

REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

Overview of Submission

Wagga Wagga City Council welcomes the opportunity to provide comment to the Independent Pricing and Regulatory Tribunal (IPART) on the *Revenue Framework for Local Government – Issues Paper*.

As an alternative to the current practice where the NSW Minister for Local Government sets a maximum allowable increase in the annual income from ordinary rates, Council is supportive of IPART playing a direct role in the determination of the 'rate pegging' limit. Council believes that the involvement of IPART in the process will allow a limit to be determined each year which is reflective of real increases in the costs of providing local government services and maintaining infrastructure.

Council notes that the request to IPART from the Premier of NSW states that IPART is to investigate and make recommendations on the following three matters including:

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, Sydney Olympic Park Authority and the Growth Centres Commission (GCC).

In relation to items 1 and 2 above, it is important to note that at present there are no maximum limits applied to annual charges or user fees other than a relatively small number of statutory fees (eg Section 603 Certificates). Annual Charges for water and sewerage are levied under Section 501 of the Local Government Act and the legislation provides that these charges must reflect the actual cost of providing the service. The charges for other user fees and charges (eg cemetery fees or sporting fields) are calculated in accordance with the revenue and pricing policy adopted by Council as part of the Management Plan.

As these annual fees and charges are currently determined by each individual Council, Council does not support additional regulation in this area and submits that the involvement of IPART be limited to the setting of maximum limits for ordinary rates only

The Issues Paper identifies 52 specific issues for which it is inviting comment. Council has not attempted to provide a response to all of the issues but rather has

focussed its response on the nine key questions contained in section 1.5 of the issues paper.

Council considers that the key issues of this review are the potential role of IPART in the determination of rate pegging limits and the impact of the current system of rate pegging on Councils financial sustainability.

Council notes that IPART is proposing to undertake regional meetings with Councils as part of its consultation process. Wagga Wagga City Council being the largest inland City in NSW would welcome the opportunity to host a workshop in Wagga Wagga.

Issue 1 – What is the role of local government and how is it determined?

Council submits that Section 8 of the Local Government Act provides a reasonable representation of a Council's charter. The Act does not seek to limit the functions of Council but sets a list of guiding principles to which all activities of Council must consistently apply.

The services provided by Council have expanded since the introduction of the 1993 Local Government Act to include a greater range of community services, child care and other non traditional activities including economic development, medical services and agency arrangements with state government. In addition legislative changes have mandated that Council's become involved in the delivery of new programs and functions which were traditionally the responsibility of State Government. Examples include the Companion Animals Act, EPA Act and the Social Planning requirements of the Local Government Act..

The expanded role of Council partly as a result of new legislation and partly self imposed as residents have expected a greater range and higher standard of service delivery.

The standards of governance and expectations of improved public accountability have also increased in recent years. Council now employs a full time manager of corporate governance and internal auditor.

Council strongly agrees with the quotation from the Allan Report contained in section 3 *"It has been argued that the Local Government Act, particularly the Charter included in this Act, reflects a maximalist position, but that the rate pegging approach used to regulate rates constrains councils' revenues and thus may limit the capacity of local government to provide a wider range of services."*

Issue 2 – How effective is rate pegging and how is it determined?

Rate Pegging has been in place in NSW since 1983. Introduced as a tool to impose fiscal discipline and for Councils to make savings through productivity improvements, rate pegging has long since passed its use by date. The ongoing savings generated through efficiency gains are well and truly exceeded by labour

and material cost increases, increased costs of governance, statutory fee increases such as NSW Fire Brigades and transfer of functions from the State Government.,

The rate pegging limit for 2008/09 is 3.2 per cent which for Wagga Wagga will generate an additional \$768,000. Now lets compare this amount with the following cost increases:

| | |
|--|--------------------|
| Rate Pegging Increase | \$768,000 |
| Less Cost Increases | |
| Employee Costs | (\$1,100,000) |
| Direct Cost of Fuel | (\$300,000) |
| Indirect Cost of fuel – road materials etc | (\$110,000) |
| Electricity & Gas | (\$200,000) |
| Election Cost (amortised) | (\$50,000) |
| | |
| Revenue Shortfall | (\$992,000) |

This simple analysis alone reveals that Wagga Wagga City cannot continue to maintain existing services or existing standards of service under a rate pegging scenario.

This situation is also highlighted in the Fiscal Star report on the financial sustainability of the 100 largest local councils in NSW produced by Professor Percy Allan of Review Today (Report dated 29 July 2008).

“ 35 of the 100 largest local 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.

For another 19 councils the increases are of the order of 60% to 80%. This means that the existing policies of half of all large councils in NSW fall short of being financially sustainable.”

The impact of rate pegging on Councils ability to meet its obligation under the Charter defined in Section 8 of the Local Government Act is significant. Under the Charter, council is to bear in mind that it is the custodian and trustee of public assets and manage the assets for which it is responsible.

The financial statements for the year ended 30 June 2007 reveal that Council has an estimated annual maintenance requirement for its infrastructure assets of \$22.5m while the current allocations are only \$10.5m.

The Allan Report, Productivity Commission Report and more recently the fiscal star ratings report have all highlighted the sustainability issues facing NSW Councils and the heavy influence of rate pegging

One of the most frustrating aspects about rate pegging from a Council point of view is the lack of reasoning and communication around the method for determining the rate pegging percentage. It would appear that the decision was based around political imperatives rather than an analysis of the cost issues facing local councils.

Issue 3 – What are the objectives for a regulatory framework for local government revenues?

The criteria proposed by IPART in Section 1.4, of the Issues Paper, provide a sound basis for assessing a regulatory framework for local government revenues.

1. promotes the effective and efficient provision of local government services
2. enhances the financial sustainability of local government
3. meets the standard principles for good regulation and taxation, including:
 - a. efficiency
 - b. equity
 - c. simplicity
 - d. transparency
4. enhances the accountability of local government.

Issue 4 - How does the current regulatory framework for council revenue, or any alternative framework:

- **Promote the effective and efficient provision of services?**
- **Enhance the financial sustainability of local government?**
- **Meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency?**
- **Enhance the accountability of local government?**

The current regulatory framework inclusive of rate pegging does not meet many of the above criteria.

The effective and efficient provision of services and financial sustainability of local government is compromised when costs are increasing at a far greater rate than a Councils ability to increase revenue from its primary revenue source being rating revenue. The shift of responsibilities away from state and federal government and across to local government as detailed in the Hawker Inquiry further compromises this objective. Council's are encouraged by the Department of Local Government to engage and consult with its local community on the agreed priorities and standards of service yet may struggle to deliver satisfactory outcomes due to a lack of revenue raising capacity.

The constraints of rate pegging are to some extent overcome by the Special Variation provisions of Section 508(2) and Section 508A of the Local Government Act. Wagga Wagga City Council has successfully applied for a special variation covering the years 2006/07 to 2011/12.

Despite these provisions, the process for applying for a Special Variation is both extensive and onerous consuming significant resources for both the Council and the Department of Local Government. The process for approval is also subject to the political will of the Minister regardless of the merit and community support for the application.

The issues associated with financial sustainability have been covered earlier in the response to Issue 3.

The current centralised system for determining both the rate pegging limit and the outcome of applications for special rating variations is neither fair nor transparent from a local government perspective. NSW is the only state government which applies rate pegging and local government is the only tier of government with such restrictions on its revenue raising ability. The State Government pays no regard to a Councils rate pegging limit when applying levies on Local Government for functions such as:

- NSW Rural Fire Services
- NSW Fire Brigades
- Department of Lands – Valuation Fees
- State Electoral Office fees
- Planning Panel costs

Council submits that the NSW State Government needs to increase the autonomy of local government in line with other states to determine the level of rates, annual charges and other fees required to fund services and finance the renewal of infrastructure in consultation with the local community. There are already sufficient powers under the Local Government Act to ensure accountability to both the local community and the State Government.

Issue 5 – What role should IPART play in setting local government rates and charges including charges for non-business activities?

Council maintains that rate pegging is unfair to Councils who wish to maintain or improve current service levels; lacks transparency in the method of calculation of the annual limit and ultimately undermines a Council's financial sustainability. For this reason, the discretion of the minister to determine a maximum limit on rating income must be removed from the Local Government Act.

As an alternative to the current practice where the NSW Minister for Local Government sets a maximum allowable increase in the annual income from ordinary rates, Council is supportive of IPART playing a direct role in the determination of the 'rate pegging' limit. Council believes that the involvement of IPART in the process will allow a limit to be determined each year which is

reflective of real increases in the costs of providing local government services and maintaining infrastructure.

Council notes that the request to IPART from the Premier of NSW states that IPART is to investigate and make recommendations on the following three matters including:

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, Sydney Olympic Park Authority and the Growth Centres Commission (GCC).

In relation to items 1 and 2 above, it is important to note that at present there are no maximum limits applied to annual charges or user fees other than a relatively small number of statutory fees (eg Section 603 Certificates). Annual charges for water and sewerage are levied under Section 501 and domestic waste charges are levied under section 496 of the Local Government Act and the legislation provides that these charges must reflect the actual cost of providing the service. The charges for other user fees and charges (eg cemetery fees or sporting fields) are calculated in accordance with the revenue and pricing policy adopted by Council as part of the Management Plan.

As these annual fees and charges are currently determined by each individual Council , Council does not support additional regulation in this area and submits that the involvement of IPART be limited to the setting of maximum limits for ordinary rates only

Issue 6 – Should IPART have a determinative role provided by legislation or should IPART’s role be limited to making recommendations, if and when requested by the Minister?

The role of IPART in the circumstances outlined above in Issue 5 should be determinative and captured in the legislation.

Issues 7- 9 – To what extent do government authorities – such as Sydney Harbour Foreshore Authority, Sydney Olympic Park Authority, Redfern Waterloo Authority, and the Growth Centres Commission provide services that duplicate or overlap with those of local government?

The activities of these authorities do not overlap with Wagga Wagga City Council. It is therefore not appropriate for Council to make any further comment on Issues 7-9.

Summary of Recommendations

1. Wagga Wagga City Council is supportive of IPART playing a direct role in the determination of the 'rate pegging' limit.
2. The role of IPART should be determinative in respect to the rate pegging limit and this role should be provided for in the Local Government Act.
3. The role of IPART should be limited to determining the 'rate pegging' limit only. Wagga Wagga City Council does not support any additional regulation of annual charges or fees charged by Council.
4. Wagga Wagga City Council submits that the current regulatory framework for Council revenue has a detrimental impact on the financial sustainability of local government and does not meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency.
5. The NSW State Government needs to increase the autonomy of local government (in line with other states) to determine the required level and mix of rates, annual charges and fees to fund services and the renewal of infrastructure, in consultation with the local community.