

Local Government Mailbox

From: Stephen Molloy [stephen.molloy@snowyriver.nsw.gov.au]
Sent: Friday, 29 August 2008 1:57 PM
To: Local Government Mailbox
Subject: Submission to Review of Revenue Framework for Local Government

Dear Sirs,

Snowy River Shire Council would like to make the following comments in relation to the Revenue Framework for Local Government Issues Paper.

In setting an annual limit on increases in rates and charges proper consideration needs to be given to the many factors that are outside control of councils. More and more councils are being asked to contribute additional funds to State Government departments and bodies such as the Rural Fire Service and Electoral Commission. These State departments are not subject to any pegging or capping in the charges that are handed down and the costs that have been passed down to councils have increased dramatically over the past 5 years. Councils are also at the mercy of decisions that are made on its behalf by State Government.

Quite often increases in charges come as a shock to councils which make planning and budgeting hard. A prime example of this is the huge increases in the costs of running the local government elections this year. Our council had a total cost of \$24,000 to run the 2004 elections and made estimates that the next election would cost in the vicinity of \$30,000 and put money aside in reserves on this basis. Now we are told that we are likely to be charged a total of around \$70,000 a \$40,000 difference and nearly 300% increase. Despite our best efforts at planning for this we are still faced with an additional \$40,000 that we will have to find elsewhere. Other services will suffer in order for us to fund the election. Had the rate pegging increases been applied to the costs of running the election we would be paying closer to \$28,000 a saving of \$42,000 on current estimates.

Council is different to many businesses in that choices are made on its behalf by the State Government. This can mean that a council is forced to spend funds in order to comply with an order that it would not necessarily have spent had it been able to make the decision itself. A recent example of this is the mandate that all councils will choose the fair value method over the cost method under AASB 116 for valuing property, plant and equipment in the financial statements. This means that councils now need to engage professionals to ensure valuations are done correctly which can cost tens of thousands of dollars. Had the cost method been chosen there would not have been the need for additional expenditure. While it is acknowledged that such decisions are necessary for consistency purposes it is again left to councils to find the necessary funding to meet the requirement and this is often at the expenses of other services.

External factors, such as fuel costs and insurance costs, are another area that should be considered when setting rate pegging limits are set. Again costs have increased dramatically over the past five years and well in excess of rate pegging limits imposed on council.

While rates and charges are the only components subject to rate pegging legislation council's options can be limited in raising additional revenues from other sources. Grants are generally tied to specific projects or programs and are rarely for the funding of general council activities. While grants may be able to assist in the building of infrastructure they do not allow for transfer to reserves to fund the replacement of existing assets and infrastructure. Grant monies are not necessarily available as a long term source as the priorities of the bodies providing them can change and as such they cannot be relied on as future income. Some other fees are set by statute and do not necessarily reflect the current cost of providing the activity. An example of this is the Development Application fees that

are set in the EPAA.

Current rate pegging is a one size fits all approach which is not necessarily reflective of all the sizes and locations of councils across the state. Cost structures of high density urban councils will be very different to those of lower density rural areas. Cost pressures also vary from council to council across the state depending on many factors.

One of the key arguments for a rate pegging system is that it imposes fiscal discipline on council's and forces them to control expenditure and make savings through efficiencies. Given the current issues being faced by many councils throughout NSW in terms of their financial position and lack of reserves for infrastructure replacement it could be argued that the system has not worked as planned and has placed undue financial pressure on councils. While councils can directly control many of its costs many more are outside their control and are imposed by other levels of government or external parties. Given the restrictions on the increases in rates councils are able to make these increased costs have to met by either reducing current services or reducing investment in future capital works and leading the problems we are experiencing.

Consideration also needs to be given to our aging population and the rebates that councils are required to make though the pension scheme. This will only put further pressure on council's financing over the next five to ten years if it is not addressed correctly now.

Moving forward it is important that councils operate as efficiently as they can and ensure that all costs under their direct control are monitored and managed properly. The implementation of the community strategic plans and longer term financial plans will focus councils on long term goals and spending that may also address some of the current issues being faced. However, there is still the problem of the imposition of costs either directly or by way of decisions taken on behalf of council's impacting on the finances of council and this needs to be addressed in a review of rate pegging levels.

One solution to many of these problems would be to allow councils to recoup certain types of expenditure outside its control as general revenue over and above the rate pegging limits. This could include additional charges from State Government bodies and costs such as fuel or insurance. It could also include the costs that have to be incurred as a result of policy decisions made on council's behalf. This would ensure that a council's revenue base is maintained and that funds do not have to be diverted from services or infrastructure investments in order to meet costs outside the control of council. It would also help in some regard to the one size fits all approach of the current rate pegging system in that council's would be able to recoup costs it has actually had to occur which will obviously differ from council to council.

We would like to thank you for the opportunity to provide input into the review and look forward to reading your findings.

Yours faithfully

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