



29 August 2008

Mr James P Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Mr Cox

Subject: Review of Revenue Framework for Local Government

Lake Macquarie City Council is pleased to provide a submission to the Independent Pricing and Regulatory Tribunal's (IPART) *Review of Revenue Framework for Local Government*.

An investigation of Lake Macquarie City Council's estimated Operational Revenue for the 2008/2009 budget year, revealed that approximately 80 per cent is controlled externally, that is, Lake Macquarie City Council directly manages only 20 per cent of forecasted revenue. This is predominately because of over regulation and control by other levels of government.

This is the stark reality facing local government, the State and Federal Governments have control over the financial stability and long-term viability of local government.

Lake Macquarie City Council has continued to act in a fiscally responsible manner to achieve long-term financial sustainability. The key challenge is to manage and deliver community expectations within the demanding constraints of the budget process.

Please find attached a copy of Lake Macquarie City Council's submission. Should you require any further information, please do not hesitate to contact Council's External Relations Specialist, Kelly Lofberg on 4921 0587.

Yours sincerely

Brian Bell
General Manager

F2008/01261
ABN 81 06 027 868

"Quality Lifestyle"

Office of the General Manager - Lake Macquarie City Council

126-138 Main Road Speers Point NSW 2284 Box 1906, Hunter Region Mail Centre NSW 2310

Phone: 02 4921 0220 Fax: 02 4921 0215 Email: council@lakemac.nsw.gov.au Website: www.lakemac.com.au

Submission to the IPART Review: Revenue Framework for Local Government

Introduction

Lake Macquarie City LMCC (LMCC) presents the following submission to the Independent Pricing and Regulatory Tribunal's (IPART) Review into the Revenue Framework for Local Government.

The submission focuses on the changing role of local government and its ability to face increasing financial challenges. In order to deal with budgetary restraints, LMCC has developed a tool to forecast effects of spending decisions. An outline of this model is included in this submission as an example of LMCC's approach to financial management and fiscal responsibility.

Submission summary

1. Introduction
2. Changing role of local government
3. Financial constraints
4. Options for local government - Lake Macquarie City Council's working model for financial viability
5. Conclusion

1. Introduction

As the fourth largest council in NSW and the largest in the Hunter Region, Lake Macquarie City Council (LMCC) by its nature must provide leadership, particularly when dealing with difficult issues. The Review, *Revenue Framework for Local Government* is one such issue.

LMCC believes that it is well placed to deal with regulatory reform should the State Government be bold and adopt new measures to strengthen local government. This review process, while welcome, will only be effective when there is a holistic approach to reform. Reviewing any level of government in isolation will be based on flawed reasoning and therefore distort the recommendations which shape policy and legislation.

For example, the recent IPART review into State Taxation simply assessed the ability of the NSW Government to broaden the tax base, become financially more sustainable and less reliant on Federal funding. It did not examine how to improve the system in its entirety including all levels of government. As a result of this State-centric approach to reform, the recommendations fell short of community and LMCC's expectations.

This Review must look at the duplication of services between all levels of government, cost shifting without adequate compensation, and improving efficiencies. Only then will more funds be made available to service failing infrastructure and meet the growing demands of the community for the provision of services.

2. Changing role of Local Government

2.1 Role of Local Government

Local government provides a range of services and facilities to the community:

- construction and maintenance of key infrastructure (roads, bridges, drainage, waste management);
- regulation of local communities (inspection, licensing and regulation of food premises, animal and noise control);
- environmental management and planning; and
- provision of services for facilities for aged care, sport and recreation, library, culture and arts.

At the most basic level, local government provides a range of services at a reasonable cost to ratepayers. However, increasing costs particularly construction and maintenance costs and cost shifting by other levels of government, mean that financial sustainability is difficult to attain and will be increasingly difficult in the future.

As local government strives to meet its obligations of good governance, strategic planning, and advocacy while ensuring its residents can enjoy a sustainable high quality of life, there will be greater importance placed on long-term financial planning.

2.2 How the role of Local Government is determined

Constitutional responsibility for local government lies with States and Territories, which provide the legal framework for councils operations. Local government is heavily regulated by both state and federal legislation, which is onerous on the operation of LMCC. Reductions in the size of both federal and state public services and greater legal requirements are broadening the role of local government.

As the tier of government that is closest to the people, local government is at the coalface, and therefore best placed to deliver programs that suit local and regional conditions. LMCC has evolved for this reason from being responsible for just 'roads, rates, and rubbish' to a human service delivery focused organisation.

While there are no guidelines in NSW to assist local government to determine the range and standard of services, community demand will dictate the provision of services. As stated above, this is difficult while local government is constrained in terms of revenue raising capacity.

3. Financial Constraints

3.1 Rate Pegging

Since rate-pegging was re-introduced by the Wran government in 1977, LMCC's increase in general rates revenue has been generally limited to the rate pegging percent determined by the NSW Government.

According to research provided by the National Institute of Economic and Industry Research, increases in expenditure incurred by NSW councils over

the period 1996 to 2001 increased at a far greater rate than the movement in the CPI, or movements in salary and wages costs, over the same period.

For example, total planning and building costs increased over the period by 50 per cent, environmental management and health expenses by 44.9 per cent and leisure and recreation by 29.9 per cent. Meanwhile, the CPI grew by 11.3 per cent.

Here is the critical problem facing councils in NSW. If costs are increasing over time, and income is not permitted to increase at a rate that is, at least, equal to the increases in costs, then future financial sustainability is threatened.

Of course, LMCC has the choice to reduce and/or cease services or increase charges for services, and this review happens continually. However, this reaches a point where this threatens the delivery of fundamental, core services.

There is no question that the restrictions imposed by rate pegging are severely restricting councils' ability to meet the future needs and expectations expressed by our communities, let alone keep pace with existing demands being placed on councils.

LMCC does not accept that without rate-pegging, local government would raise funds that are not needed, or lose focus on initiatives to stay efficient and competitive. The community will continue to be the barometer for what it expects from both the elected Council and management.

3.2 Operational Revenue Restrictions

A review of LMCC's estimated Operational Revenue for the 2008/2009 budget year reveals that approximately 80 per cent is control externally, that is, only 20 per cent of forecasted revenue is directly managed by LMCC.

As stated above, this is predominately because of over regulation by other levels of government. To this extent, the State and Federal Government have control over the financial stability and long-term viability of local government. Local government in NSW is dependent on government welfare and as a result, continually lobbies for more assistance and more importantly greater autonomy.

At Lake Macquarie, Operational Revenue under external control includes:

- Fees and charges set by legislation or regulations;
- Revenue restricted by rate pegging;
- Grants and subsidies from the State and Federal Governments; and
- Caravan park revenue, restricted by the State Government to be only be spent on caravan parks.

Revenue Description	Amount (\$)
Total Controlled Revenue	112,886,697
Total estimated Operational Revenue – 2008/2009	141,654,688
Percentage externally controlled or restricted	79.69%
Percentage externally controlled or restricted (excluding caravan park revenue)	77.80%

Even after the exclusion of the caravan park revenue, nearly 78 per cent of estimated Operational Revenue for 2008/2009 is still under external control. Very few organisations in the private sector could succeed under these conditions.

3.3 Cost Shifting

Financial sustainability for local government is critical and is increasingly more difficult to achieve. Growing community expectations for services and facilities, rising operational costs, and cost shifting from the State Government has resulted in a continuing process of budget cutting, searching for internal efficiencies, and an increasing reliance on grant funds. This is simply not sustainable in the long-term. Local government will continue to struggle unless it is able to change public perception about the value and range of services provided.

The State Government effectively controls the levels of financial resources available to local government, regardless of LMCC's efforts to improve its revenue base or distribution of funds.

Cost shifting simply means that local government provides a service on behalf of another tier of government without adequate funding for the provision of that service. The transfer of responsibilities, without adequate financial compensation, will always put additional financial pressure on councils that are left to continue to provide the service.

The burden of legislative change has also placed increasing cost pressures on councils, particularly in relation to compliance with SEPP's and other planning legislation. These additional demands have come without appropriate increases in revenue to cater for the additional costs of administration and implementation.

Although LMCC's costs to maintain these activities continue to increase significantly, it does not have the capacity, or flexibility within the legislative framework, to increase revenues accordingly. The difficulty LMCC faces is that once the service is provided, there is a community expectation that the service will continue.

The Local Government Act 1993 (NSW), Section 8 refers to the council's charter, specifically;

to provide directly or on behalf of other levels of government, after due consultation, adequate, equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively.

The Local Government Act fails to recognise or address the additional cost to local government of providing services on behalf of other tiers of government. Reform of the revenue framework for local government should include amending the Local Government Act to offer financial protection for the provision of additional services on behalf of other levels of government.

The Federal Government Response to the Hawker Report, "Rates and Taxes: A Faire Share for Local Government" acknowledged significant cost shifting occurs. The Government also supported the recommendation that local government be represented wherever they have a direct role in developing and implementing programmes, services, and facilities on behalf of other levels of government. While this acknowledgement and support is welcome, in practice a seat at the table is insufficient protection for local government.

4. Options for Local Government

4.1 IPART options

IPART has identified five options for alternative regulatory frameworks, these are:

1. Retain existing rate pegging arrangements;
2. Implement a more disaggregated form of rate pegging which incorporates cost indices relevant to each council (or groups of councils);
3. Reduce the scope of rate pegging;
4. Maintain rate pegging power but promote greater freedom by exempting individual councils from rate pegging subject to a mandatory demonstration of:
 - financial accountability and governance;
 - financial sustainability;
 - comparative efficiency and effectiveness indicators (including affordability and availability of local services and facilities);
 - ability to achieve the above objective criteria over a 10 year time frame through an approved and independently audited management plan. This audited plan could be tabled in Parliament and made publicly available. This option may require regulatory changes to current Management Plans prepared under the *Local Government Act 1993* - Chapter 13, Part 2 Management Plans; and
5. Institute measures to enhance accountability to the local community and remove mandatory rate pegging.

LMCC believes strongly that rate pegging should be abolished; therefore, the first three options above could not be supported. Rate pegging does not exist anywhere else in Australia. Last year New Zealand reported on local government rates and recognised that councils should be entitled to set their own fees and charges. This fact was referred to in IPART's terms of

reference, however was dismissed due to the scope of responsibilities that New Zealand councils deliver compared to Australian councils.

Simply, the retention of rate pegging by the State Government will only further threaten the long-term viability and financial sustainability of councils in NSW.

LMCC supports the final two options listed above and has already commenced a program of internal reform to reflect the structure described in option four. Section 4.2 will further explain steps taken by LMCC to implement this strategy.

4.2 Lake Macquarie City Council's Preferred Model

This year LMCC has endeavoured to increase community consultation by developing the first *Lake Macquarie Community Plan 2008-2018*, which sets out the aspirations, needs, and priorities of the people of the City.

The General Manager, Mr Brian Bell states in the introduction of the document,

"Many of the aspirations put forth by the Lake Macquarie community will be unachievable under the current financial situation and funding availability from the State and Federal governments. However, the Lake Macquarie Community Plan 2008-2018 will allow future councils and the community to work towards funding what they see as their affordable priorities. With this framework in place, such future decisions will be made easier."

LMCC recognises the importance of engaging the community in setting the long-term priorities of the City and the financial difficulties that this presents. As a result, LMCC has undertaken to incorporate a 10-year financial model as part of the budgetary process to better calculate long-term spending decisions in both the 4-year plan and annual management plan.

The financial model will calculate how any spending decision will affect LMCC's budget over the 10-year cycle and importantly how that impacts on other departments concurrently competing for funds.

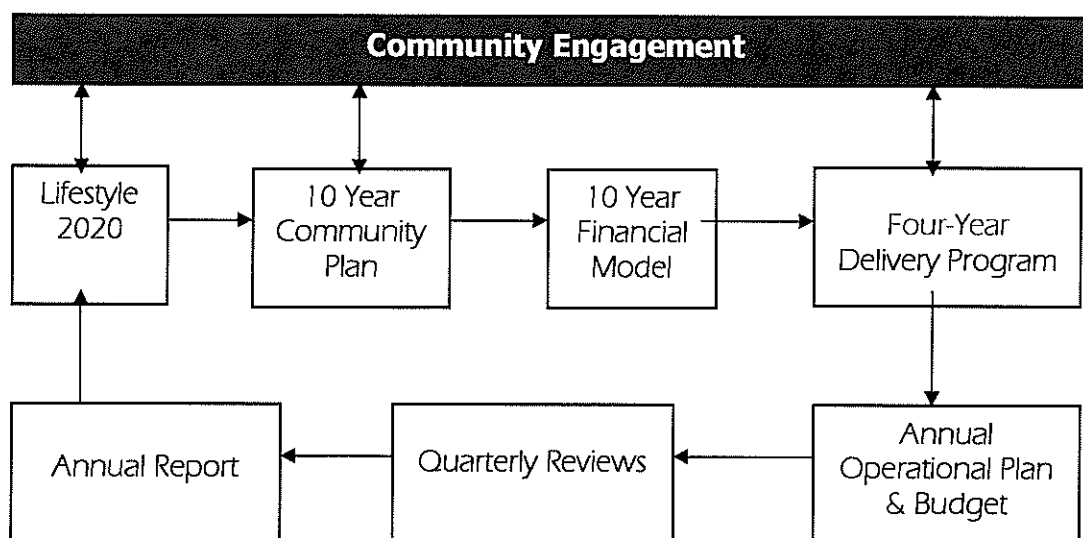
After reviewing and rejecting many commercially produced financial planning modelling software, LMCC's staff have built a simple, functional multi-year financial model. The program is capable of modelling scenarios and plotting the impacts of those scenarios on LMCC's operating statement and balance sheet. It allows LMCC to factor in known and anticipated changes in projects and services in a way that greatly enhances our decision-making.

This is a strategically important change to internal procedures and is a model that could be utilised by other councils able to demonstrate efficient and sound management practices.

4.3 How the Lake Macquarie Community Plan works

LMCC developed an Integrated Planning Framework that aligns organisational planning, processes, and performance to the Lake Macquarie 10 Year Community Plan. The framework consists of the following:

- **Community Engagement** – the various strategic and operational documents that comprise LMCC’s planning framework are a collaboration of what the community told us and the resources required by LMCC to achieve these.
- **Lifestyle 2020 ‘A Strategy for our Future’** – sets how priorities for the City are identified, and cascaded into increasing levels of detail throughout the ten, four and one year plans and budgets.
- **10 Year Community Plan** – provides broad based short, medium, and long-term priorities, directions, objectives, financial planning, and asset management strategies, to ensure long-term sustainability and wellbeing for the city.
- **10 Year Financial Model** - is capable of modelling scenarios and plotting the impacts of those scenarios on LMCC's operating statement and balance sheet.
- **Four Year Delivery Program** – outlines how (via actions) LMCC will deliver the community plan’s strategic objectives.
- **Annual Operation Plan and Budget** – is a financial and resource allocation plan that identifies services and activities to be carried out over a 12-month period. The plan will also provide a succinct review of our performance against specific progress indicators.
- **Annual Report** – reflects and reports on LMCC’s objectives, operations, and performance for the financial year.



4.4 Reporting on Lake Macquarie's priorities and achievements

To assist in efforts towards creating a sustainable community, LMCC has adopted four wellbeing indicators that integrate governance with the three levels of ecological sustainable development: social/cultural, environment and economic.

Whilst carrying out the plan, there will be quarterly reviews where LMCC will formally monitor, evaluate, and assess its progress towards implementation of the city's priorities and objectives. Progress reports will be available to the community on the city website www.lakemac.com.au.

The plan will be reviewed and extended every four years following local government elections and will involve further consultation with the community to ensure the plan still reflects the community's aspirations and needs.

The long-term financial sustainability of any organisation must take into account a number of critical financial indicators such as:

- The continued achievement of an Operating Surplus in our Income Statement;
- Manageable levels of debt;
- Appropriate maintenance of our assets; and
- Maintenance of appropriate levels of liquidity.

Conclusion

In a very unsettled financial climate for local government, LMCC has continued its tradition of financial responsibility. LMCC is highly regarded within the sector for its approach to financial management and fiscal responsibility. Variations in rates have gone some way to meeting community expectations and priorities, however LMCC's budget is highly constrained in delivering large capital programs.

To this end, LMCC is now well advanced in the preparation of a 10 Year Community Plan which will set down a long term blueprint for the delivery of works and services to our community within a framework of financial sustainability.

Significant consultation has already occurred with the community and other stakeholders as part of this process and LMCC is in the process of constructing detailed affordability profiles for the delivery of the community's expectations.

The key challenge before the LMCC is to manage and deliver these expectations, within the demanding framework of long term financial sustainability.

LMCC recognises that there needs to be cooperation between the three levels of government to deliver large-scale projects, however there is significant scope to reform how local government raises revenue. Granting greater

autonomy to local government would provide considerable opportunity for better delivery of facilities and services to the community.

It is hoped that the State Government is truly motivated to implement significant changes to the revenue framework of local government, and develop one that enhances the relationship between the two levels of government rather than a continued system of one significantly controlling and restricting the other.

Contacts regarding this submission:

Mr Brian Bell
General Manager
E: gm@lakemac.nsw.gov.au
P: 02 4921 0145

Ms Kelly Lofberg
External Relations Specialist
E: klofberg@lakemac.nsw.gov.au
P: 02 4921 0587 M: 0419604553