

Dr Michael Keating
Independent Pricing and Regulatory Tribunal
of NSW
PO Box Q290
QVB Post Office NSW 1230

18 September 2009

Dear Dr Keating

**Submission to the IPART Inquiry-
Draft Report into the Review of the Revenue Framework for Local Government**

Please find attached the City of Ryde's submission in respect of the recommendations detailed in the Draft Report into the Review of the Revenue Framework for Local Government.

The City of Ryde thanks IPART for the opportunity to comment on the Draft Report and looks forward to the final report into the Review of the Revenue Framework for Local Government.

If you require any additional information, please contact me on 9952 8011.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Roy Newsome', written in a cursive style.

Roy Newsome
Group Manager - Corporate Services



CITY OF RYDE- SUBMISSION IN RESPONSE TO REVIEW OF THE REVENUE FRAMEWORK FOR LOCAL GOVERNMENT- DRAFT REPORT JULY 2009

OVERVIEW

The City of Ryde acknowledges the terms of reference provided to the Independent Pricing and Regulatory Tribunal of NSW (IPART) in undertaking this review of the regulation of Council rates and charges in NSW. It is disappointing that, in undertaking such an extensive review, that it was restricted to only to the rating system and did not explore other revenue opportunities to support Local Government's long term financial viability.

However, in the terms of the review undertaken by IPART, the City of Ryde supports the intent of the recommendations in;

- making the process for Councils seeking multi year rating variations more flexible,
- having clearer criteria for the determination of those applications, especially linking it to the Integrated Planning framework ,
- providing an opportunity for Councils to gain autonomy over its rating decisions and
- providing greater transparency of the determinations of the Minister, in providing reasons on why applications are approved or refused.

The City of Ryde's submission addresses a number of concerns and opportunities it has with a number of the recommendations, that hopefully will assist the Tribunal with important feedback in reviewing the recommendations.

The City of Ryde also supports the submission submitted by the Northern Sydney Region Organisation of Councils (NSROC) of which the City of Ryde is a member.

KEY CONSIDERATIONS

Local Government's Financial Position

On pages 4-7 of the Executive Summary, it describes the findings of IPART in this review and concludes that the average financial position of NSW Councils is not any worse than in other States. It states Council's revenue growth has been strong and debt levels contained, however notes that the revenue from user pay sources will be difficult to achieve further increases as a proportion of revenue raised.

On the revenue side, Councils have attempted to increase other user charges to improve and maintain their revenue base due to the restrictions of rate pegging. IPART's conclusions that maintaining revenue from user charges will be difficult, is correct. As an example, like many Councils over the last financial year due to the impacts of the global financial crisis, the City of Ryde has experienced reductions in development application and Section 94 income. In addition, in Council supporting and assisting its local community, it maintained 55% of its Fees and Charges for 2009/10, at the same levels as in 2008/2009. This was to ensure that especially children, youth and the elderly members of the Ryde community could continue to access and utilise Council facilities such as use of grounds for sporting facilities, vacation care and entry to Council's Aquatic Centre etc. On the expenditure side, the report indicates that NSW Councils operating expenditure has grown more rapidly than in other States, while capital expenditure on new infrastructure is lower and grown less than in other states.



One of the reasons why Council's would not be undertaking new capital works is that they are finding it difficult to maintain their current infrastructure, whilst continuing to deliver services to the community. This has been well documented in studies, in particular the review undertaken by Professor Percy Allan on behalf of the NSW Local Government Association into the Financial Sustainability of NSW Local Government. The general finding, apart from the finding that a number of Councils were considered not to be financially sustainable, was that there was a significant backlog in infrastructure, estimated at the time at \$6.3 billion.

IPART's findings appear not to have given this issue the recognition that it warrants in providing a better mechanism for Council's to address their infrastructure backlogs. For example, if acknowledged as an industry wide issue, there could be consideration of a standard component in the Local Government Cost Index (LGCI) to contribute towards the backlog. This could be on the basis that it is reviewed on a four (4) year basis.

In respect of the increases in Council's Operating expenditure, one of the factors for NSW Councils apart from absorbing many services and functions through cost shifting from other levels of Government, has been absorbing the State Government contributions and charges that are required to be met from Local Government. As an example, for the City of Ryde it will pay the State Government through its agencies, contributions and charges totalling \$8.1 million in 2009/2010 from \$7.2 million in 2008/2009. The important point to note with these contributions and charges, in addition to the quantum, is that Local Government has no input into the level of the contribution or charge and invariably the increase from year to year, imposed on Local Government, is well above the approved rate pegging limit set by the Minister.

These contributions and charges, due to their impact on Council's operating expenditure need to be reflected in the proposed LGCI.

OPTIONS A and B

The mechanism of how both Options A and B are noted and the concept of Council's having autonomy over their rating decisions under Option B, is supported with the following points;

- as discussed at the Sydney workshop, the financial benchmarks that have been stipulated for Option B are too onerous and should be reviewed to be targets. The emphasis should be on allowing Councils who have demonstrated, through their commitment to engage with the community in developing their Community Plans and complying with the requirements of the Integrated Planning legislation to qualify for consideration under Option B. Councils should demonstrate that they are improving their overall financial position and whilst the financial targets may not yet be reached they will achieve those targets in 2-4 years. Such an approach is necessary, otherwise the only Councils that meet the financial indicators are ones that do not require to pursue a rate increase.
- In respect of the options detailed in the report to demonstrate a community mandate, the points made by NSROC in their submission are supported. As an example, the City of Ryde undertakes a community survey on a biannual basis. The survey sample has ranged from 700 up to 2,000 residents (approx 2% of population). This exercise has been very beneficial however is costly, with costs in



- the range of \$30,000- \$45,000. To reinforce NSROC's point in their submission, achieving a participation rate of 50-60 per cent in a survey is not realistic.
- The option of a referendum or plebiscite at the general Council election is seen as a more practical option on the basis that it is separate to the general election of Councillors. The referendum would be seeking the community's response on a general proposal that if certain projects or outcomes were delivered, would the community be prepared to pay additional rates.
 - On the question of what is the required response to support a community mandate, no matter what the outcome is from the referendum, there should not be any binding outcome on the Council and it should be a matter for each Council to determine.

Local Government Cost Index

As detailed in the report, it is intended that IPART determine the annual Local Government Cost Index, based on the cost items as detailed in Chapter 17 of the Draft Report. The establishment of a Local Government Cost Index (LGCI) is supported as it better reflects the costs incurred by the Local Government industry with the following comments;

- IPART should consider, as an alternative to setting an annual LGCI based on retrospective data, to provide a four (4) year prospective index. This would be the minimum increase Councils could increase their rate income under the proposed Option A. The reasons for this suggestion are;

Setting a four (4) year LGCI would support Councils, the Department of Local Government and the community to understand that Councils are now planning and acting in setting 4 year plans. It provides greater certainty to residents, Councils can plan with greater certainty and the Department can focus on other key issues. It would require some controls like Councils could not levy more than 50% of the index in any one (1) year and Councils would be required to specify how they intended to levy the 4 year index in their Delivery Plan. This simple initiative would have a significant shift in thinking across the industry and reinforce the importance of mid-long term planning.

- As detailed earlier in this submission and NSROC's submission, it is imperative to include the contributions and charges from State Government in the LGCI to accurately reflect the key average costs to Local Government
- The other key issue in IPART establishing and recommending the LGCI, is that it should not be changed by the Minister. Setting the LGCI should be seen as an independent assessment and for the State Government of the day to accept the recommendation from IPART. From all perspectives this would be a sound outcome and would improve the transparency of this process.