues associated with land use planning confusion as regards roles and responsibilities can “lock-up” matters for extensive periods of time.

**17. To what extent do service levels vary between councils in their scope, value and quality of infrastructure and other assets? And**

**18. What factors cause difference between Councils provision of infrastructure and services to arise.**

Service levels vary significantly between Councils and the major influencing factor associated with this is the financial position and the different funding levels that Councils secure for infrastructure.

The following case is one that Dungog Shire Council has been arguing about for the past 8 years in regards to Regional Road funding, where the Council has argued that the initial regional road block grant formula was on the basis that the infrastructure across the State was in a similar condition. The funding that is distributed has never taken into account the condition of the regional road network and it is time that this situation is addressed.

If one was to compare the condition of the regional roads within the lower Hunter the disparate funding distribution will highlight the underlying basis as to why the condition of the regional roads within our Shire are some of the worst in the lower Hunter.

The following is from the 2005/06 financial year:

<b>Council / LGA</b>	<b>State Roads</b>	<b>Regional Roads</b>	<b>Local Roads</b>	<b>Budget \$ Total revenue</b>	<b>Regional Roads Grant received per Km.</b>
<b>Newcastle</b>	<b>110 km</b>	<b>29 km</b>	<b>713 km</b>	<b>112M</b>	<b>29.3K</b>
<b>Lake Macquarie</b>	<b>146 km</b>	<b>38 km</b>	<b>1197 km</b>	<b>110M</b>	<b>27.4 K</b>
<b>Maitland</b>	<b>53 km</b>	<b>19 km</b>	<b>524 km</b>	<b>39M</b>	<b>11.4K</b>
<b>Port Stephens</b>	<b>123 km</b>	<b>56 km</b>	<b>545 km</b>	<b>52M</b>	<b>8.6K</b>
<b>Singleton</b>	<b>196 km</b>	<b>83 km</b>	<b>695 km</b>	<b>21M</b>	<b>7.8K</b>

Dungog	0 km	124 km	577 km	7M	6.3K
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The State road network takes the greatest proportion of the traffic volumes and with Councils having maintenance contracts with the RTA for State roads those Councils can also generate additional revenues whereas in Dungog Shires case we do not have that capacity and the level of supplementary funding for the regional road network such as the REPAIR program or the Timber Bridge replacement program requires Councils to contribute 50% of the funding. Our neighbouring Councils accordingly have greater financial capacity to meet their funding component.

Accordingly the regional road network in neighbouring local government areas receives a higher level of service as they are receiving a higher unit rate per Km of road for maintenance.

**19. To what extent are ratepayers satisfied that Councils provide services that are appropriate and delivered effectively and to acceptable standards:**

Council conducts a community survey every 2 years and our community continues to rate the condition of councils road network as the most important issue. They are not satisfied that Council is doing enough to improve the road network within our Shire despite the road network receiving the lions share of all funding from general purpose revenues.

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

Dungog Shire has an ageing population and without sufficient employment generators the continued loss of young people to the major regional centres is having an impacty on the social fabric of our Shire. Council seems to be attractive to the “tree changers” and their expectations of Council differ from the long term locals as there is a general push for more social services.

With inadequate telecommunications infrastructure this also poses an impediment for many tele-commuters that reside in the Shire, Councils non-resident ratepayers accounts for 23% of all rate assessments and this does impact upon the structure of the community.

In terms of climate change, Council is ear-marked as regards the proposed Tillegra Dam to secure the water supply of the lower Hunter & Central Coast for the next 60 years. The proposed Dam has already placed Councils resources under significant pressure in addressing the issues with our community, it will have a negative impact upon the Councils revenue base and depending upon the permitted activities on the proposed Dam it could result in even further negative financial impacts due to other demands being placed upon the Councils financial resources.

Additional impacts from climate change for many rural Councils has been the prevailing drought conditions and migration of their population that is reliant upon agriculture, this has not been a significant impact in terms of Dungog Shire in fact quite the opposite with



three major flood events in the past 12 months causing an accelerated decline of our road infrastructure.

#### **21-23 No response**

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

Councils expenditure requirements are likely to increase significantly in the future purely on the basis of the price of oil. Not just for the operation of plant and equipment in the road making sense but also the use of bituminous products as regards the road seal etc. Then you have the issue of finite resources, the ability to source large timber for maintenance works on timber bridges that Councils cannot afford to replace. Let alone other quarry products for road base etc., with environmental constraints the ability to source products is getting even more difficult.

As highlighted in the Allen inquiry the cost to bring infrastructure assets up to a satisfactory level is rapidly increasing and if not addressed shortly the infrastructure crisis will impact significantly.

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

The funds required to bring infrastructure up to a satisfactory level in Dungog Shire is at least 15 times the annual rate revenue this Council currently collects. Construction costs are rising at near twice the rate of inflation. With the current taxation system in Australia there is a need for funds to flow to local government as our ratepayers cannot afford to meet increasing rate burdens on top of their other expenses. This is particularly relevant for the pensioner population, the pension rebate has been capped by the State Government for many years and with an increasing ageing population the numbers of pensioner ratepayers will undoubtedly increase putting Councils under further financial pressure.

#### **26. Utilisation of loan funding as a means of funding priority infrastructure replacement.**

Council has relied upon loan borrowings to replace and renew infrastructure in particular timber bridges but with 46 timber bridges still to replace at an estimated cost of \$30Mil the Councils ability to service debt of that nature is limited. Council has reduced our timber bridge numbers by in excess of 40% in the past 10 years, however many of the bridges that will need to be replaced will require significant borrowings, if there was no debt service cost (interest) then the Council could actively begin reducing the numbers.

The Council will continue to utilise borrowings as a means of inter generational equity however the justification of raising loan borrowings to construct a concrete bridge that may only service 10 landholders in the future is something that the Council may need to consider long and hard into the future.

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

The main factor continues to be cost shifting from the other tiers of government, this has been identified in recent inquiries but once again nothing has been done to address the issue.

**28-29 see past comments**

**30. To what extent have Councils undertaken efficiency reforms and has this been effective?**

Dungog Shire Council is a member of Hunter Councils Inc., our Council is extremely reliant upon neighbouring Councils for assistance with a range of services. With a workforce of 65 EFT, there is a large degree of multi-skilled personnel within the Council. We have limited funds tied up in plant operations and Council is largely dependent upon external contractors to undertake a range of operations on our behalf. Is the Council more efficient and effective in some areas I would say Yes (4 day working week for outdoor staff) but in others No this is mainly due to profit factor that we pay external contractors.

Councils over the years have down-sized and now we are seeing issues associated with the skills shortage that may have been alleviated if the cadetships of the past (engineering, health & building surveyors) were still in place today.

**31 & 32. see past comments**

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

From Dungog Councils perspective the initial special variation increase that an application was made was in 1997/98 at that time the Council was seeking an additional 18%. The community pressure placed upon the Council resulted in a special variation of 6% being applied for, many of the Councillors of the day regret not holding their ground. Council then went back to the community in 2006/07 advising the community that we needed to increase our rate base by \$500,000 approx 15%.

Council in 2006/07 were unsuccessful in our application for 9.95%, we were successful in 2007/08 receiving an increase of 9.82% and again for 2008/09 8.24% was awarded our general rates base had to be increased to address our local road network, although 1% of the increase for 2008/09 will be applied to meet the increased contributions to the Rural Fire Service.

**34. Are special rate variations becoming the norm rather than the exception.**

Yes they are as Councils do have service obligations to their communities in terms of the Charter and accordingly they need to endeavour to protect and maintain the communities assets and infrastructure.

**35. see past comments**

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

Yes it is important particularly when looking at future infrastructure requirements. If a Council achieves the acceptance of their community they should not be denied such opportunity.

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

No. I would anticipate that the opposite would be more predominant as rate-pegging is making certain services less available as the subsidy from the general rate toward certain services would be in decline and there would be greater emphasis on user charges for some services as a consequence.

**38. In addition to the pensioner rebate scheme, are there any specific measures that could be introduced to address any social impact issues arising from the regulation of Council revenues?**

Adequate recognition of the cost shift impact and financial compensation for such and all government business enterprises be required to meet their financial obligations including the payment of general rates.