



## Macarthur Regional Organisation of Councils

Submission to the Independent Pricing and Regulatory Tribunal

Issues Paper: Revenue Framework for Local Government

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## Executive Summary

The Macarthur Regional Organisation of Councils (MACROC) welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal Issues Paper on a Revenue Framework for Local Government (2008).

As acknowledged in the Issues Paper Local Government provides a range of essential services to local communities and is the tier of government closest to the people. Rates and charges are a major source of funding for local government so it is essential that any revenue framework support their ability to adequately provide these services.

MACROC would argue that the NSW Government's longstanding commitment to rate pegging (in operation since 1977) has restricted Councils' ability to provide infrastructure and services and has reduced their financial viability. This Review provides a unique opportunity to create a framework that will ensure that Councils can sustain the level of service required by the communities they serve.

MACROC would like to make the following recommendations:

1. MACROC believes that the current regulatory framework constrains Council's revenue, limiting its capacity to meet the needs of its community and that if there is not substantial change to this framework Councils will be placed in the position where they will not be able to maintain the level of service expected by their communities. Any alternative revenue framework needs to have the capacity to reflect current financial conditions and adapt to future conditions.
2. MACROC believes that this Review should take into account the overlap between Local Government and other levels of Government and look at a regulatory framework that acknowledges a need for coordination and integration.
3. It is essential that Local Government is equipped with the financial capacity to provide their community with the broad range of services and facilities that meet the community need and expectation. For this to happen there needs to be a 'tri-partisan' approach, a shared vision between all three levels of government.
4. The MACROC Councils each have a preferred option for a new regulatory framework and as a result, a view on the role that IPART would play within that framework. MACROC believes that whatever framework is adopted as a result of this Review it should facilitate efficient and effective provision of Local Government services, increase Council's ability to achieve financial stability and enable Councils to develop and maintain a robust financial framework.

5. There are important long-term financial implications for Councils that have land within the Growth Commission Centres. These Councils will have their financial sustainability affected, as they will be required to support, from their existing rate base, future infrastructure generated as a result of planning strategies initialised by the GCC. MACROC would recommend that IPART propose a legislative or regulatory framework to ensure Councils can recover costs and services towards infrastructure not currently provided for under the GCC's 'Special Infrastructure Contribution Practice Note', that they have to meet from Council's general revenue.

## The Submission

MACROC is made up of Member Councils Camden, Campbelltown and Wollondilly. These Councils form the Macarthur Region situated in the south west of Sydney comprising an area of 3,067 km<sup>2</sup>. The Region has a population approaching 240,000 and has some 17,600 businesses.

The South West is a region on the brink of unprecedented growth. The South West Growth Centre (SWGCG) is located within the Macarthur Region and the Region as a whole is targeted to be one of the major growth areas for Sydney, with an expected population increase of 277,000 by the year 2031.

The MACROC Councils have a strong history of working together to achieve regional outcomes and while each maintains its own unique identity, all acknowledge the importance of collaboration and resource sharing in maximising positive outcomes for their residents.

Each of the Councils of Macarthur has made a submission to the Tribunal. MACROC supports these individual submissions and would hope that the IPART Review would take into consideration these submissions, together with the comments submitted by MACROC in this document, in their review of a Revenue Framework for Local Government.

This report seeks to consolidate some of the recommendations made by the individual Councils and based on those, make recommendations from a regional perspective.

The IPART Issues Paper identifies fifty-two separate issues that it is seeking comment on.

MACROC will not address all fifty-two issues in this submission but will make comment and recommendation on three broad issues that relate to the terms of reference of the Review as indicated in the Issues Paper, namely:

- The role of Local Government and its regulatory framework.
- The future role of IPART.
- Other government agencies and their impact on Local Government revenue.

## The Role of Local Government and its Regulatory Framework

### **What is the role of Local Government and how is it determined?**

The role of Local Government has changed substantially since the first local government areas were established under the Municipalities Act 1858. Since the 1960's there has been a shift away from the earlier property based services, "rates and rubbish", toward the provision by Local Government of human services. Over the past 15 years fundamental changes have been made to the way Councils do business and the focus has been on internal restructuring, financial management, strategic planning and benchmarking, as well as the application of the principles of competition.

The role of Local Government in New South Wales is determined by various pieces of legislation. The Local Government Act 1993 provides the major framework for improvement and change in Local Government. However for Local Government to be successful there needs to be a shared vision and commitment between the three tiers of government: Commonwealth, State and Local Government. Such a 'tri-partisan' approach is essential if Local Government is to be able to meet the aspirations of their communities.

**Comment:** It is essential that Local Government is equipped with the financial capacity to provide their community with the broad range of services and facilities that meet community need and expectation. For this to happen there needs to be a 'tri-partisan' approach, a shared vision between all three levels of government.

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

Local Government finances are under increasing stress and this impacts on their capacity to deliver services, as well as to develop and maintain infrastructure.

Rating is the only taxation measure available to Local Government. This narrow tax base puts pressure on Council's capacity to raise revenue. The current system of rate pegging further increases this pressure.

All Councils increasingly rely on user fees and charges. Currently Local Government has a much higher cost recovery rate than other levels of government, in part suggesting that Local Government have already maximised fees and charges as a revenue source. Apart from the increasing resistance of communities to increases in fees and charges there is also the issue of equity. Local Government is bound by its mandate to ensure that all members of the community should have equal access to Council services.

Councils on the "urban fringe", such as Wollondilly Shire Council face particular difficulties in term of revenue. Wollondilly has a large geographic area with correspondingly large lengths of road to maintain but with a relatively small number of rateable properties. Because of this comparatively low rate base Wollondilly constantly reviews its service delivery in terms of what services it can provide with limited resources.

Grants provide Council with another income stream. Grants to Local Government have been steadily declining over the past twenty years. The level of special purpose grants has also declined, particularly in the areas of roads, water supply and sewerage.

Compulsory pensioner rate concessions place an additional financial burden on Councils. An ageing population has meant that the cost of these concessions has increased substantially. Many Councils would argue that pensioner concession rates constitute a form of welfare benefit and as such should be funded by the Commonwealth Government.

**Comment:** MACROC believes that the current regulatory framework constrains Council's revenue, limiting its capacity to meet the needs of its community and that if there is not substantial change to this framework Councils will be placed in the position where they will not be able to maintain the level of service expected by their communities. Any alternative revenue framework needs to be based on methodology that reflects current financial conditions and has the capacity to adapt to future conditions.

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

If Local Government is to increase its relevance then Councils need to work together to improve their performance.

Over the last 15 years the Councils of the Macarthur Region have all responded positively to the challenge of continual reviewing, monitoring and improving all aspects of their performance. They have done this on an individual basis but they have also recognised that by looking at models of regional cooperation and resource sharing they can maximise and improve service delivery to their communities.

One example of resource sharing on a regional basis in the Macarthur Region is the establishment of the Macarthur Resource Recovery Park. The MACROC Councils and Wingecarribee Shire Council worked with the private sector to create this state of the art waste management facility where technological solutions are used to treat waste as a resource. Waste at the site, rather than being used for landfill, is converted into products such as compost and green energy.

Collaboration between different local government authorities and with other levels of government, as evidenced by the successful Macarthur Resource Recovery Park, provide better use of resources and better outcomes. The State Government need to work with Local Government to make better use of limited resources in order to provide better services to communities. At present policy coordination between State Government agencies as well as between State and Local Government is poor and often as a result resources are not maximised.

**Comment:** MACROC believes that Local Government should continue to explore regional cooperation as means of maximising service delivery. It also recommends that this Review acknowledge the overlap and current lack of coordination that currently exists between Local Government and other levels of Government and seek to develop a regulatory framework that acknowledges the need for coordination.

**What changes are affecting Councils now and their future revenue requirements?**

Local Government faces financial pressures as a result of a number of factors including an increase in community expectations; cost shifting; devolution; raised standards; additional legislative requirements; decrease and short term nature of grant funding; increased costs including wages, maintenance and construction costs and changes to the demographic profile of the community.

Local Government has to respond to these increased demands and expanded responsibilities within the current framework of restrictions on local government revenue raising. Local communities increasingly demand more of their Council. There has been increased expenditure in the human services area (education, welfare and public safety for example) as well as an expansion in the areas of planning and environment.

There are legislative reporting requirements that have increased, for example the Local Government Act's requirement to produce State of the Environment Plans, Social Plans and Management Plans. The recent changes in the Environmental Planning & Assessment Act 1979 will create a future financial burden for Councils and changes to private certification of building approvals will also reduce a source of revenue.

**Comment:** There are many changes that can affect Council's revenue stream. In the context of this Review it may not be possible for IPART to devise a framework that allows for all the changes that might occur. However MACROC would suggest that there be some flexibility within a new revenue framework that can allow for the impact of "change" on Local Government's revenue requirements.

**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?**

MACROC believes that rate pegging has severely limited Councils revenue growth and that it has forced Councils to pursue non-rate revenue to keep essential services functioning. While rate revenue can be predicted, non-rate revenue is dependent on the take up of services by users and because of this is not so easy to predict.

The Local Government Sector will continue to face increased expenditure requirements in the future and if Local Government is to play an effective role in increased provision of infrastructure and services they need an adequate revenue base that remains financially sustainable.

The shift away from traditional property based services towards human services provision, legislative or regulatory constraints such as rate pegging, the devolution of function or responsibility from another sphere of government, cost shifting, increased service standards and community expectation as well as changing demographics and increasing costs for wages and maintenance and construction costs, all impact on Councils financial sustainability.

**Comment:** If councils are to play an effective role in increased provision of infrastructure and services they need a financial framework that provides them with an adequate revenue base that remains financially sustainable.

## The Future Role of IPART

### **What role should IPART play in setting Local Government rates and charges including charges for non-business activities?**

The purpose of this Review is to recommend a framework for regulating rates and charges. To be effective such a framework should promote effective and efficient provision of local government services, enhance the financial stability of local government, meet the standards of good regulation and taxation and enhance accountability of local government.

In the Issues Paper IPART identifies the following five options as alternative regulatory frameworks:

1. Retain existing rate pegging arrangements (but be more transparent in how the rate is determined).
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 to cover only Local Government revenue needed to fund operating expenditure
4. Maintain rate pegging but promote greater freedom by exempting certain Councils upon demonstration of a number of requirements, or
5. Institute measures to enhance accountability to the local community and remove mandatory rate pegging.



The role of IPART in setting Local Government rates and charges will of course depend on which regulatory framework is adopted.

Depending on the framework adopted as a result of the Review, IPART could either have a determinative role, in which IPART sets the cap on any increases in rates and charges or a recommendatory role in which IPART makes recommendations on maximum increases in rates and charges and the Minister for Local Government remains responsible for the final decision.

**Comment:** The MACROC Councils each have a preferred option for a new regulatory framework and as a result, a view on the role that IPART would play within that framework.

MACROC believes that whatever framework is adopted as a result of this Review it should facilitate efficient and effective provision of Local Government services, increase Council's ability to achieve financial stability and enable Councils to develop and maintain robust financial frameworks.

## Other Government agencies and their impact on Local Government revenue

As part of this Review IPART is also charged with making recommendations for a framework levied by certain public authorities. Of the agencies listed only the Growth Centres Commission (GCC) has relevance to the MACROC Councils.

The Growth Centres Commission was established by the NSW Government to ensure that new development in the South West and North West Growth Centres proceeds with infrastructure and services planned, funded and linked to the sequential release of land. The GCC is similar to a development corporation in that it has planning, development and financial management capabilities. Some of its functions overlap with the functions of Local Government, however the GCC has its focus on land use planning, not on the delivery of services and the levying of rates. Local councils with land that falls within the Growth Centres are responsible for these.

Both Camden Council and Campbelltown City Council have land within the South West Growth Centre.

Camden Council and the GCC have worked in a collaborative manner to release the first of two major rezonings in the South West Growth Centre Corridor (Oran Park and Turner Road).

From Camden Council's point of view the issue is that the GCC are not providing Local Government services, rather they are facilitating the accelerated delivery of land for residential and industrial use. This means that pressure is placed on Council's budget to deliver additional services.

For Campbelltown City Council these two major rezonings will also have a major impact on Council resources. These precincts rely on the construction of an arterial road linking them to Campbelltown CBD. Construction of this new four-lane road, Badgally Road, is funded by \$43m from the GCC's Special Infrastructure Contribution. However this funding will only cover construction of the road to the boundary of the Campbelltown LGA. This four-lane road will turn into an existing two-lane road. As a result Campbelltown City Council will be forced to displace its funding strategy so that it can fast-track an upgrade to Badgally Road.

The GCC's mandate overlaps and duplicates that of Council in a number of areas. It is possible that some of the services that the GCC supplies may deliver savings to Local Government, however the GCC's focus does not involve the delivery of municipal services or the imposition of property rates on property developers. Councils with Growth Centres land will continue to be responsible for delivering these services and for levying rates. And GCC Councils will also have to support the future infrastructure needs of Growth Centres development from their existing rate base.

**Comment:** While it is anticipated that some services provided by the CGG may deliver limited savings to Councils in the short term, there are important long-term financial implications for Councils with GCC land. Councils' financial sustainability will be affected, as they will be required to support, from their existing rate base, future infrastructure generated as a result of planning strategies initialised by the GCC. MACROC would recommend that IPART propose a legislative or regulatory framework to ensure Council's can recover costs and services towards infrastructure not provided for under the GCC's 'Special Infrastructure Contribution Practice Note'.

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