



CORPORATE SERVICES DIVISION
Financial Services

29 August 2008

Review of the Revenue Framework for Local Government
IPART
PO Box Q290
QVB Post Office NSW 1230

Dear Sir

Re: Willoughby City Council – Revenue Framework for Local Government

Please find attached Council's submission to the IPART Review - Revenue Framework for Local Government.

In summary, Council supports the proposition of a regulatory framework that allows it to be both effective and efficient, is simple and transparent, and enhances the sustainability and accountability of local government.

Council objects to rate pegging, particularly the politicised, "black-box" method currently used. Council's should have the autonomous authority to set their fees, charges and rates. The process should involve adequate community and ratepayer consultation before and during the process of developing the Management Plan. Clear ratepayer support should be evident for above normal increases.

Please contact Anthony Pizzuto on 9777 7505 if you require further information or clarification of the points made in the Submission

Yours faithfully

Anthony Pizzuto
FINANCIAL SERVICES DIRECTOR

Willoughby City Council – Revenue Framework for Local Government

IPART Criteria

The wording of the first criteria, “promotes effective and efficient provision of local government services” hints strongly at the continuation of rate pegging. These notions have been used by State governments to justify the introduction and continuation of rate pegging.

The second criterion is possibly at odds with the first criteria. The regulation of local government revenue through the rate pegging framework has been cited many times as one of the main reasons for the financial *un-sustainability* of some councils.

Efficiency has many connotations; the most usual is that of reducing spending. Council’s attempt to satisfy community wants by provision of services, sometimes at the cost of infrastructure and sometimes at the cost of financial sustainability.

IPART Issues

1 What is the role of local government.....

2 How effective is rate pegging.....

There is no need for lengthy comment on these issues. The role of local government is set out in the Act and the implications of rate pegging for councils and ratepayers have been addressed many times since its introduction.

In the past Councils were sometimes reluctant not to raise rates by the rate pegging limit because the income forgone could not be caught-up in later years on if it was required. The implication at the time was that ratepayers in some cases may have paid more than they should have as Council’s raised the rates by the maximum allowable.

3 What are the objectives for a regulatory framework.....

These are as set out as criteria at 1.4 on page 6, numbers 1 through to 4,
E.g. 4 - to enhance the accountability of local government.

4 How does the current regulatory framework

(i) promote the effective and efficient provision of services?

A framework that forces effectiveness and efficiency by limiting the revenues for councils that face the task of delivering an ever increasing number/level of services, many originating from State cost shifting, will continue to meet opposition from local government.

(ii) enhance the financial sustainability of local government?

The current framework does not enhance the financial sustainability of councils, on the contrary, rate pegging and other revenue regulations have led to some councils becoming financially unsustainable.

(iii) meet the standard principles for good regulation?

The calculation of rate income for a council in NSW is not a simple process. It involves calculation of notional yields, permissible yields, catch-up, excess, statutory percentages, and special variations.

The current framework, in particular rate pegging is far from transparent. The annual announcement is generally too late and the percentage increase too low. Councils prepare the draft management plan and place it on exhibition each year including estimates of the rate yield for the next year. The rate yield is based on an estimate or a "guess" as to the rate pegging percentage.

The percentage is a politically determined figure and does not meet the standard of transparency. The 2008/2009 rate pegging percentage of 3.2% is an opportunity for local government to become more efficient given the June CPI was 4.3%.

In terms of the equity question, it is difficult for local government to support any regulatory framework that controls its revenue raising capability so tightly, (read politically), when State entities that levy charges on local government have consecutive annual increases in excess of 20%. An example is the Section 88 waste and environment levy.

(iv) enhance the accountability of local government

Local government has numerous accountabilities, the community, the ratepayers, multiple State government departments and agencies, the ATO, Workcover.

5 What role should IPART play in setting.....?

Ideally councils would prefer to have IPART have no role in setting rates and charges for local government. Councils would prefer to have the autonomy and authority to set rates and charges to appropriate levels themselves.

IPART involvement in a framework delivering equity, simplicity and transparency is preferable to the current system of political, "black-box" determinations.

6 Should IPART have a determinative role.....?

If a framework is deemed to be required, IPARTS role must be determinative. A process whereby a recommendation is made to a Minister is still subject to political whim.

7 To what extent do government authorities.....?

Willoughby is unable to comment

8 What are the implications for local government.....?

Council rates are classed as "general purpose income". The expenditure of rates is not allocated or confined to the area from which it is collected.

If an authority were to levy a rate over a portion of a council's area it would be unfair on those residents if the council levied their full rate as well.

Therefore a lower, differential rate may have to be levied to maintain equity. This would be difficult under current rating legislation. Consideration would also need to be given to any impact on council's service delivery teams, in particular downsizing is necessary.

9 Should a common regulatory framework.....?

Yes. A regulatory framework should be introduced for these authorities.

The framework would need to take account of the types of services provided by the authority and the opportunities for the council, the ratepayers and the residents of the area to have input to the services provided and charges, if any, to be levied. In other words, similar to the process councils have to follow in adopting their management plans each year.

The authority may be duplicating and/or replacing local government services or providing an enhanced service, for example enhanced streetscape maintenance. The particular circumstances of the services would need to be examined to ensure continued equity with other ratepayers in the same area.