

COFFS HARBOUR CITY COUNCIL



Our ref: IR 2300965

16 September 2009



Dr Michael Keating
Chairman
Review of Regulatory Framework of
Local Government - Draft Report
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB POST OFFICE NSW 1230

Dear Sir

Draft Report into the Revenue Framework for Local Government

Please find attached Coffs Harbour City Council's comments on the Draft Report into the Revenue Framework for Local Government. Council has appreciated the opportunity to review the draft report and have considered a range of matters in developing this response.

Should you require further clarification in relation to the Council's submission, I can be contacted on 6648 4201.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Craig Milburn', with a long horizontal flourish extending to the right.

Craig Milburn
Director
Corporate Business



COFFS HARBOUR CITY COUNCIL

RESPONSE TO THE

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
REVENUE FRAMEWORK FOR LOCAL GOVERNMENT**

DRAFT REPORT

JULY 2009

(IR 2300965)

ITEMS FOR COMMENT

Is there a Need for Rate Pegging?

The Independent Pricing and Regulatory Tribunal (IPART) highlights the fact that when all income sources are reviewed, councils in NSW appear not to have been constrained by rate pegging. If this is the case, then consideration must be given to the value of rate pegging at all. Councils, like all their counterparts throughout the rest of Australia, should be judged by the democratic process at the polling booth every four years. Councils could not, if they wish to be re-elected, impose excessive increases on their ratepayers and still maintain their support over the longer term.

Councils are, however, facing a huge backlog of infrastructure maintenance even before addressing adequate replacement programs. For this to be met, increases are required which will generally not be understood by the local public and will not gain the public support. Civic leadership requires difficult decisions to be made. The community at large elects its representatives to make those difficult decisions and Council should be given the freedom of a democracy to make those decisions, and to pursue those through the ballot box. Options A and B both deny the democratic process to take place and impose an artificial barrier on the ability to manage the budget of a large and complex business adequately.

In the remarks on page 54, IPART highlights that local councils and their communities are best placed to make decisions on activities and finances of the local government, particularly as they relate to the balance between revenue and expenditures types, qualities and standard services and the level and type of revenue that should be collected to fund the expenditure. Coffs Harbour City Council (CHCC) is in strong agreement with this and believes the only adequate manner in which this can truly occur is that for rate pegging to be totally lifted and the democratic process, through the voting of the local residents at the polling booth, be permitted. This is in line with both Federal and State tiers of government and gives due recognition to the fact that local communities can and are able to hold their elected representatives at the local level, accountable for their financial performance.

Council also notes IPART's comments on page 77 that it finds that rate pegging has not constrained total revenues in NSW and that other sources of revenue that

councils have turned to, to make up the shortfall obtainable through rates, have now slowed.

CHCC strongly supports this finding and wishes to highlight that this has an ongoing impact on a growing regional council's ability to fund the required services in their local area.

CHCC would also like to highlight the compounding impact of growth as highlighted on page 77 and 78 of the report. It is noted that NSW council revenue grew by 2.4% per annum in real terms, while NSW grew by 3%, and the rest of Australia for the same period 5.2% in real terms. The difference between NSW local government and the rest of Australia is in excess of 28% over ten years. This is a substantial impact on the income of any local government authority.

Council also notes the slowing of growth in the last ten years of revenue from sources other than rates. Again, any decrease in the ability for council's to source revenue to address the expenditure requirements, creates issues for councils in the long term in relation to their maintenance and replacement backlog.

Unlike Federal and State Governments local councils do not have a "growth" income source (taxes, stamp duty, etc). This makes it very difficult, given rate pegging, to recover from a poor financial position. Council's need to be freed up to cover the costs of their operations if in the long term they are to be sustainable.

Cost Shifting

Council notes the comments within the report that IPART has used a relatively narrow view of cost shifting in its definition and application to local government. CHCC has concerns about the narrowing of this definition and therefore the implications that Council has a greater level of income available for expenditure than it does in reality. Council notes that on page 257 of the draft report IPART recognises that an estimate of 6% of Council's total income before capital amounts can be taken by cost shifting. In the case of CHCC this amounts to \$4.6M per year.

Council supports the comments in the draft report that this is a substantial impost on local councils, and when compounded over the past 30 years in combination with rate pegging, has had a significant detrimental impact on councils that should be acknowledged in the report. Cost shifting and rate pegging denies councils adequate revenue to provide appropriate services and facilities to its local community, facilities and services that the local community have directly paid for via their rates.

Productivity Adjustment

CHCC would suggest that consideration be given to not introducing a productivity adjustment in relation to the local government index until such times as the cost shifting is reversed and councils provided with full funding for areas required to be covered by the State Government. The impost of a productivity adjustment whilst still meeting requirements of cost shifting, is a double hit on local councils which many cannot afford.

Local Government Index

CHCC supports the establishment of a local government index to be utilised in assisting the formulation of any prescribed rate pegging amount in the future. It will be important that recognition be given to elements such as the building index as much of Council's work, particularly in growing regional areas, are of a capital nature and are significantly impacted on by increases in construction materials.

CHCC does have concerns about the productivity adjustment and how this could be used politically as a pseudo rate pegging process. CHCC supports fully the need for ongoing productivity and efficiency gains within local government. However, the reality of 30 years of rate pegging has ensured that many councils are relatively efficient with very little 'fat' that can be trimmed. This is particularly true in areas such as Coffs Harbour as significant growth has had to be met through additional efficiency gains to allow funding on needed infrastructure.

Timing for the Release of the Index

Council acknowledges that the proposal is to release the index in approximately March with a tentative index in the September prior. This is recognised as a positive

step to allow councils to help formulate their budgets which commence normally in the October or November period. It will be important, however, that should councils formulate their draft budgets on the draft index, that the Minister gives some recognition to this and an indication that they will be following the recommendation of IPART in this regard.

Community Engagement

Council notes IPART's suggested approach to community engagement under option (b), pages 177 ff. Council has concerns with this method of community engagement for a number of reasons. These include the fact that often the people who will respond to a survey distributed by Council are those who have some matter of concern or issue with Council, and therefore a heavily weighted negative response is probable.

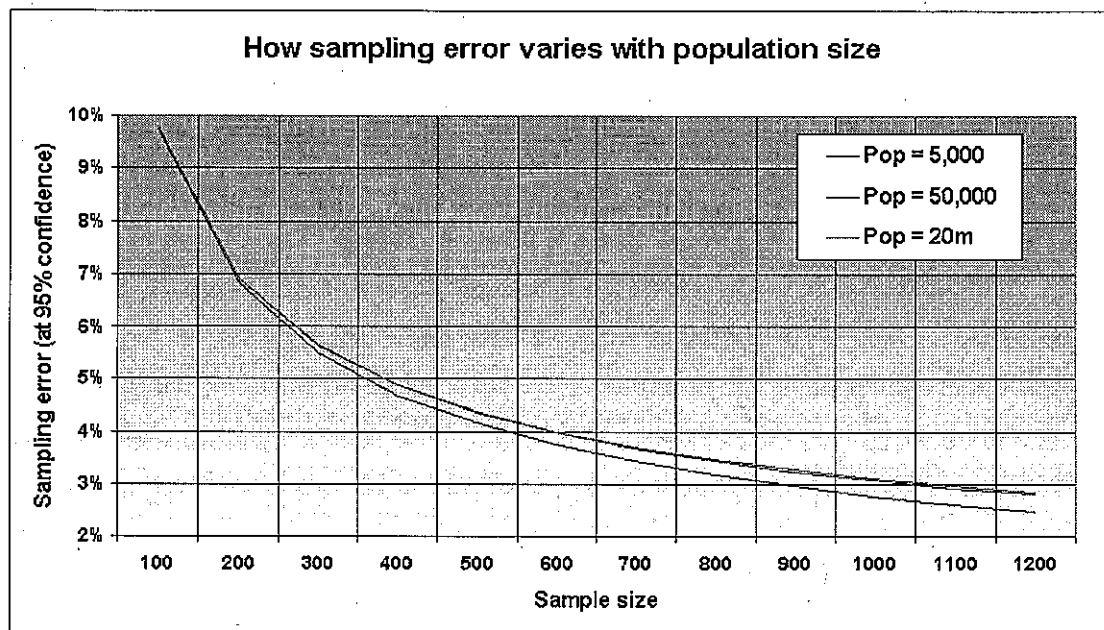
While it is acknowledged that the rate payers are the ones who are paying the rates, tenants are also directly affected through the amount of rent they pay which is dictated to some degree by the rates of the landlord. Under the proposal, tenants would not be part of the process.

Select community groups could mount a strong negative media campaign to ensure a negative response to such a survey through the use of the local media, particularly in regional areas, where there is daily, regional and local newspapers, TV and radio news bulletins.

CHCC recommends a more scientific approach which would allow an independent research agency to undertake a random sample survey that would ensure appropriate coverage of gender, geographical area and ages across the local government area.

Appropriately designed random sample surveys can ensure accurate results within 4.9% at the 95% confidence level. In the Coffs Harbour area, for example, with a population of 70,000 people, a scientific random sample survey of 400 residents would provide this level of accuracy. The undertaking of such a survey would ensure it was not prone to the points raised above.

A graph is attached below which outlines the level of confidence to the number of people surveyed. It is clear that there is very little difference in the level of accuracy on changing the numbers from 400 up to a number such as 1,200. Many national polls undertaken for national newspapers, politics etc, are only constituted of between 1,200 and 1,500 people polled on a random sample basis. Therefore, for a local government area 400 to 500 would provide a high degree of accuracy. Additionally, this level of survey would be affordable to most councils whether they be metropolitan, regional or rural.



IPART Recommendation to the Minister

CHCC supports the use of an independent agency such as IPART in formulating a recommendation to the Minister for any annual rate increases. This does increase the level of transparency in this first step of the process. What would be essential however, is that the Minister's decision in consideration of the recommendation, be published and transparent. This could be equated to the recent moves of the Federal Reserve Bank in publishing the minutes of their meetings, which allows the population to understand the reasons behind their decision and their thinking. In this case, the Minister would outline the reasons behind accepting or altering IPART's recommendations. This would then be made available to the public so there is an understanding of the reasons.

Definitions of Rural and Regional

CHCC has some concerns of the definitions used in relation to rural and regional councils. The clearest examples of these can be found on page 27 of the draft report.

In these two examples, it highlights rural councils as being responsible for infrastructure such as livestock saleyards, airports, caravan parks and the provision of water and drainage services. In fact, many regional councils have responsibility for all these. In its understanding of the impact of rate pegging IPART should ensure that the impact of these additional infrastructure impost is also recognised on regional councils as well as rural councils.

Impacts of Growth

Closely linked to this is the impact of growth on coastal regional councils such as CHCC. CHCC has recently invested large sums of money in new water and sewer infrastructure. In this regard CHCC has some degree of relatively new assets. Additionally CHCC also has a long history in the area and a significant level of aged infrastructure. Given this, Council has a significant backlog of asset maintenance requirements. Its current spending on maintenance is below acceptable levels before addressing the backlog. The new infrastructure also comes with increase operational costs which must be met.

The recent changes introduced by the Minister for Planning to Section 94 restricting funds to \$20,000 per lot on development, will have a significant impact on CHCC with between \$10 million and \$15 million of capital being denied to the local area over the next 10 years. This is another form where the State Government is controlling the expenditure of the local government which impacts negatively on local councils and their ability to provide adequate infrastructure in growing areas. CHCC will be forced to meet this new growth area expense by either cutting the requirements that have already been identified for these new growth areas, or by reducing spending on maintenance which is already below required levels.

Planning Horizons

Council notes that the core assumption of both options A and B is a four year planning horizon linked to election cycles. CHCC has concerns with both the limit of four years and also the linking to the election cycles. The new initiative of the State Government of integrated planning and reporting, requires councils to undertake a ten year plan and most councils will be planning between ten and twenty years for their long term financial planning and asset maintenance. The restriction to four years limits Council's capacity to adequately plan in the long term and restricts it simply to the short and medium term.

Linking the approvals required for options A and B, to the election cycle is problematic in that it can create a situation where the revenue plan is used as a political 'football' in the local area during the election campaign. This could see in groups bidding down or bidding up the revenue plan and the popularity being driven through this process. This could result in a council being elected on very poor financial credentials. Additionally, if it is linked to the election cycle and the revenue plan is not approved through the election cycle as currently recommended, then it leaves Council little option in terms of its ongoing forward planning and applications for greater control of its rate base.

Council would like to propose an Option C be considered. Essentially Option C would be open to a council that has met all the requirements of Options A and B. Option C would allow a council the flexibility to set its own rate base for a ten year period. This would be in line with its long term planning and financial modelling. Arguments that have been put up against this is that this allows councils to be fixing commitments for future councils, however, this is done on a regular basis in councils through its loan borrowings and other long term projects.

Councils should be free if they have demonstrated their financial credentials to set their rates as required to meet their communities' needs. As highlighted earlier in this paper, this is part of the democratic process and should this ten year modelling be inadequate for the community, the community will make that clear at the relevant elections.

Findings

Outlined below are Council's comments in relation to specific findings.

Finding 5

If a rate pegging process is to be maintained then Council supports the need to ensure that there is a greater level of transparency and the local government index is one way of doing this.

Finding 11

While the special variation may have been used by some councils to increase rates, this has been based on strong arguments placed before the Department of Local Government. This process is costly and difficult and the number of councils who have been refused rate increases in recent years is testament to this.

Finding 18

Council supports the finding that revenue growth has slowed significantly in NSW in the last ten years, and would suggest that this will place councils such as CHCC in a more untenable position in the longer term.

Finding 22

Council notes this and recognises that councils, in order to meet their basic requirements, have had to source income from other avenues such as charges and fees. If councils did not pursue this source of revenue, then their level of maintenance would be further behind and services further cut than what they currently are.

Finding 23

Impact of lower per capita growth and lower revenue from grants and subsidies, has a significant bearing on councils in NSW and something the NSW Government

should consider in both their allocations and their lobbying of the Federal Government.

Finding 24

Councils in regional growth areas with significant topographical challenges such as CHCC, face greater challenges than other councils with less topographical challenges in terms of the delivery of their infrastructure. The terrain on an area does significantly impact on the cost of providing infrastructure and services.

Finding 32

CHCC, like many councils, is currently undertaking a significant review of its asset management. It is believed this will reveal a significant under-funding of infrastructure maintenance and replacement programs. CHCC has not been able to reduce this level of under-funding in recent years and with new infrastructure coming on line, due to growth, this raises questions of its long term sustainability if rate pegging in any form is continued.

Finding 35

While in principal Council supports an increase in debt service ratios and the use of debt to fund infrastructure projects, which has intergenerational benefits, there are limits. CHCC, which is also a water and sewer provider, currently runs a debt service ratio in excess of 70% for its combined accounts, while the general fund is significantly lower between 6% and 8%. The massive investments in excess of \$300 million required in the last three years for water and sewer, has seen the debt service ratio for these two funds sitting over 80%.

When the financial position of a Council is already tight, debt ratios may not responsibly be increased unless additional income is available to meet the cost even if existing debt service ratios are low.

Finding 39

As stated previously, CHCC does not agree with this finding. The impact of cost shifting for CHCC is approximately \$4.6 million annually. This can, by no definition, be deemed to be small but should be seen as significant.

Finding 44

CHCC would argue that the current rate pegging framework has forced Council to ensure it provides efficient and effective quality services to its community. With rate pegging for the past 30 years, with until recently no discussion of removal, councils have had to maintain a longer term vision of low rate increases in their planning. This has forced councils into ensuring maximum efficiency and effectiveness wherever possible.

Coffs Harbour City Councils supplies this information in recognition of the importance of this issue and the need for significant reform to take place in relation to restrictions placed on local government in NSW by rate pegging.

Should you require further information on this matter please contact Council's Director of Corporate Business Mr Craig Milburn on 6648 4201.