



REVENUE FRAMEWORK FOR LOCAL GOVERNMENT – IPART SUBMISSION

Griffith City Council has prepared this submission in response to an invitation by IPART (Independent Pricing and Regulatory Tribunal) to comment on the various issues outlined in the issues paper dated July 2008.

Griffith City Council has not provided comment on each and every issue outlined in the issues paper but has instead chosen those that it believes are the most significant and these are noted in the document as follows;

ISSUES

Griffith City Council identified the following IPART issues as being the most important to the submission and sought to provide comment on them;

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

Local governments are obliged to conform to the Local Government Act which acts as a guide for how Councils carry out their various functions and the principles by which they must abide.

The role of local government has altered over the years as a result of changes in legislation, changes in government(s) as well as through changing community needs. Cost shifting has impacted heavily on the funds councils has available for the services it provides. The role of local governments differ according to their locality, ie in rural areas, the local council is more likely to be a provider of a full range of services ie Water, Sewer, Storm water, Roads, Libraries, Art Galleries, Theatre, Visitors Centres, Museums, Waste, Noxious Weeds, Community Services etc and therefore their resources are spread more thinly whereas this may not be the case in larger or metropolitan councils that have economies of scale, large rating bases and fewer road networks. Unfortunately the decisions imposed on local government are made very much in isolation from the communities that they affect by different tiers of government.

Over the years, the services provided by councils have increased into areas that have not traditionally been the responsibility of councils including community services, economic development, multicultural services and the provision of cultural facilities such as art galleries and theatres. These services and facilities have come under councils operations through a mix of legislative changes and community expectations however the funding of them has been limited by rate pegging imposed by

State Government with little regard on how this affects local government and how it can fund these additional responsibilities.

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

Rate pegging was introduced as a means of imposing fiscal moderation and discipline on councils and has been maintained largely for political reasons. Rate pegging is really not an effective mechanism to control a council's expenditure as the outcomes of rate pegging merely result in lower service levels to ratepayers overall as the limitation on revenues is not even allowing councils to keep pace with the increases in operating costs. As outlined in the Allen report on local government financial sustainability, there is a large and growing backlog in council's infrastructure renewals which is directly related to a lack of funding with which to undertake such renewal programs. This lack of funding is largely related to rate pegging restrictions. Rate pegging does not allow for any differentiation between council areas, as some local government areas may well accept a higher level of rates to obtain a higher level of service however this is not possible under the current rate pegging environment unless special variations are requested (and thereby increasing an already onerous administrative burden on the council).

It is difficult to understand how each year's rate pegging limits are set as there is no communication in regards to the methodology on how the rate is determined therefore, how can such a system be measured in terms of its effectiveness or relevance to local government. It should be noted that NSW is the only state that operates a rate pegging regime for local government.

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

The objectives should be to enable councils to be differentiated in their ability to raise rates according to the particular needs of their communities and the service levels demanded.

Councils should be able to set fees and charges for services provided at market rates so that it can compete in the marketplace and increase revenue streams to increase viability.

The framework should be efficient and effective and not impose more regulatory burden on councils.

The framework must enhance the financial sustainability of local government

It should be fair and transparent so that all stakeholders can understand the framework and how it works.

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 and transparency?**
- **Enhance the accountability of local government?**

The current regulatory framework does little to meet any of the above criteria.

The restriction of councils raising rates and other income within a rate pegging environment cannot promote effective and efficient provision of services as it increases the requirement to prioritise and ration the services provided or to not provide a particular service(s) at all.

It does nothing to enhance financial sustainability of local government as it is a direct contradiction of that goal.

Whose standard does the imposition of rate pegging meet? It does not seem to serve any favourable purpose of local government.

The accountability of local government is not enhanced by the current regulatory framework. The limitations on councils by way of rate pegging and other revenue raising items is a mechanism widely recognized as a political tool of state governments and serves very little purpose for local governments in striving for financial sustainability and an optimal delivery of services to ratepayers.

The regulatory environment currently in place seems to contradict the objectives outlined by the Department of Local Government that encourages councils to engage and consult with its communities on the priorities and standards of service and yet places a restrictive regime on raising sufficient revenue to possibly meet those required levels of service.

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

Any role for IPART in setting rates should be in relation to setting the rate pegging limit only. Griffith City Council would be totally against any regulation on setting user charges for either core or non-core business activities. The setting of user charges must be done so with the knowledge of how, why and the extent of the service provided and this could logically only be done by an authority close to the provision of the particular service and taking into account all of the factors affecting the provision of the service in that local government area.

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?

Griffith City Council would endorse IPART having a determinative role provided by legislation in regards to the setting of any rate pegging limit only.

Questions 7, 8 & 9 have no relevance for Griffith City Council and are not responded to here.

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?

No, the framework needs to consider more detailed information of council's particular dynamics, such as the following;

- Population
- Industry base ie agricultural, manufacturing etc
- Proximity to other large centre's

- Climate
- Size

All of these elements can have a significant impact on the revenue raising abilities and therefore of councils capacity to adequately resource their operations.

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

The current framework requires councils to carry out sometimes quite complex rate setting modeling to ensure that rates levied do not exceed rate pegging limits overall. This requires valuable resources that do not add to any productivity but are for compliance purposes only. The rate setting exercise can be further complicated by having various categories of ratepayer ie Griffith City Council has 3 main categories with one category further split into 3 more sub-categories due to the state government bringing in a valuation change to remove the value of water entitlements from land values thereby creating further problems for council in establishing a rating base.

The current regulatory framework does not appear to promote a consultative approach with local government and there is significant disillusionment with it.

Question 12 is not responded to.

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

This would largely depend on the size, location, population and community demographics. Some rural council's provide the majority of infrastructure services as well as community and cultural services whereas metropolitan or very large regional councils would not provide all of these services. The relevant regulatory authorities and funding bodies need to take these factors into consideration when assessing the role of councils ie not one size may fit all or a consolidation of the number of councils should take place and then ensure adequate funding and revenue streams need to be available to effectively carry out the functions required by the various communities.

Councils have steadily been having costs shifted over to their operations for example;

- Funding for NSW Fire Brigades
- Rural Fire Service funding
- SES funding
- Cross subsidising State Electoral Office costs for elections
- Department of Lands – Valuation costs
- Meals on Wheels
- Control of noxious weeds

14. What infrastructure and services do councils currently provide?

This also depends on the location, size, population and community demographics however, it is probably reasonable to say that a large regional council like Griffith City Council provides the following;

- Water and Sewer services and infrastructure
- Stormwater / Drainage services and infrastructure
- Waste collection and disposal services and infrastructure
- Maintain, Design and construct roads
- Parks, Gardens & Sporting Ground maintenance
- Provide, operate and maintain various cultural facilities including Theatres, Museums & Art Galleries
- Provide, operate and maintain Aquatic Centre and Sports Stadium
- Provide, maintain and operate community cemeteries
- Provide, maintain and operate the Livestock Marketing Centre
- Provide Noxious Weeds control services
- Operate Visitors Centre and Libraries
- Provide Settlement and Multicultural services to the community
- Health and Compliance services provided
- Provide and maintain various community buildings and structures ie Senior Citizens Hall
- Provide and maintain Airport infrastructure

Question 15 has not been responded to.

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

There do not appear to be any notable areas where the functions and services provided by council overlaps with other levels of government.

Question 17 has not been responded to.

18. What factors cause differences between council's provision of infrastructure and services to arise?

There are many factors that can cause such differences to arise, some to note are;

- Availability of resources
- Changes to funding availability
- Changes in service priority by council or community
- Unexpected or emergency events
- Development activity
- Changes in legislation or regulations ie climate change, drought etc
- Requirements imposed by other levels of government

Questions 19, 20 & 21 have not been responded to.

22. What scope is there for council's to make greater use of user charges?

Not a great deal as councils would already be assessing the use of user charges and passing these onto the service user. In the case of Griffith City Council there may be some scope to pass on user charges in relation to the use of sporting ovals etc however, this must be balanced with the goal of

encouraging sporting activity and exercise which may be affected if charges such as these are levied or levied at too high a rate.

23. 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?

This is difficult to measure however, the annual rate pegging limits are not always set at a rate that even equates to an annual CPI rise ie 2008/09 the rate pegging rate is approx 3.2% whereas the all groups CPI for the year ending June 2008 was 4.5% therefore the rate of rates increase is not keeping up with even a basic measure of the increase in costs associated with providing services or the inputs used in providing a service.

Council does have the ability to raise non-rate revenues in relation to services not covered under the funding provided by rates however with rates revenue of approx \$11.0M, each 1% point difference in the rate pegging rate can mean lost income of at least \$110,000 per annum, at least in the current year.

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

This will depend on many factors including increases in external raw material inputs ie fuel, electricity, emulsion etc. Price increases in some of these items have increased by more than 10% in the last 12 months which places significant strain on council's funding availability.

Other factors that can affect councils' expenditure requirements are costs or services imposed by State or Federal Governments, natural disasters ie floods, storm events and drought, availability of staff resources to carry out services.

On balance, council would expect to see an increase of between 5% and 8% growth in operational expenditure requirements and increases in excess of 10% in relation to capital expenditure.

Questions 25 & 26 have not been responded to.

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

Some additional factors include;

- Volatility in global financial markets that impact on borrowings and also investment returns.
- Climatic conditions ie drought and the associated water management issues
- Grant funding availability and obtaining a fair share of funding from other forms of government.

28. To what extent does rate pegging affect financial sustainability?

By limiting rate revenue increases through rate pegging, councils financial sustainability is being impaired by lower levels of revenue overall. Council's may have to look to other forms of revenue

through higher user charges that may in some cases make the council unviable to potential developers or others who may have wished to reside in the LGA.

Rate pegging requires more administrative time and resource to implement and regulate and may also impact on the pace at which councils can implement projects or developments that may have long term benefits to the council and its ratepayers.

29. What are the appropriate measures for efficiency of local government?

The current use of KPI's is an effective measurement process however, the various councils need to be somehow grouped and ranked according to size, location and other suitable common measures that can provide a more accurate comparison of performance according to the particular local government body. The current measures do not offer a meaningful measure of individual councils' performance due to the vast differences in the councils operating dynamics and sizes.

30. To what extent have councils' undertaken efficiency reforms and has this been effective?

Councils have undertaken certain efficiency reforms via alliances or groups of councils' forming regional organizations of councils (ROC'S) to gain synergies and economies of scale in providing certain services ie waste collection, fuel purchasing contracts, delivery of environmental health services etc.

These types of arrangements have been highly effective and could be built on more in future.

Questions 31, 32 & 33 have not been responded to.

34. 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, applications for and the subsequent approval of special variations seem to be becoming more prevalent as a means for councils to increase their rating revenue. This appears to be borne out by the number (approx 33) of applications and the high number (32) of approvals for these.

Applying for a special rate variation is onerous and quite resource intensive and does not promote a good consultative environment with which to engage the community ie councils would be likely to require 2 sets of management plans to go to the community with (ie 1 assuming the special variation gets approved and another that does not).

It would be a much more efficient to remove rate pegging restrictions altogether and have councils justify there rates increase directly with the community who should ultimately decide what level the services of council are provided to them.

35. 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?

Rate pegging effectively constrains the aggregate level of rates and total revenue for councils however, it does not of itself promote an equitable levying of rates across all rate paying categories ie some categories of rate payers can pay up to 20% more in rates each year whereas others can be rated less therefore, the rate pegging regime does not always promote fairness and equity to all ratepayers and as a result is quite a flawed concept.

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

No, councils funding requirements change from year to year and the rating mechanism should be sufficiently flexible to accommodate those requirements.

In addition, the application process for a special variation is an onerous and time consuming one and removing rate pegging altogether would be a preferred outcome.

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

No, councils' costs to provide these services are not linked to the level of rates income provided. The reduction of available funding acts as a constraint on better service provision as more and more resources are prioritized to the services that provide the best outcomes or the resources are spread too thinly across many services in an attempt to provide some service level across a broader range of services rather than an adequate service level.

Questions 38, 39, 40, 41, 42 & 43 have not been responded to.

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

In the absence of removing rate pegging altogether, IPART should provide an independent assessment of the annual increase in rates allowable to councils' each year so that any political influence or bias is removed from the process and it maintains full transparency.

45. How should IPART's role be implemented (for example, by a legislative amendment giving IPART a determinative role or by a terms of reference from the Minister requiring recommendations from IPART)?

The preferred implementation would be through a legislative amendment giving IPART a determinative role.

Questions 46, 47, 48, 49, 50, 51 & 52 have not been responded to.

In conclusion, Griffith City Council has welcomed the opportunity to provide a submission to IPART on the Revenue Framework for Local Government – Issues Paper.