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16 September 2009

Independent Pricing and Regulatory Tribunal
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Dear Sir/Madam

Review of Revenue Framework for Local Government - Submission from Gosford City Council

Gosford City Council welcomes the opportunity to lodge a submission regarding the Review of Revenue Framework for Local Government.

Council has long held the view that rate pegging places financial pressure on local government and prevents the charging of rates sufficient to meet local needs. While Council welcomes a review of the revenue framework for Local Government and agrees in principle with the concept of a cost index, there are still some concerns as to how the IPART recommendations might be implemented, particularly in regards as to what expenses are included in the calculation of the proposed cost index. There are also concerns about some assumptions made by IPART in arriving at their recommendations.

It is a concern that the proposed cost index is only designed to ensure that the annual increase in income from rates keeps pace with the annual increase (inflation) in the cost of carrying out the business of Local Government. However, IPART has not taken into consideration that the current income levels have not kept pace with inflation in the past and so the existing base income level as a starting point is understated. Therefore, when the new cost index is applied, it will at best only ensure that the funding levels do not fall any further behind, but it will not address the already existing shortfall. The existing shortfall in funding across the state is evidenced by the backlog of asset maintenance and infrastructure works that has developed due to the lack of sufficient funding since 1977.

At the public workshop held at the Grace Hotel, Sydney, on 2 September 2009 it was commented on a number of occasions by the IPART representatives, that they (IPART) do not accept that the backlog of infrastructure works in NSW is anywhere near as severe as is being reported. It was also commented (IPART) that the income level for NSW Local Government is, by and large, currently at the correct level. Council challenges these assumptions particularly in light of the 2006 Allen Enquiry into the Financial Sustainability of Local Government in NSW. This enquiry reported at length about the unstainable financial position of NSW Local Government and the enormous backlog of infrastructure works facing local communities. Without recognising this as the base position, the cost index proposed by IPART can never address the underlying problems facing Local Government in NSW.

The concept of having one cost index for the state is considered to be inappropriate. Different regions encounter vastly different circumstances and these regional differences are not taken into account with a "one size fits all" approach. Issues relating to isolation in the far west of NSW, drought, unemployment, various proportions of pensioner populations, the effects of sea change and the different impact these have across the state have a major impact on the ability of individual Councils to raise revenue. However, these impacts have not been recognised by IPART in formulating their cost index.

Council is also concerned about being restricted by a cost index in their ability to raise rates and yet there is no such restriction on the State Government when it comes to levying statutory charges such as the contribution to NSW Fire Services, payments to the NSW Electoral Commission etc., which are unrestricted and in the past have increased at rates far higher than the maximum allowable rate increase. It would appear that the proposed cost index does not take into account these extraordinary increases in statutory State fees and charges. This needs to be addressed and be reflected by way of a compensatory increase in the cost index.

Similarly to the unrestricted increases in State charges, the proposed cost index does not take into account the extraordinary increases in Council's expenditure for items such as the increased superannuation payments required for Councils over the next (estimated) ten years. By excluding such items from the cost index, Councils will never be fully compensated for the actual increase in annual expenditure, which ultimately must result in a reduction in levels of service, a further deterioration of assets and an increase in the backlog of works. An item such as the extraordinary superannuation payments required from Councils with staff in the defined benefits scheme, only highlights the inadequacies of having one cost index for the entire state and the lack of an alternative way of recognising individual burdens placed upon Councils.

Local Government in NSW faces a massive backlog of works brought about primarily by lack of adequate sources of funding. If a cost index is to be introduced it should be applied to the correct income base and reflect all costs faced by Councils. As has already been discussed, this is not the case with the current IPART proposal. It is of even greater concern that, despite the already identified shortcomings, IPART recommends that the calculated cost index be reduced by the application of a productivity factor. The introduction of such a productivity factor will only ensure that the backlog of works becomes even greater.

It can be argued that with rate pegging in place since 1977 along with cost shifting from other spheres of government, NSW Councils have achieved productivity increases by continuing to provide works and services to its ratepayers from an eroding funding base in real terms.

At the 2 September 2009 workshop a suggestion was made to include in the cost index a factor to address the backlog of asset maintenance and infrastructure works that has developed due to the lack of sufficient funding since 1977. At least this would acknowledge a problem that exists and one that must be addressed over time. If IPART is keen on a Productivity Factor then a stronger argument could be mounted for an Infrastructure Factor.

Alternatively, if Council were to avail to Option B and seek autonomy in setting revenue requirements and annual rate increases above the regulated rate, other hurdles arise. Being held accountable and demonstrating a sound financial management track record is fair enough, but proving a community mandate exists may be difficult in view of the proposed guidelines. If Council is to demonstrate community support by relying on community surveys, getting a 25-30% participation rate could prove difficult as would the need to achieve 50-60% support from the participants in order for Council's proposal to pass.

Conclusion

Council welcomes the opportunity to comment on the IPART Draft Report on the Revenue Framework for Local Government. The concept of abandoning rate pegging is supported. However, the introduction of a cost index that does not address the shortcomings of the current system cannot provide solutions to existing problems. Council would support in principle the introduction a cost index provided the concerns outlined in this submission are adequately addressed.

In terms of Option B, the proposed 25-30% participation rate could prove difficult to achieve and coupled with the need to achieve 50-60% support from the participants in order for Council's proposal to pass, would represent a very time consuming and expensive exercise that has little chance of success.

If any point raised requires clarification, then please feel free to contact Council's Director - Corporate Services, Nic Pasternatsky, on (02) 4325 8340.

Yours sincerely

Peter Wilson
General Manager