



Our Reference: 1538
Your Reference: 08 / 159

Mr James Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230



27 August 2008

Dear James,

REVIEW OF THE REVENUE FRAMEWORK FOR LOCAL GOVERNMENT – ISSUES PAPER

It is with great pleasure that I provide the Independent Pricing and Regulatory Tribunal with Wollondilly Shire Council's submission to the Review of the Revenue Framework for Local Government.

Council would like to thank IPART for the opportunity to have input into this process and we wish you every success in your review. We look forward to hearing of the outcomes.

Yours sincerely

Les McMahon
GENERAL MANAGER

Wollondilly Shire Council

**Submission to IPART Inquiry –
Revenue Framework for Local Government**

29 August 2008

Introduction

Wollondilly Shire Council welcomes the approach adopted by IPART. We are very conscious of ensuring our financial ability to meet the needs of today and those of the future as we strive to improve our service delivery, efficiency and financial position. It is our belief that rate pegging (at least in its current format) restricts our ability to remain financially sustainable, as rates form our main source of income and the capped increases do not keep pace with our expenditure requirements. This inquiry presents the opportunity to put forward reasons why the current methodology is inappropriate and hopefully provides valuable information for IPART to form an opinion on the best way forward.

Wollondilly's submission aims to address many of the issues identified in section E of the *Revenue Framework for Local Government, Other Industries - Issues Paper*. Our response doesn't cover all fifty two issues raised by IPART, only addressing those issues where we felt we had a valid contribution to make. Our submission is structured such that each of the issues that have been addressed are considered in the same order in which they have been raised in the Issues Paper.

About the Shire

Wollondilly Shire Council is located on the Southern outskirts of Sydney, approximately 80 minutes from the CBD.

More than half of the Shire is comprised of national parks and sensitive water catchment lands. Its 2,560 square kilometres stretch from Yanderra to Warragamba, taking in the spectacular natural beauty of the Nattai Wilderness and Burragorang Valley. This area contains 727 hectares of local open spaces and reserves managed by Council.

The earliest known inhabitants of the district were the natives of the Gundangurra Tribe, who gave the area its name. Picton was one of the earliest European settlements, founded in 1795 when settlers traced a missing herd of cattle to the Nepean River. The area became known as the Cowpastures and then Stonequarry until 1841. The Shire was formed on 1 May 1940 when Wollondilly Shire Council at The Oaks and the Picton Municipality Council elected to amalgamate. It is comprised of 16 towns and villages. All of the settled areas of the Shire are located east of Sydney's major water supply source, Lake Burragorang.

The current population is approximately 43,000 and demands for development in the area, from both internal and external forces, present the Shire with the future challenges that accompany growth. Council's strategies for future residential development in the Wollondilly Local Government Area indicate that growth will be concentrated around the existing urban areas of Picton-Thirlmere-Tahmoor, Warragamba-Silverdale and the towns of Appin and Wilton.

The stability of the Wollondilly Community is indicated by the significantly high level of dwellings that are fully owned by the residents (39.4%), and also by the fact that 55.5% of residents were at the same address five years prior to the 2001 Census. Families feature in the Shire, with 86% of households being families. Council provides quality Family Day Care, Before, After and Vacation School Care and Occasional Care services to the families in the Shire.

Employment rates in Wollondilly are generally higher than the region or state. Major industries of employment are manufacturing, retail, construction, health/Community services and education. Supporting our rural lifestyle are market gardens, orchards, dairying and poultry undertakings, alongside the coal industry, which provides the State Government with royalties and the nation with its top grade coking coal for industry and export. Wollondilly also supplies around 30% of vegetables consumed by Sydney-siders.

Responses to Identified Issues

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

As one of Australia's three spheres of government, Local Government is the sphere that most closely affects the daily lives of residents. One of the strengths of Local Government is its diversity. In NSW, the population and geographic size of councils differ greatly.

The roles and responsibilities of Local Government include:

- provision and maintenance of infrastructure
- provision of waste services (collection and disposal)
- provision of recreation facilities
- regulatory compliance such as food shop inspections, pool fence inspections and animal control
- community services, such as child care, aged care, community care and welfare services
- building services, including inspections, licensing, certification and enforcement
- planning and development approval
- cultural facilities and services, such as libraries, art galleries, etc
- water and sewerage services in some cases

2) How effective is rate pegging and what are the implications for councils and ratepayers?

Rate pegging is a constraint imposed on Council's revenue raising capacity because it effectively restricts Council's ability to increase its major source of revenue to fund the needs and desires of the community. As the cumulative impacts on Council's service delivery costs increase, Council has not been in a position to catch up due to the rate pegging restriction.

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

To ensure Councils are able to adequately fund the appropriate services and provide the necessary infrastructure to meet the needs of the community.

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

- Promote the effective and efficient provision of services?

The current framework does not enable effective provision of services because the major revenue source (rates) is capped and doesn't keep up with the costs of providing these services.

- Enhance the financial sustainability of local government?

The current framework is not conducive to financial sustainability because it restricts a Council's ability to generate enough revenue to fund the increasing cost of providing those services.

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

We believe there needs to be a "watchdog" to ensure Councils are acting in the best interests of the community when setting their rates. The "watchdog" role could be performed by either the Dept of Local Government or IPART.

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?

Should the Dept of Local Govt assume the "watchdog" role referred to in Issue 5, then IPART's role should be limited to making recommendations, if and when recommended by the Minister.

14) What infrastructure and services do councils currently provide?

Council is responsible and accountable for the management of assets and the provision of services to the community. This means maintaining our roads, sporting grounds, facilities, and drainage network at a reasonable and safe standard for the community to enjoy. With a replacement value of almost \$320 million and an annual depreciation of more than \$6 million, the task of asset renewal and building new facilities is difficult in the current climate of rate-pegging and increasing costs that are beyond our control.

To bring Council's infrastructure assets up to a satisfactory standard today, Council would need to spend in excess of \$24 million. This is a situation that has

been steadily worsening from year to year due to the fact that Council can only afford to spend around half of the \$11 million per year that it should be spending on infrastructure maintenance.

16) To what extent is there overlap with other levels of government?

There is currently an overlap with the State Government in relation to responsibility for Rural Fire Service infrastructure and the funding of the service. There are issues with the current arrangements as Councils have no control over the RFS level of spending yet are required to fund a percentage of this expenditure. Council's are also required to record RFS assets on their balance sheets and the depreciation of these assets impact on a council's operating position.

17) To what extent do service levels vary between councils in their scope, value and quality of infrastructure and other assets?

Wollondilly is known as an "urban fringe" council. Such councils have high growth pressures and usually accommodate the tree-changers from the adjacent metro area who come with high expectations for an "urban" level of servicing and infrastructure. This fringe status also has its own unique infrastructure requirements re transport infrastructure as the population invariably need to travel back to the adjacent metro area for work and other lifestyle needs on a daily basis - so there's a big demand for networks back into the city. It's probably fair to say that the regional rural councils don't have such issues in this regard, as they are generally more self-contained.

There are also important differences between Councils when it comes to the type and form of development that they tend to accommodate. Wollondilly tends to be pressured towards low density rural and semi-rural housing forms which are definitely less efficient in terms of overall infrastructure costs and provision than are other forms of more consolidated development that occur in established urban areas.

Wollondilly also has the disadvantage of being responsible for a large geographical area with correspondingly large lengths of road to maintain, but with a relatively small number of rateable properties due to the significant areas of unrateable land (ie: water catchments and National Parks).

The standard of asset provision, being type, quantity and most importantly quality varies greatly between Council's and the socio economics' of the population. For example, some inner city Councils re-surface their roads when the Asphalt has some "gravelling" on the surface as they are a bit rough. Wollondilly chooses to seal most of its roads with what is called a "Two Coat Spray Seal" as this is much cheaper. This would be as rough, when new, as the inner city Council's asphalt is when they are ready to replace it.

18) What factors cause differences between councils' provision of infrastructure and services to arise?

The range of services provided across Councils can vary significantly. Some Councils provide community services directly to the community (eg: Children's Services, Youth Services, Aged Services, Recreational services etc). Other Council's do not provide direct services and instead they facilitate the accommodation of NGO's in Council premises. There are also Councils who just choose to carry out strategic planning functions and lobby for State and Federal government to fund NGO's. Many Councils perform a mixture of all the above and it is often the amount of available resources that dictates extent of the services provided and their priority. (eg: infrastructure v children's services v environmental strategies, etc.)

In line with the comparably low rate base, Wollondilly Council has been forced to review its service delivery levels in terms of what services can be provided with the limited resources available. The aim of the review is to develop and implement a methodology for defining, measuring & comparing existing levels of service for Council's various activities to facilitate Council decisions on future levels of service, including Council's role and the resources required.

Wollondilly provides Children's services such as family day care, before and after school care, vacation care and occasional care services. Long day care is not provided by Council because this is generally provided by private enterprise across the Shire. We provide mainly advocacy and community development services to the community - limited in comparison to other councils. We undertake a strategic social planning role for the area and a lobbying and advocacy role for the area at a state and federal level

Our role as a council is to lobby and facilitate services for the community. If it was left up to the free market, then access and equity issues would tend to go out the window due to the corporate world's "user-pays mentality". Countless members of the community would not have access to many of their needs unless they had the money to pay for that service. In contrast, local government's social conscience ensures we have a role to either facilitate and/or provide services if there is a need in the community for a particular service that no one else is providing. Once there is capacity in the community to provide these services, then Councils should endeavour to hand the services over to the community or NGO's.

Both the State and Federal Governments can often be regarded as too far removed from the local issues and areas such as Wollondilly can miss out particularly if there is no one at the state or federal level advocating the cause. As a result, Council has an advocacy role to raise this issue with the State government and a community development role to build capacity within the community to speak out and develop sustainable healthy communities.

Services are sometimes funded by the State or Federal government on a regional basis. For example, funding may be provided to the Macarthur Region (of which Wollondilly is a part) rather than individual grants being provided to

each Council within that region. By providing funding to the regional body rather than each of the member councils, there is the risk that the benefits from that funding may not flow through equally to each of the local government areas.

19) To what extent are ratepayers satisfied that Councils provide services that are appropriate and delivered effectively and to acceptable standards?

The range of services provided by Council is largely guided by our Community Strategic Plan and Social Plan both of which have been developed in consultation with the community. Council has a good history of customer satisfaction as reflected in the feedback that is regularly sought from the users of Council services.

Nowadays there generally tends to be a greater expectation for services, including the extent of consultation carried out as part of the process and the standard to which those services are provided. There appears to be little understanding of the implications on Council's resources of these extra demands or of the time taken to carry out the extra processes.

20) What demographic, intergovernmental, economic, social, technical and environmental changes are affecting Councils now and their future revenue requirements?

Often, residents moving from one area to another have certain expectations of service delivery based on their experiences with other Councils. This can have a great impact upon the relationship Council has with residents and expectations on whose responsibility it is to provide services.

Over the past couple of decades, the State and Federal Governments have changed their views in relation to the direct provision of some services and the decision of whose responsibility it is to provide these services can have a significant impact on Councils. Contracting out has caused competition between non-government organisations (NGO's) and in the end it is the community that misses out. Cost shifting and issue shifting between State and Federal Governments has impacted upon Councils. If a Council doesn't have the capacity (and resources) to deliver and there are not many NGO's providing services, an area can suffer greatly.

In the future, changes that are expected to affect Councils such as Wollondilly include the following:

- ageing population with different and costly service needs
- high expectations of tree-change life-stylers (as mentioned earlier)
- the inequities of being transport-dependent will get worse with rising fuel prices / peak oil scenarios etc - how this plays out for Council remains to be seen
- increased public awareness and legislative requirements regarding a whole range of issues - transparent government, consultation, environmentalism, resident rights, etc. As well intentioned as this may be, it has increased the

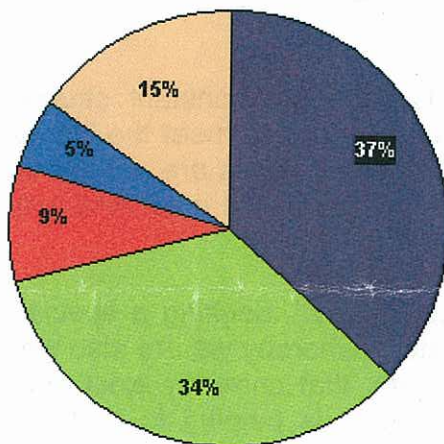
cost of doing everything as everything is much more complicated and process-heavy and ultimately less efficient. This "over-democratisation" of local government appears to be an ongoing trend.

21) What are the implications of the different revenue sources and revenue raising capacities for rate pegging or alternative regulatory frameworks which may be proposed?

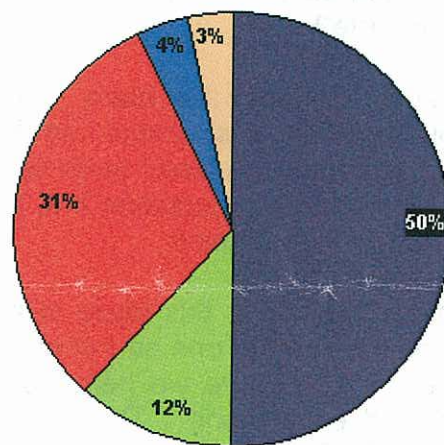
Taxation revenue (ie: rates and annual charges) comprise about half of Council's revenue, yet because of rate pegging, our principal source of revenue is constrained in comparison to levels of expenditure which have the potential to rise at a rate greater than the rate pegging figure. Grants and subsidies provide almost a third of the Council's revenue, whilst the remaining portion (19%) is made up of user charges and fess and other miscellaneous income.

When compared to the average figures for NSW councils, it can be seen that Wollondilly has a greater reliance than other councils on the revenue sources over which it has little or no control (in terms of generating additional revenue). To put it another way, more than 80% of Wollondilly's revenue is in the form of either rates and annual charges (which are restricted by the imposition of rate pegging) or grants and contributions (the allocation of which is primarily determined by other levels of government). Council is therefore relatively restricted in its ability to generate additional revenue through its discretionary revenue sources, such as user charges and fees.

NSW Average (06/07)



Wollondilly (06/07)



Rate pegging is a constraint imposed on Council's revenue raising capacity because it effectively restricts Council's ability to increase its major source of revenue to fund the needs and desires of the community. As the cumulative impacts on Council's service delivery costs increase, Council has not been in a position to catch up due to the rate pegging restriction.

Much of Wollondilly's infrastructure is ageing and requires constant maintenance and renewal. In order to do so, Council has obtained approval from the Department of Local Government for a five year Special Rate Variation (of which we are currently in the fourth year). The Variation is aimed at producing a more realistic rate for Wollondilly, which will in turn ensure the local road network and public assets are left in good shape for future generations of Wollondilly residents.

The Federal Govt introduced Financial Assistance Grants in 1974-75 as a way of distributing taxation revenue to local government. However, it is interesting to note that the proportion of Financial Assistance Grant funding as a percentage of the total Commonwealth taxation revenue has steadily declined over the last 20 years.

Many other funding opportunities available to Councils require a dollar for dollar commitment which means that in order to accept a grant of this type, a Council must contribute an equal portion of its own funds from general revenue. In order to do this, some other unfunded project must be either deferred or cancelled.

23) To what extent has the control of rates revenue under the rate pegging regime limited overall revenue growth or encouraged greater use of non-rate revenue?

Wollondilly Council, like many other Councils, face the constant struggle to remain financially sustainable into the future as we strive to meet the increasing level of expectation placed upon us. Current resource levels are not enough to meet the level of expectation into the long term, so Council must find ways of dealing with this dilemma.

We are approaching this issue in a multi-faceted way. Seeking a special rate variation has formed one part of an overall strategy whereby we are also working smarter to make sure we help close all the gaps that currently exist between reality and expectation. The special rate variation is helping to address the backlog of infrastructure maintenance required on our ageing road network, but there are many other factors affecting our level of financial sustainability.

Other ways in which Council is closing the "gap" is through the negotiation of shared resource arrangements with other Councils and non-government organisations. We have also been taking a close look what services we can provide with the limited resources available. All of our processes are also being reviewed with a view to identifying and implementing efficiencies

24) To what extent are local governments' expenditure requirements likely to grow in the future?

This is difficult to predict, however fuel costs have risen by approximately 25% last year and are expected to increase by a similar amount again this year, which will have a significant impact on vehicle running costs and construction costs.

30) To what extent have councils undertaken efficiency reforms and has this been effective?

Over recent years, Council has undertaken a major process review program where teams have been formed for the purpose of implementing a wide range of business improvement opportunities. One of the success stories to come out of the review process has been the successful implementation of an electronic records management system to replace Council's outdated manual record keeping system. Significant efficiencies are being experienced, in terms of process efficiencies (resulting in time savings) as well as solving storage issues. The implementation of the new system has also provided the added benefit of improving Council's level of compliance in relation to the State Records Act.

More recently, Council has implemented a complete new Corporate Information System (incorporating all of Council's computer applications, with the exception of the Records Management System). The system has only been "live" for approximately 8 weeks however once the system has settled in and users become more familiar with the new processes, huge efficiency gains are expected to be realised. Compliance with regulatory requirements and Council policies and procedures will also be improved as the new system helps enforce the correct procedure to be followed.

Wollondilly has also undertaken efficiency reforms in relation to its fleet management. In 2003, 95% of Council's car fleet was 6 cylinder vehicles. In 2008, this figure has been reduced to only 5%, resulting in large savings in fuel costs as well as significantly reduced emission levels.

39) Which performance measures should be developed for councils (or groups of councils) to provide information on outcomes, outputs, processes, inputs and cost effectiveness in their service delivery.

Council is currently focussing on the development of more realistic and meaningful key performance indicators which will be used to review operational capabilities. ie: departmental and corporate performance, as well as achievements in relation to original plans. In order to define a complete set of indicators, it will be necessary to ensure that simple, workable measures are in place. The real challenge is not only to select those indicators that satisfy budgetary goals, but also to build the activities needed to meet the levels of asset performance required to meet strategic goals and the community's expectations.

42) What alternative regulatory models could be used to regulate rates and charges in NSW?

It is Wollondilly's view that Councils should have the right to set rate increases in line with Management plan projections (similar to the Victorian model), with a ceiling of say around 10%. This way the rate increase is decided by asking the community how much they really want the services being offered and consequently how much are they are prepared to pay.
