

File Ref: CRMS 770475635

28 August 2008

Mr James Cox  
Review of the Revenue Framework for Local Government  
Independent Pricing and Regulatory Tribunal

local\_government@ipart.nsw.gov.au

Dear Mr Cox

I am pleased to attach Council's submission to the Tribunal's Issues Paper "Revenue Framework for Local Government". Council's submission addresses some fundamental issues associated with Local Government's structure, culture and financial capacity. Whilst the government claims it is pressing ahead with reforms to improve the financial sustainability of councils the asset management and integrated planning reforms will not assist councils financially; in fact the opposite is the case.

Is there a disconnect between the financial plight of councils in NSW and the governments understanding and willingness to lead, set direction and assist local government? Unlike other states there is no government agenda to assist local government address structural, cultural and financial issues to ensure this sector is sustainable into the future. Even though reports such as the Percy Allen Report identify that a high percentage of councils are not financially sustainable and it is proven that cost shifting to local government has occurred and is continuing, the State Government repeatedly takes decisions which impose more financial costs on councils. These imposts do not add value to the services councils provide but significantly add to a councils costs.

#### Role of Local Government

Sutherland Shire Council takes its direction from its Strategic Plan which was developed by and with the community. There should be no limits on the role of Local Government, each community will decide on the services it believes its council should provide. Communities are asking their councils to do more particularly when other levels of government are unable to meet many community needs. Cost shifting in itself has expanded the role of Local Government.

#### Council's Revenue

Council's revenues are limited and the reasons for many of those limitations lie with the State Government. Councils are given little autonomy in imposing fees to recover increasing costs, many of which are state imposed.

Locally councils can also be guilty of restricting revenue through a desire to avoid conflict with user groups which means that services are not properly or adequately priced to meet costs and make a competitive charge.

### Council's Financial Position and Efficiency

There is little doubt that rate pegging has forced councils to be more efficient but to achieve further efficiencies there needs to be a firmer direction and lead from the State Government.

### Rate Pegging Impact on Sutherland Shire Council

Rate pegging penalises efficient councils by placing undue financial pressures on councils and restricts responsible fiscal management in meeting the needs of the community.

Sutherland Shire Council has acted responsibly within the spirit of rate pegging only seeking and having approved two minor special variations in the past 30 years of rate pegging. This restriction has resulted in Council seeking other limited revenue sources to provide and satisfy community needs. These other revenue sources are not as equitable, efficient, simple and transparent as raising rate revenue.

Council supports Option 4 of the IPART report ie "maintain rate pegging power but promote greater freedom by exempting individual councils from rate pegging subject to the conditions outlined in that option".

Council has already demonstrated efficiencies and good fiscal management over the years and would act responsibly within this framework.

If IPART is to play a role in setting rates then it should consider the development of a specific cost index for NSW that is relevant to the costs associated with Local Government to complement the task.

More generally the State Government needs to seriously consider the financial plight of councils and:

- cease imposing cost increases on Local Government
- provide more autonomy to councils in setting fees and charges
- take strong and decisive action in reforming Local Government so that it is efficient and better able to meet community needs.

Council welcomes the opportunity to make this submission.

Yours sincerely

J W Rayner  
General Manager

## SUBMISSION TO INDEPENDENT PRICING & REGULATORY TRIBUNAL

### Revenue Framework for Local Government

#### Introduction

The headline reads “**Asset Management Planning Key to Financial Sustainability**”

The press release went on:

*“The Iemma Government is pressing ahead with reforms to improve the financial sustainability of local councils.*

*Minister for Local Government Paul Lynch today outlined the New South Wales reforms to a meeting of Commonwealth, State and Territory ministers in Hobart.*

*Mr Lynch said financial sustainability was a serious issue for local councils throughout Australia.*

*“Infrastructure is a major issue raised by local councils throughout Australia,” he said.*

*“That’s why the Iemma Government is working with local councils to create a consistent asset management program,” Mr Lynch said.”*

*“Under proposed Integrated Planning and Reporting reforms, councils will develop:*

- *a long-term (10 year minimum) Community Strategic Plan setting out community priorities*
- *a 4 year Delivery Program to establish the activities undertaken by a council during its term, consistent with the Strategic Plan*
- *a 1 year Operation Plan*
- *an asset management strategy*
- *a long-term financial plan (10 year minimum)*
- *a work force plan”*

*“Councils are succeeding in saving ratepayer’s money through resource sharing and strategic alliances,” he said.*

*“Asset management is another area where councils can make a real difference in planning for the future of their communities,” Mr Lynch said.*

**Is there a disconnect between the financial plight of councils in NSW and the Government's understanding and willingness to lead, set direction and assist local government?**

Whilst Councils are exploring shared services, joint purchasing, and making savings the two other planks in the government's "financial sustainability" package will add to costs and will not bring savings. Proper planning and asset management approaches are sound however there is little benefit in knowing how much you need to spend to maintain your infrastructure if you do not have the funds to meet these and day to day service obligations.

It is pleasing to note that whilst the Premier has asked IPART to investigate and make recommendations on these matters:

1. *"An appropriate inter-governmental and regulatory framework for setting rates and charges that facilitates the effective and efficient provision of local government services*
2. *A role for IPART in setting rates and charges in future years*
3. *A framework for setting the charges levied by certain public authorities, such as Sydney Harbour Foreshore Authority (SHFA), Redfern Waterloo Authority (RWA), Sydney Olympic Park Authority (SOPA) and the Growth Centres Commission (GCC), to enable these authorities to recover costs for the provision of services that are normally provided by local government."*

the terms of reference appear to allow IPART to undertake a broad review of the role and capacities of councils and to analyse the findings of earlier reports into the financial sustainability of councils.

This paper will be limited to parts 1 & 2 above and will respond to many of the subsidiary issues on which IPART seeks comment. In addition it will comment on the broader issue of local government finances and reform.

**Sutherland Shire Council**

Sutherland Shire Council, in terms of population (215,000) is the second largest Council in New South Wales. Council's 2008/09 Budget provides for an expenditure of \$225m. Council is financially sound having at June 2007:

- an unrestricted current ratio of 253%
- a debt service ratio of 3.67%

Sutherland Shire covers an area of 350sq km and Council administers an area containing national parks, bushland, waterways and beaches. The area is primarily residential but is home to Australia's only nuclear reactor, large industrial areas and a large regional shopping centre. The challenges facing Council are significant and varied and include maintaining and enhancing infrastructure and providing contemporary services and facilities for an ageing population.

Council's 2008/09 Budget is summarised as follows:

| <b>2008/09 ADOPTED BUDGET</b>                  |                    |                    |                   |
|--|--------------------|--------------------|-------------------|
|  | <b>Expenditure</b> | <b>Income</b>      | <b>Nett</b>       |
| <b>INFRASTRUCTURE PROGRAM</b>                  | 61,126,000         | 42,488,000         | 18,638,000        |
| <b>SPECIFIC PROJECTS (NON-EXECUTIVE OFFICE</b> | 3,810,000          | 1,000,000          | 2,810,000         |
| <b>CORPORATE SERVICES</b>                      | 5,922,913          | 3,602,704          | 2,320,209         |
| <b>ENVIRONMENTAL SERVICES</b>                  | 18,456,155         | 1,564,147          | 16,892,008        |
| <b>PROPERTY</b>                                | 8,493,239          | 3,653,501          | 4,839,738         |
| <b>COMMUNITY AND RECREATION</b>                | 8,922,126          | 6,272,852          | 2,649,274         |
| <b>ENGINEERING</b>                             | 27,127,712         | 23,237,323         | 3,890,389         |
| <b>NON-DIVISIONAL</b>                          | 44,385,494         | 26,563,405         | 17,822,089        |
|  | 23,708,733         | 21,712,569         | 1,996,164         |
|  | <b>201,952,372</b> | <b>130,094,501</b> | <b>71,857,871</b> |
| <b>LABOUR OVERHEADS</b>                        | 22,278,118         | -                  | 22,278,118        |
|  | <b>224,230,490</b> | <b>130,094,501</b> | <b>94,135,989</b> |
| <b>INDIRECT INCOME (Net rate income \$86m)</b> | -                  | 94,144,300         | (94,144,300)      |
|  | <b>224,230,490</b> | <b>224,238,801</b> | <b>(8,311)</b>    |

|  |                      |
|--|----------------------|
| Gross Expenditure                          | <b>(224,230,490)</b> |
| Gross Income                               | <b>224,238,801</b>   |
| Annual Operating Result                    | <b>8,311</b>         |
| Working Funds at Start of Period           | <b>1,505,520</b>     |
| Accumulated Working Funds at End of Period | <b>1,513,831</b>     |

Council received approximately 50% of its recurrent operating income from rates.

#### **Sutherland Shire Council participation in sample analysis**

IPART has stated that it will conduct its own research and analysis of a sample of 'typical' councils based on size, location and other factors to better understand the financial pressures and impacts on councils.

This Council would like to volunteer its services in being part of the IPART research and analysis in the future.

#### **Local Government in New South Wales**

Unlike other states there is no government agenda to assist local government address structural, cultural and financial issues to ensure this sector is sustainable into the future. Even though reports such as the Percy Allen Report identify that a high percentage of councils are not financially sustainable and it is proven that cost shifting

to local government has occurred and is continuing the State Government repeatedly takes decisions which impose more financial costs on councils. These imposts do not add value to the services Council provides but significantly add to a council's costs.

- Councils are now required to value all operating land, community land, roads and improvements on community land. This Council alone could be required to divert up to \$2m by 2010 on this meaningless exercise.
- The Minister for Local Government has set the current rate limit at a level (3.2%) which does not consider increases in oil prices, employee costs and government charges which will increase at percentages well beyond this limit. The recent Australian inflation rate was announced at 4.2%. Council must continue to rely on efficiency gains to offset the widening gap between rate pegging limits and actual cost increases.
- The government has restricted Council's investment avenues on the basis of a flawed report and limits investment options to include the State Government's Treasury Corporation. TCorp is currently achieving a negative financial return with limited government guarantees.
- The government's proposed integrated planning reforms, and higher standards associated with Occupation Health & Safety systems increase our support costs.
- Whilst the detail is not finalised it is likely that funds from development contributions will be reduced thus reducing or delaying the facilities Council can provide with these funds.
- Tipping fees have increased from \$102.09 per tonne to \$112.68 requiring Council to allow a further \$530,000 in the 2008/09 Budget.
- The funding model for library grants is under review and it is possible that there will be a redistribution of funding to this Council's disadvantage.
- State Government levies and charges are increasing at a rate well beyond inflation and rate pegging. Examples include:
  - election costs
  - Department of Planning levy
  - energy charges
  - water charges
  - street lighting charges

In addition Council's services are dependent on fuel (eg waste collection, bitumen) and therefore local government is bearing massive fuel cost increases reflected in most purchases. The increase in interest rates also has a negative impact on councils and the cost of carbon trading and emissions reduction is still not clear.

In its recent submission to IPART on the Review of State taxation Council submitted that Councils are struggling under these and other cost imposts. It also suggested that

the recommendation from IPART added another layer of cost without an understanding of the cumulative impact of state and economy imposed charges, the financial crisis facing many councils or the social impact in the community.

These IPART recommendations would add an additional \$25.1m to Council's expenditure and increase rates approximately 28% above a rate pegging limit.

## **DIRECT RESPONSE TO ISSUES PAPER**

### **Chapter 3 - What is the role of Local Government**

The issues paper quite rightly states that the Local Government Act imposes few limitations on what services local government can provide. The legal charter is very broad and facilitates council's response to changing demands in its community.

Council takes its direction from its Strategic Plan "Our Guide for Shaping the Shire to 2030". This guide was developed by and with the community and council has a role in delivering 'the shire vision' *"Sutherland Shire, in Sydney's south, shaped by bays, rivers, beaches and national parks; a community working together, to attain safe, healthy and active lifestyles, through accountable decision making that achieves sustainable development and economic opportunities, which respect people and nature."*

A copy of the Strategic Plan is attached for the purpose of illustrating the broad range of activities the community expects its Council to be involved in.

Whilst Council has a role in achieving that vision, so too do other levels of government, community organisations and individuals.

This Council takes the view that in regard to services provided by other levels of government it is empowered to make representations to government on behalf of the community.

The broad council role is confirmed in its Management Plan (copy attached), Council's Vision *"to provide community leadership translating the shire vision to improve lifestyles and community well being, and the natural environment."* The Management Plan articulates Council's direction.

*"Council will through an open and accountable partnership with the community:*

- *pursue ecologically sustainable development meeting the needs of the present generation without compromising those of the future*
- *demonstrate organisational delivery of integrated services and be environmentally, socially and economically responsible and accountable*
- *manage resources to maintain financial viability and enhance service provision*
- *promote access, equity and a sense of community."*

Meeting the needs of the community, fulfilling its vision and achieving a council direction means that council undertakes a wide range of services which will vary



according to contemporary needs. In a way the role is imposed by the community. Councils obviously have legislated/statutory functions and beyond that are able to provide a wide range of services and facilities to meet local needs.

### **Size of Councils**

The ability of councils to meet those local needs will very much depend on the size of the council. A large council has the capacity to engage expert staff, has flexibility in its capital program and can provide regional type facilities. Regions which comprise groups of smaller councils will find that without resource sharing arrangements and commitment, larger projects cannot be undertaken. For example, Sutherland Shire Council due to its size is able to provide a regional art gallery, a rarity in metropolitan Sydney and provided only by larger outer ring councils. The adjacent councils of Rockdale, Kogarah and Hurstville have a combined population smaller than Sutherland Shire and do not provide a similar facility. Those councils could provide such a facility through a co-operative agreement, however in reality this would be difficult to achieve for a range of political reasons, location being a primary consideration.

### **Role of Local Government**

There should be no limits on the role of local government, each community will decide on the services it believes its council should provide.

The role of local government has changed significantly over the last 20 years.

Communities are asking their councils to do more particularly when other levels of government are unable to meet many community needs. Cost shifting in itself has expanded the role of local government. A cursory review of the changing role that Sutherland Shire Council has adopted over the past two decades would see:

- a great emphasis in providing childcare
- the establishment of a regional art gallery and community arts centre
- establishing a small business incubator to assist those wanting to establish a business as part of the Council's Economic Development Plan focusing on job creation and investment in Sutherland Shire
- acting locally in addressing global environmental issues through agenda 21 and other environmental strategies
- responding to the communities concern at a breakdown in law and order and community safety by installing security cameras and embarking on community safety programs
- engaging the community in developing public transport options
- taking a lead role in testing and monitoring water quality
- underpinning the role of promoting tourism in the Sutherland Shire

There cannot be any limits on the role of local government. In terms of service provision local councils are trusted and they play an important role in building and strengthening communities.

The issues paper quite rightly comments that *“the rate pegging approach used to regulate rates and charges and constrains councils revenue and thus may limit the capacity of local government to provide a wider range of services”*. There should be no limit on the range of infrastructure and services council should be responsible for. There are many cases where infrastructure and services are provided by Council and Council has been left with the responsibility to maintain that infrastructure or deliver that service. An example of government providing infrastructure and leaving the responsibility with the Council is in a seawall at Cronulla which was funded by government, is now in a condition where it needs to be repaired and the \$4m plus price tag has been left to local government to fund, (other than a \$500,000 grant from the State Government).

There is a need to distinguish between ‘overlap’ and ‘partnership’. Unfortunately councils have been required to become involved in a range of services due to the State Government not providing a level of service expected by the community. A contemporary example includes law and order/community safety. Communities, particularly in the metropolitan area may not believe that there is adequate policing, that anti-social behaviour is at an undesirable level and councils have been required to take up that role. It has even been suggested by police at a local level that council should pay for police to bring police resources to a level expected in the community.

### **Councils’ Revenue**

Councils’ revenues are limited and the reasons for many of those limitations lie with the State Government. Councils are given little autonomy in imposing fees to recover increasing costs, many of which are state imposed.

Examples of state imposed limitations or revenues:

- rate pegging
- unlike other state governments the NSW Government did not share with councils its payments from the Commonwealth under the Competition Policy even though councils were participants in structural reform
- a limitation on investment options
- statutory fees do not allow cost recovery eg development application fees, Freedom of Information fees
- reduced levels of grant funding from the State Government (example previously quoted Cronulla sea wall – cost to Council in excess of \$4m – total amount allocated by State Government to coastal protection works 2007/08 - \$2.7m)

Limitations can also be imposed by the Commonwealth Government (and State Grants Commission) particularly where councils are assessed on a flawed “revenue raising capacity”.

The move by the Commonwealth to directly fund councils (eg Roads to Recovery) is welcomed and should be expanded to eliminate duplication at the state level (eg child care).

Locally councils can also be guilty of restricting revenue through a desire to avoid conflict with user groups which means that services are not properly or adequately priced to meet costs and make a competitive charge. Examples include golf courses and leisure centres where many fees and charges are well below a cost recovery level.

**Comparison of Sutherland Shire Revenue to all NSW Council's Source of Revenue 2006/07**

IPART figure 2.1, page 9 of review:

Comparison of sources of revenue 2006/07

|                               | <b>Sutherland Shire Council</b> | <b>All NSW Councils</b> |
|-------------------------------|---------------------------------|-------------------------|
| Taxation revenue (rates only) | 48.1%                           | 36.7%                   |
| Sale of goods and services    | 28.1%                           | 34.1%                   |
| Current grants & subsidies    | 8.6%                            | 8.6%                    |
| Interest                      | 5.0%                            | 5.1%                    |
| Other income                  | 10.3%                           | 15.4%                   |

Sutherland Shire Council does not provide water or sewerage services, if it did it would be included under sale of goods and services above. It is therefore suggested that the NSW analysis is influenced by this fact and that overall the dissection is not indicative of Sydney metropolitan councils. The price movements for the cost of water and sewerage could have a significant impact on the overall NSW analysis, in particular the Sydney metropolitan area, effectively inflating the sale of goods and services proportion that is not representative of Sydney metropolitan councils.

It is suggested that if Sutherland Shire is indicative of Sydney metropolitan councils then nearly half of revenue sources are restricted by rate pegging, much higher than the IPART analysis suggests.

It is concluded that a "fairer" analysis should be considered by IPART in the updated review where Sydney metropolitan councils are analysed in their own category and that water and sewerage councils are also examined separately for NSW comparisons. This should also extend to comparisons to other states where legislative differences and functions extending to rating, developer contributions and water and sewerage can have a significant variation by comparison.

For example, in NSW developer contributions are mainly for the acquisition or embellishment of an asset in the locality where the contribution was levied. In other words the contribution is used for funding a capital facility. The funds cannot be used for on-going maintenance or services. Once the infrastructure is provided council has a further strain on existing operating revenue for on-going operating and maintenance expenses.

In the 2006/07 Sutherland revenue sources (stated above) in the "other income" includes:

- Developer contributions of \$4.179 million, and

- NSW Waste contribution of \$3.747 million related to a specific capital project.

If both above were excluded from “other income” that proportion would decrease to 5.8% from 10.3% and taxation revenue jumps to 50.5% of total revenue. The above inclusions not only distort percentages but also total revenue comparatives to local government in other states and government revenues (federal and state). It is suggested that all specific capital and one-off revenues should be discounted in any comparisons.

All capital contributions and grants show in the operating statement with no matching expenditure because the capital expenditure is shown in the balance sheet. Hence, council operating statements tend to display operating surpluses and can be misleading. The accounting purist will say operating expenses include depreciation therefore effectively offsetting the capital expenditure, however this is not always true. For example for this Council in 2006/07 depreciation was \$21.4 million, the capital expenditure was \$39.1 million, some \$17.7 million more than depreciation. From a cash perspective this was funded from revenues on the operating statement or from the “supposed” operating surplus.

### **Comparison of taxation revenue vs rates & charges**

IPART attempts to segregate councils by category in Table 4.2, page 27, however the basis of the source of income figures in this table is quite different to that presented in figure 2.1 mentioned earlier. In this table rather than “taxation revenue” (rates only) being the source, it is now “rates & annual charges” which now includes domestic waste and stormwater charges, but excludes water and sewerage. The NSW total is now 51.4% from rates and charges as opposed to 36.7% from taxation sources. The difference is obviously annual charges. **Sutherland Shire’s “rates and charges” figure is 59.7%.**

Council’s “rates & charges” or “taxation revenue” figure, whichever method applied, has been a constant percentage similar to that presented in IPART’s table 4.3 on page 28 of the report. **This shows very little variation throughout the years suggesting that this reflects the constraint of rate pegging.**

### **Rates Growth compared to CPI and Rate Pegging**

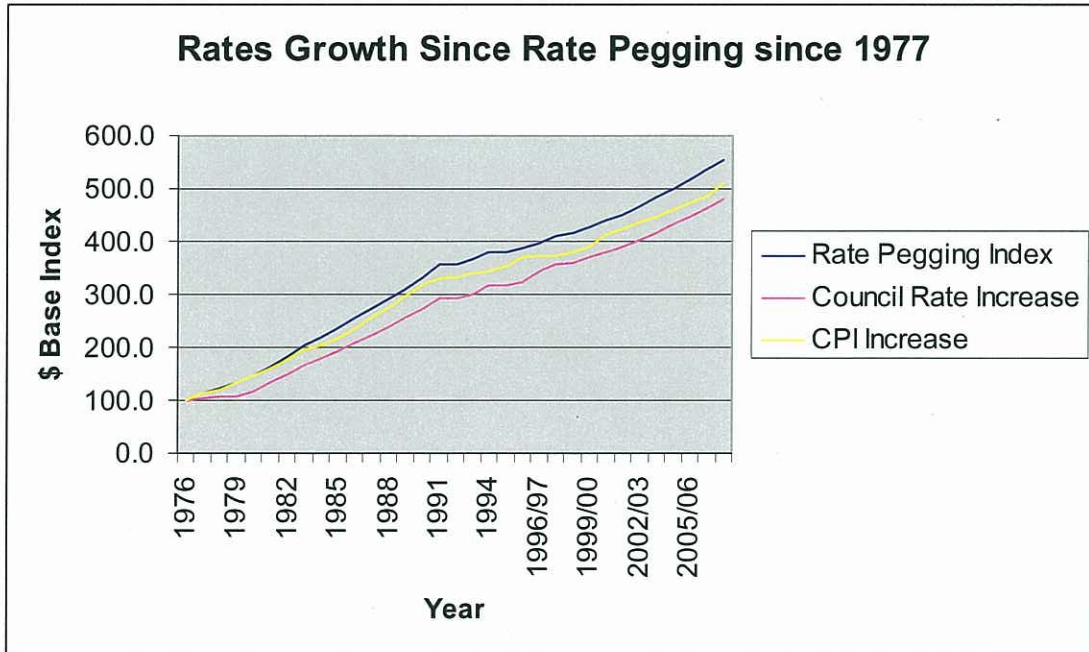
It is acknowledged that IPART has shown the comparative growth of total revenues to GSP and CPI in Figure 4.3, page 29 of the issues paper.

The purpose and the basis of the IPART review, as stated, is to look at an appropriate framework for setting rates & charges for the future and if IPART is to play any part in the process. With this in mind the comparative growth of total revenues seems secondary to looking at the government rate pegging limit in comparison to CPI to acknowledge the impact on local councils and specifically on Sutherland Shire.

The graph below shows a comparison since rate pegging was introduced (1977) of the rate pegging limit, CPI and Sutherland Shire’s adopted rate increase. It is based on

\$100 in 1976 for each factor and projecting forward by the appropriate increase for each factor to 2007/08 (32 years).

This is in contrast to IPART Figure 7.1, page 48, where comparison is only from 1994. Rate pegging was introduced in 1977 and the full impact should be acknowledged from that date as it has had a cumulative effect over that 30 years.



*Note: Up to 1994 years are on a calendar basis, from 1994/95 they are on a financial year basis.*

From the graph it can be seen that Sutherland Shire has increased rates in some early years below the recommended rate pegging limit and is also behind CPI growth today. Once a council elects to adopt a rate lower than the rate pegged limit it will always be behind in real terms unless it catches up with a special variation to the rate. This is the case with Sutherland Shire where some decisions in early years have impacted today. In keeping within the “spirit” of rate pegging Sutherland Shire is behind.

CPI has been used in the graph based on IPART using this as a base indicator in their paper, however it should be noted that CPI is not representative of cost increases to the local government sector. This fact is recognised by the Municipal Association of Victoria (MAV) where a local government cost index is published each year to assist Victorian councils with their annual budgeting. The index is based on the weighted average of wage and building expense movements. The published 2008-09 Cost Index Report can be sourced from: <http://www.mav.asn.au/>.

IPART should consider presenting comparisons to this type of index or building cost index for more relevant comparisons than CPI in the issues paper and also if successful in playing a role in the future.

## **COUNCIL'S EXPENDITURE**

The report notes that the level of debt among councils is low. Councils have purposely looked to reducing debt or becoming debt free. Whilst intergenerational equity in projects is important new borrowing should be specifically linked to larger or grouped infrastructure.

### **Comparison of Sutherland Shire Council expenditure to all NSW councils expenses 2006/07**

IPART figure 5.1, page 34 of review:

#### Comparison of expenses 2006/07

|                       | <b>Sutherland Shire Council</b> | <b>All NSW Councils</b> |
|-----------------------|---------------------------------|-------------------------|
| Employee costs        | 47%                             | 39%                     |
| Materials & contracts | 17%                             | 28%                     |
| Depreciation          | 14%                             | 19%                     |
| Other Expenses        | 21%                             | 12%                     |
| Borrowing costs       | 1%                              | 2%                      |

*Note: It should be noted that the above table includes operating expenses only and includes depreciation and does not reflect capital expenditure.*

The above table shows depreciation expense as 19%, presumably indicating that depreciation represents the matching cost that should be spent on capital expenditure in replacing the annual asset deterioration.

In Council's case, depreciation for 2006/07 was \$21.4 million, the capital expenditure was \$39.1 million, some \$17.7 million more than depreciation. It is acknowledged that operating revenue offsets depreciation cost and also includes capital contributions and grants (see comments earlier on), however to show a true cost of expenses to council depreciation should be eliminated from the comparisons and replaced by actual capital expenditure. Consumption of total revenues is operating expenses less depreciation plus capital expenditure. This of course is not the case if councils actually provide cash in a reserve for depreciation, a practice we are not aware happens in NSW councils.

If this approach was applied Sutherland Shire's figures would be represented as:

|                       |     |
|-----------------------|-----|
| Employee costs        | 42% |
| Materials & contracts | 16% |
| Capital Expenditure   | 23% |
| Other Expenses        | 18% |
| Borrowing costs       | 1%  |

This is more representative of expenditure patterns and capital expenditure could even be further broken down into employee costs, materials etc.

In relation to expenditure shifts between services, Attachment A shows Sutherland Shire's shift between function as outlined in the IPART paper. This analysis compares operating expenses for 1995/96 to 2006/07. The comparison shows a significant shift downwards for administration as a result of continued efficiencies being achieved in the "back office" areas to compensate for increase in front line services to the community, offsets against continual government cost shifting and lack of revenue options to deliver growing community demands for services.

### **COUNCILS' FINANCIAL POSITION AND EFFICIENCY**

Previous studies and reports have found that a high percentage of councils are not financially sustainable. These and possibly others are on the Department of Local Government's 'Financial Watch'.

Whilst the figures may tell a story on the ability of a council to manage, maintain and replace ageing infrastructure they do not point to service levels or lack of service provision.

There is little doubt that rate pegging has forced councils to be more efficient but to achieve further efficiencies there needs to be a firmer direction and lead from the State Government.

Other states have forced structural reform, market testing services provision and shared services, however in New South Wales this has been left to individual councils and has varied in intensity across the state.

For a General Manager to implement a reform program a supportive council must be involved otherwise political interference will frustrate efforts to bring greater efficiencies.

### **RATE PEGGING IMPACT ON SUTHERLAND SHIRE COUNCIL**

Rate pegging penalises efficient councils by placing undue financial pressures on council and restricts responsible fiscal management in meeting the needs of the community.

Council has acted responsibly within the 'spirit' of rate pegging only seeking and having approved two minor special variations in the last 30 years of rate pegging. This restriction has resulted in council seeking other limited revenue sources to provide and satisfy community needs. These other revenue sources, as IPART correctly states, are not as equitable, efficient, simple and transparent as raising rate revenue.

IPART can look at revenue and expenditure patterns for comparative and trend analysis, however the real issue is what impact has rate pegging had on NSW councils.

As stated earlier Council has always acted responsibly within the 'spirit' of rate pegging, resulting in 28 out of the 30 years keeping within the rate pegged limit. Council has achieved this by:

- continually implementing efficiencies across the organisation through reform and more efficient work practices,
- seeking other income sources, which are very limited, and
- eliminating or pushing back to future years infrastructure upgrades demanded by the community.

To demonstrate this the following table is presented:

| <b>ORIGINAL ADOPTED BUDGET</b> |                              |   |                          |                     |   |  |
|--------------------------------|------------------------------|---|--------------------------|---------------------|---|--|
| <u>Year</u>                    | <b>Operating Expenditure</b> | <b>Capital Infrastructure Expenditure</b> | <b>Total Expenditure</b> | <b>Total Income</b> | <b>Rates Income subject to Rate Pegging</b> | <b>Original expenditure demands that could not be included in budget</b> |
|                                | <b>\$'000</b>                | <b>\$'000</b>                             | <b>\$'000</b>            | <b>\$'000</b>       | <b>\$'000</b>                               | <b>\$'000</b>  |
| <b>2003/04</b>                 | <b>163,722</b>               | <b>20,654</b>                             | <b>184,376</b>           | <b>183,300</b>      | <b>75,288</b>                               | <b>3,901</b>   |
| <b>2004/05</b>                 | <b>161,601</b>               | <b>20,340</b>                             | <b>181,941</b>           | <b>179,691</b>      | <b>78,462</b>                               | <b>0</b>   |
| <b>2005/06</b>                 | <b>152,729</b>               | <b>30,904</b>                             | <b>183,633</b>           | <b>180,184</b>      | <b>80,957</b>                               | <b>4,607</b>   |
| <b>2006/07</b>                 | <b>152,919</b>               | <b>49,295</b>                             | <b>202,214</b>           | <b>202,040</b>      | <b>83,714</b>                               | <b>5,548</b>   |
| <b>2007/08</b>                 | <b>153,897</b>               | <b>45,989</b>                             | <b>199,886</b>           | <b>199,886</b>      | <b>86,918</b>                               | <b>6,344</b>   |
| <b>2008/09</b>                 | <b>163,104</b>               | <b>61,126</b>                             | <b>224,230</b>           | <b>224,230</b>      | <b>89,797</b>                               | <b>13,448</b>  |

The table shows the original adopted budget since 2003/04. The expenditure is split into operating (no depreciation for reasons stated earlier) and capital. The total income is also shown with the rate income growth limited by the rate pegging limit.

The important column is the last column which shows the amount of expenditure that had to be "cut" or pushed back to other years because of limited revenue sources and rate pegging restrictions, the column is titled "*original expenditure demands that could not be included in the budget*". This expenditure was considered by Council to satisfy community demands for increased services and infrastructure upgrades. Unfortunately it cannot deliver the community demands due to limited funds. Council considers this expenditure each year not only with the annual budget but also as part of a 5 Year Financial Plan that accompanies the budget.

It should be noted that the figure is increasing each year since 2005/06 as a result of continuing to push expenditure back and not being able to find the funds. The problem of meeting community expectations will not disappear until appropriate revenue sources are available. It is suggested that the lifting of rate pegging would allow Council the mechanism to address the funding shortfall.



## CONCLUSION

For the reasons outlined in this response, Sutherland supports option 4 of the IPART report, that is:

*“Maintain rate pegging power but promote greater freedom by exempting individual councils from rate pegging subject to the conditions outlined in that option”*

Council has already demonstrated efficiencies and good fiscal management over the years and would act responsibly within this framework.

If this option is not viable Sutherland believes option 3 would also provide this Council with the effective fiscal tools to address funding shortfalls, especially in the segregation of operating and capital expenditure as a transparent means of assisting Council and community decision-making. Sutherland Shire’s current budgeting and long term planning is already aligned to this principle, however it is not communicated on the rate notice in the suggested fashion.

Council welcomes IPART to play a determinative role in setting any caps or increase in rates as this will clearly be a more transparent and analytical process for council and the community.

If IPART is to play a role in setting rates, then IPART should consider the development of a specific Cost Index for NSW that is relevant to the costs associated with local government to compliment the task. A similar approach to the Municipal Association of Victoria (MAV) where a local government cost index is published each year to assist Victorian councils’ with their annual budgeting. The index is based on the weighted average of wage and building expense movements.

More generally the State Government needs to seriously consider the financial plight of councils and:

- cease imposing cost increases on local government
- provide more autonomy to councils in setting fees and charges
- take strong and decisive action to reforming local government so that it is efficient and better able to meet community needs