



SUBMISSION TO IPART –
REVIEW OF LOCAL GOVERNMENT REVENUE FRAMEWORK

Submission by Upper Lachlan Shire Council – August 2008

Independent Pricing and Regulatory Tribunal (IPART) “Revenue Framework for Local Government – Issues Paper” released July 2008.

Upper Lachlan Shire Council thanks the Independent Pricing and Regulatory Tribunal of NSW (IPART) for this opportunity to have input into the review of the revenue framework for Local Government.

Terms of reference for the review

The terms of reference require IPART, in undertaking this review, to have regard to a range of matters, including:-

1. the role of Local Government in delivering infrastructure and services to the community.
2. the current and future financial position of Local Government and the scope for efficiencies.
3. all the revenue sources available to Local Government
4. the socio-economic impacts of rates and charges, including the ability of families and pensioners to meet their rate obligations.
5. differences between metropolitan, regional and rural Councils.
6. the findings of recent reviews of Local Government.

The above “terms of reference” for the review of the revenue framework for Local Government are addressed individually as follows:-

1. The focus of Local Government and the functions they provide has clearly expanded over the last fifteen years. Local Councils play the key role in a diversity of areas including provision of community facilities, roads, garbage, water and sewerage services, urban and rural planning, environmental management, tourism, economic development, recreation and cultural activities, infrastructure provision, planning and regional services.

Asset management, infrastructure maintenance and renewal issues are a priority. The adequacy of existing infrastructure and condition assessment for all assets is a key criterion for all Local Government Councils to address. Ratepayers and community expectations are increasing as a 'tree-change' is occurring with population shifts from cities to regional and rural centres.

The role and responsibilities of Local Government have evolved over time. However, in more recent years the role of Local Government has been dictated by legislation from the State Government. For example the changes in planning legislation.

Councils should continue to be able to determine relevant Section 94 and Section 64 developer contributions to ensure future development and infrastructure are paid for by developers and not the ratepayers. These development contributions are essential to ensure adequate public facilities are implemented to service future communities.

IPART should consider the resourcing and funding issues facing all NSW Local Government Councils in their deliberations and the report findings to the Minister for Local Government. The financial sustainability of Councils is in question as outlined in the FiscalStar sustainability ratings and other similar reports. Councils in rural and regional areas are struggling to meet regulatory requirements and community demands at present due to lack of funding and revenue raising capacity combined with the effect of the NSW State Government imposed rate capping. Councils are struggling to meet infrastructure costs and provide the services and facilities that all local communities need and ratepayers expect from local Councils.

The State and Federal Governments do provide some grant funding for regional and community projects; however, such funding is not sufficient to meet overall needs of local government. The issue of "facilitating local government in a strategic way which will, in turn, drive their local economies and communities" is one that should be pursued and included as part of the integration of services between the three tiers of government.

2. The current and future financial position is precariously balanced for a large number of local Councils. The issue of cost shifting onto Local Government Councils needs to be formally addressed. The focal point of the issue of cost shifting is that there is a need to rethink the provision of all government services and facilities. The term "all" encompasses the existing three tiers of government – Federal, State and Local. The defining and review of roles and responsibilities would be an adequate starting point and will enable the funding of the various roles and responsibilities to be established.

It is widely acknowledged that both the State and Federal Governments are devolving their responsibilities onto Local Government without adequate compensation. The Local Government and Shires Association (LGSA) report on the impact of cost shifting on Local Government in NSW categorically

determined that the total burden of this “cost shifting” amounted to \$412 million in 2006/2007, or over 5% of its total revenue.

There is scope for efficiencies’ that a number of Councils are currently pursuing and / or are already involved in. These models include formation of Regional Organisation of Councils (ROC’s) and Strategic Alliances. The co-operation and partnerships of Councils is delivering efficiencies and bulk savings through plant and machinery purchases, implementation of standard policies and procedures, cross border arrangements for libraries, waste management and road maintenance. These activities all involve mutual benefits for the Councils and assist in lowering operational expenses.

However, there remains a fundamental challenge facing a number of local Councils and that is the financial sustainability of the Council from a revenue generating perspective. The question that needs to be asked is whether the revenue of Councils is adequate to meets its statutory obligations, current services provided and future service provisions.

All Councils are subject to various external factors that impact on its ability to provide services to the community. The external factors include: statutory obligations, community expectations, infrastructure renewals, service level standards and escalating fuel and materials expenses.

The enhancement of the financial sustainability of Local Government needs to be a key consideration of the IPART review of the revenue framework. There are numerous performance measures and financial and governance health checks which Councils have undertaken to ensure accountability to our communities, however until there is a more even distribution of taxation Councils will continue to struggle with financial sustainability. There is not a level of government audited more than Local Government which is subjected to more checks and balances than the State and Federal Governments combined.

3. Regional and rural Councils rely heavily on rates and annual charges income and the Federal Government Financial Assistance Grants. Funding from external bodies is generally limited to regionally significant projects with matching capital investment funding requirement by the Councils. The growth in general purpose grants revenue for Councils has also grown at a rate less than CPI which inhibits Councils ability to undertaken urgent infrastructure programs.

There is little scope for Councils to make greater use of user charges. A number of the user charges and the resulting income raised by Council are externally restricted for water supply, sewerage, domestic waste and stormwater works. The revenue generation capacity of Council is restricted, there are alternative revenue streams such as venturing into commercial operations; however this requires significant capital investment and business investment expertise and is also dependent on the community support for such a venture.

The limited availability of revenue streams is currently directly impacting on the level of maintenance and repair of existing infrastructure, drainage and road assets. All these services are at the heart of local communities.

The restriction of rate-pegging needs to be removed immediately and an alternative model implemented that at minimum provides increases equivalent to Consumer Price Index (CPI) movements. The restriction of revenue generation for 2008/2009 means wages growth accounts for the total rates increase, yet the building, fuel and materials costs increases required to be paid by Councils remain unfunded, this in turn affects the service delivery to the community

The NSW rate pegging limit is consistently below the national CPI percentage, Council wholeheartedly agrees with the notion that NSW user fees should be benchmarked with other States and should be linked to CPI increases where there are no other arrangements for updating these charges.

4. There are limited examples of socio-economic impacts on families from rates and charges in rural areas due to long-term drought and for pensioners and sole income families. Council assists with our partnership in Lifeline, rural counselling services and water bore drought proofing measures for remote villages and towns in Upper Lachlan Shire.

However, there remains high demand and need for increased services in rural communities, especially in health and roads networks. Rate-pegging does not allow Local Government the affordability to service the remote and poorer regions as well as Councils would like. The implementation of cost recovery charges and fees are essential to Councils long-term viability. The new country town's water and sewerage schemes require the implementation of a cost recovery inter-generational charging mechanism as this is critical to meeting the long-term financial sustainability for the Council.

There is also a greater need for the capacity to raise revenue to adequately maintain and renew ageing infrastructure especially for roads and bridges in rural areas. Council should not have to apply to the State Government for a rates special variation to undertake necessary health and safety works for the benefit of the wider local community.

The impact of components of the Local Government Act and other legislation requirements needs amendment to remove the duplication of reporting processes, cut red-tape and simplify the regulatory process to allow Councils to get the job done more efficiently for our community.

5. There are existing differences between metropolitan, regional and rural Councils in both revenue raising ability and sustainability. The metropolitan Councils have access to parking and regulatory fee income that rural Councils cannot generate; this income can supplement shortfalls in other general purpose operations of a Council.

Rural and regional areas are experiencing growth and this is placing a greater demand on existing ageing infrastructure and the expectation of implementing core services such as water and sewerage in smaller towns.

The diversification in the role of Councils has had a more profound impact on rural and regional Councils and has not resulted in an increased revenue base and in some respects the changes can be regarded as a result of needs, demands, and expectations not being met from the Federal and State Governments.

Therefore, the issue of “facilitating Local Government in a strategic way which will, in turn, drive their local economies and communities” is one that should be pursued.

On the whole Local Government is responsible and accountable to the public to a greater degree than the two other tiers of government. Councils know the community concerns and pressures and communicate directly to their constituents on a daily basis. Council need a broader financial base especially in rural Councils and a greater autonomy to govern the local communities and this encompasses altering the rate-pegging model and IPART should play a role in future rate increase determinations.

6. There have been numerous reviews undertaken of Local Government in NSW over the past five years; including the FiscalStar review reports over the last two years, LGSA report on the impact of cost shifting on Local Government in NSW, Allan Inquiry into financial sustainability of Local Government in NSW and now this IPART review of revenue framework in Local Government. The results are similar from all the commissioned reports and simply Councils are at best strained financially at worst financially unsustainable.

The FiscalStar review stated that “35 of the 100 largest councils in NSW will need to increase their rates, fees and charges by 80% to 200% over the next ten years or be forced to severely cut their services if they are to restore their finances and infrastructure to prudent and responsible levels.”

The report further stated that “the most alarming aspect is that neither the State nor Federal Government accepts the gravity of the crisis sinking local government. The State Government seems to think that as long as a few large councils each year are allowed a significant rate hike the problem will go away. The Federal Government appears more interested in funding state initiatives even through local governments has a narrow avenue base and collects only 3% of all taxes.”

The heart of the problem is that most Council’s are facing a large and growing backlog of infrastructure (e.g. roads, kerbing, footpaths, street lighting, stormwater drains, buildings, retaining walls, playgrounds, picnic benches, sports ovals, parks and gardens, etc) that has passed its use by-date and needs replacing, not just patching. Once this infrastructure backlog is added to Councils outstanding debt then the resulting total “broad liabilities” of all Councils that are “unsustainable” averages about 187% of their total annual operating revenue.

The Allan Inquiry concluded that Councils do not have sufficient revenue, skills or resources to fund future asset renewal programs.

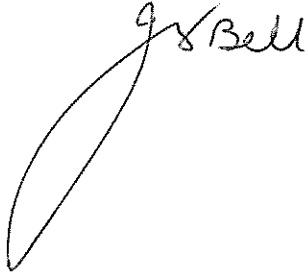
The LGSA report identified major cost shifting areas by the State Government including; the Rural Fire Service contributions, Public Library per capita contributions are declining and shortfalls in reimbursement for pension rebates for rates and lack of reimbursement for noxious weeds.

Upper Lachlan Shire Council vehemently opposes the recommendation that fire services be almost fully funded by Council rates by the replacement of the statutory contributions by insurance companies to fund fire services and opposes the removal of the payroll tax exemption for local Councils.

There is no doubt that the rate-pegging system in its current form needs alteration. Rate-pegging diminishes the financial viability of Local Government. In most states rate-pegging is not imposed and there is much greater autonomy in governance by Councils. IPART should be responsible for setting the annual general ordinary rates increase each year. The determination of annual charges, developer contributions, user charges and fees should remain under the autonomy of the elected local Council.

Local Councils are not adequately recompensed for undertaking former State Government roles and responsibilities. A revenue framework that allows Council more independence in raising income to meet community expectations is critical to ensure the financial viability of Councils. The two other tiers of government should more fairly distribute taxation revenue to the heart of this country’s community at the very grass roots; that is Local Government.

The Upper Lachlan Shire Council holds the abovementioned views. In that regard Council appreciates the opportunity to address the “IPART - Revenue Framework for Local Government review” and supports the intent of the review report. Council trusts that the issues raised will be considered further by IPART in their deliberations in relation to the review.

A handwritten signature in black ink that reads "J Bell". The signature is written in a cursive style with a large, sweeping loop on the left side.

John Bell
General Manager