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HC-06-07-15
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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

SUBMISSION FOR IPART'S REVIEW INTO THE REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

Holroyd City Council is a unique and culturally diverse local government area that is reliant on rate revenue to provide essential infrastructure and services to its citizens. The ability of Council to do this has been limited by rate pegging and its effect on the generation of rates.

IPART's review into the Revenue Framework for Local Government is welcomed by Holroyd City Council. This review gives Council the opportunity to provide comments on the issues that are being considered and how they affect the sustainability, operation and efficiency of Council.

While 52 issues have been identified by IPART as being important for the review not all of them affect Holroyd. The issues that affect Holroyd have been commented on below.

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

Holroyd believes that rate pegging is not effective as it does not take into account various factors. The percentage increase in rates is the same for each Council regardless of their size, ratepayer's capacity to pay, level of service and infrastructure provided, type of properties in the Council area and growth.

Rate pegging creates an operating deficit because the increasing cost of providing essential services and infrastructure for ratepayers is higher than the percentage increase allowed under rate pegging. Revenue from sources other than rates is limited and cannot always be relied upon to bridge this gap. To reduce this deficit Council has had to reduce and/or review its ability to continue to provide certain services to ratepayers and has been limited in its ability to renew, upgrade or build essential infrastructure in the area as required by ratepayers. This type of financial balancing act cannot continue into the future.

Council's population is increasing due to migration and housing affordability in Western Sydney compared to other parts of Sydney. As a result there is a need for new and expanded services and infrastructure for the community, which Council is constrained in providing due to lack of funds, a situation created by rate pegging.

All Communication to be addressed to

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There has been an increase in development in the Holroyd Council area resulting in Council having to maintain and take ownership of new infrastructure. While there is no immediate need for renewal, there is ongoing maintenance and as the assets age the related asset maintenance and improvement costs will only increase.

To provide quality infrastructure and essential services Council requires qualified and capable staff. In order to attract and retain staff Council must offer competitive salary packages to compete with other employers and market forces. This is not always possible due to the lack of revenue available to Council related in part to the restrictions of rate pegging.

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

Holroyd believes IPART should play an advisory role to the Minister of Local Government. Ultimately, Councils should be able to set their own rates and charges based on the circumstances and requirements of their ratepayers, required levels of service and local government area. Each Council area and its community is unique and have differing requirements, which should be taken into consideration when setting rates and charges. However, Councils should be accountable to the Minister through the Department of Local Government with IPART acting as a reviewing body. IPART can play a valuable role in supporting the Government in determining statutory charges.

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

There are a number of factors that affect Council's levels of service. They are:

- Population
- Density of population
- Diversity of population
- Type and level of industry
- Amount of infrastructure and the extent of use
- Local demographic.

The variation of these factors between Councils can be significant.

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

There are a number of factors that cause differences between Council's provision of infrastructure and services, being:

- Population
- Density of population
- Diversity of population
- Type and level of industry
- Amount of infrastructure and the extent of use
- Local demographic.



Holroyd has a very culturally diverse population, one which is growing rapidly due to migration and housing affordability when compared to other parts of Sydney. A large percentage of this population is of a non English speaking background. These factors require Holroyd Council to provide additional community services and infrastructure.

Further, a significant percentage of Holroyd Council's population comprises of families including children and the aged. These citizens have specialised infrastructure and service needs. As a result Council is required to provide an increased level of parks, playground equipment, aged care homes and other essential services and infrastructure.

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

Holroyd City Council with its unique mix of cultures and ethnically diverse population is experiencing significant change and will continue to do so in the future. These changes contribute to significant revenue requirements to provide the essential services and infrastructure required by its citizens.

Holroyd is a culturally diverse LGA which is often a first point of settlement for new migrants. In terms of new migrants, Holroyd settled 7,900 new migrants between January 2003 and December 2007. 1,399 of these were Humanitarian entrants who require much more intensive assistance to settle into a new country, hence, the need for new services and programmes. Holroyd also has a larger proportion of new arrivals settling in the area when compared to the rest of Sydney with 21.5% of our migrants arriving after 2001.

Holroyd's aging population requires increased community services and infrastructure to match. On the other end of the scale Holroyd's increasing number of children and young adults require increased services and infrastructure like parks, playgrounds, libraries etc.

Another factor affecting Holroyd's future revenue requirements is the low capacity of Holroyd's residents to pay, in addition to rates, for essential services and infrastructure. As a result they rely on Council to provide free or subsidised services, community events and infrastructure, all of which increase in cost annually as costs of goods and services increases. Rates have not increased in line with the increase in the cost of living, which can be approximately gauged from the Consumer Price Index (CPI).

Council is faced with a major shortfall in funds available for the renewal, upgrade and construction of new assets and infrastructure. As the population increases, wear and tear on existing infrastructure increases requiring more frequent maintenance. The longer this maintenance is put off the higher the cost. For example, park maintenance costs are increasing due to increased wear and tear and water shortages. Further, new infrastructure is required to cater to changing conditions, needs and lifestyles of citizens. Legislative requirements contribute now and in the future to increased infrastructure requirements. For example, more traffic and transport infrastructure will be required to adhere to road safety laws as the population increases and traffic volumes rise. Increased fuel and living expenses require greater access to limited public transport creating further infrastructure costs.

A big factor affecting Council's revenue requirements is climate change. It will contribute to the increased deterioration of assets requiring increased renewal, upgrade and maintenance. Further, legislative requirements on Holroyd City Council like other Councils are increasing to become more environmentally friendly. For example, Councils are required to monitor their carbon emissions,



decrease pollution in their activities and make their plant and machinery environmentally friendly. All this contributes to an increased need for revenue to employ specialised staff, implement systems and procedures and purchase necessary equipment. The Emissions Trading Scheme is an example of a legislative requirement where Council incurs substantial implementation costs. There is also increased community expectation that Council will be the leader in environmental issues and provide funding and services where State Government contributions and services have ceased, often without extra funding. This puts extra financial burden on Council. In summary as state governments reduce the services they offer either through legislation or choice, the cost is shifted on to Council, without any extra revenue available to provide those services.

22. *What scope is there for Councils to make greater use of user charges?*

The scope for Holroyd City Council to make greater use of user charges is limited due to the “ability to pay argument” used before. Statistics show that the average wage in the Holroyd area is not very high compared to other local government areas. As a result its citizens do not have the capacity to pay for specific services often requiring Council to subsidise these services or provide them for free. Without some of these essential services ratepayers may be disadvantaged. Further, employment levels also affect ratepayer’s capacity to pay.

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?*

Over the years expenditure has grown at a rate greater than revenue, especially rates revenue. As the costs of good and services increases annually the gap between revenue generated and expenditure grows. Furthermore, this leads to Council increasing its fees and charges to cover full cost recovery for those services it may have subsidised in the past. This is essential to keep the gap between income and expenditure to a minimum. Holroyd Council is providing more services than ever before with no additional funding, some of which used to be provided by the state government. Council has looked at user charges to recover the costs for these additional services it is providing but citizens may be reluctant to pay since they may have initially been provided free of charge or at subsidised rates.

Holroyd Council relies on grants and subsidies to bridge the gap between income and expenditure but often grants do not keep pace with the ever increasing cost of good and services which can be gauged by the CPI. The State Government has ceased many of its grant funded programs, leaving Council with little option but to continue the service at its full cost.

In summary rates, grants and other income derived by Council need to increase in line with CPI as a minimum.

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

In the future Holroyd City Council will be faced with a lot of pressure for expenditure on areas such as infrastructure, salaries and wages, cost of goods and services, legislative requirements and a changing demographic.

Council’s infrastructure is coming to the end of its useful life and requires significant funding for renewal, upgrade and maintenance. Further, the increasing population in the area and changing needs of ratepayers will create the demand for new infrastructure.



The cost of employing and retaining quality staff will increase in the future. Quality staff is essential for Council to deliver increased services and quality infrastructure projects while complying with its legislative requirements. Some areas like planning are already experiencing a severe shortage which will lead to market forces driving salaries higher than normal.

Council's legislative requirements for Governance reporting and environmental issues are increasing all the time. For example, Council is now required to develop a strategic plan in line with the Department of Local Government's Integrated Planning and Reporting requirements. This requires employment of specialist staff, consultants and community consultation, all of which will require additional funding.

26. What is an appropriate level for the net liability ratio and what obstacles prevent local government from making greater use of loan borrowings (debt) as a means of financing priority infrastructure renewal/replacement?

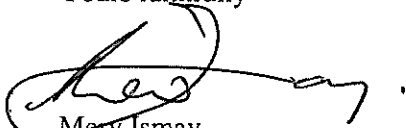
Holroyd City Council has a reasonably low level of debt when compared to some of the other Sydney Councils. The reasons for this are:

- Cost of borrowing too high
- Burden for current infrastructure and services on future generations
- Political
- Conservative attitudes towards debt.

Thank you for the opportunity given to Council to respond to IPART about this vital issue.

Further discussion would be welcome and you are invited to contact Council's Manager of Financial Services, Mr Sid Jain on (02) 9840 9777 or sid.jain@holroyd.nsw.gov.au.

Yours faithfully


Merv Ismay
GENERAL MANAGER