



Great Lakes
COUNCIL

**SUBMISSION TO THE DRAFT
REPORT OF THE
INDEPENDENT PRICING AND
REGULATORY TRIBUNAL OF
NSW - REVENUE FRAMEWORK
FOR LOCAL GOVERNMENT**

SEPTEMBER 2009

Introduction

Great Lakes Council covers an area of 3373 square kilometres and is located on the NSW Mid North Coast stretching from Hawks Nest/Tea Gardens in the South to Forster Tuncurry in the North. Major towns within the Council area are Forster-Tuncurry, Hawks Nest/Tea Gardens, Bulahdelah, Stroud, Pacific Palms and Nabiac. The current population of the Council area is 34,900.

Council does not administer water and sewerage functions. Mid Coast Water (a County Council) administers water and sewerage functions for the Great Lakes and Greater Taree Council areas. Mid Coast Water has offices in both Forster and Taree.

Council commissioned an independent review of its financial sustainability in 2007 by Review Today and this review was conducted by Professor Percy Allan AM in conjunction with Access Economics and GHD. Professor Allan concluded that Council has a \$26 million Infrastructure Backlog and a current under expenditure of \$6.4 million per year. Left unaddressed this backlog will grow to \$100 million in 2 decades.

Professor Allan also concluded that Council had limited alternative revenue sources compared to other more urbanised centres. His responsible scenarios contained the infrastructure backlog ratio to 4% (rather than the projected 10.5%) and **required rate revenue to increase by 6.5% per annum for the next 10 years**. It also required borrowing levels to increase to a level where the net financial liabilities ratio would rise from 3.3% to 10% based on the increased revenue from an ongoing rate increase. The scenario proposed by Professor Allan resulted in moderate infrastructure expansion but well below that warranted by population growth and service spending being frozen at current levels in real terms.

Summary of Council's Position

Council welcomes the opportunity to make a submission to the IPART Draft Report. Council is disappointed that the Report does not adequately address the vastly different revenue raising capacities of councils across NSW. While IPART acknowledge this, the report recommendations do not address this issue and propose the continuation of a one size fits all centralised regulatory system. Such an approach ignores the self regulatory democratic system of setting rates which successfully operates in other Australian states and New Zealand and represents a further unnecessary layer of administrative accountability. The NSW Treasury submission to the IPART Issues Paper is clearly critical of rate pegging not achieving any positive outcomes. It contends that the assumption that Rate Pegging creates efficiencies is flawed, and suggests that it actually results in service reductions. Great Lakes Council has curtailed services over several years and the most recent budget required severe service cuts. These are due to revenue constraints and support the NSW Treasury Position. Further detail on service reductions made by Council as a result of revenue constraints is contained in this submission.

Council supports Alternative Option 5 on Page 185 of the Report which proposes the introduction of measures to enhance accountability to the local community and remove mandatory rate pegging. This option aligns with the NSW Treasury Submission Option C1 as summarised below:-

"C1. Councils determine general rate revenue subject to meeting regulated processes. Government would determine the governance processes, such as development of management plans, compulsory reporting, and public consultations. These would be based on the current Department of Local Government proposals that local councils operate formally with a ten-year Community Strategic Plan, a four-year Delivery Plan and one-year Operating Plan, with community input into the development of each plan. Additional features may be derived from the Victorian, Tasmanian, Canadian or New Zealand models.

*If councils do not follow the regulated process, a rate peg may be applied. **However rates would be regulated by state government only if there were a failure of due process.** Government would also retain reserve powers under designated conditions to determine rates or take over local administrations in the event of gross incompetence or malfeasance.*

If the state government considers that it is necessary to provide some protection for low-income households, this option could include some rate rebates for low-income households as in the UK Model. However the need for this is lower than in the UK where rates are a higher percentage of HDI than they are in NSW."

It should be noted by IPART that the Integrated Planning and Reporting Framework being introduced by the Department of Local Government is based very closely on the New Zealand Model of Long Term Council Community Plans.

This model works very effectively and Great Lakes Council supports the overall aim of Integrated Planning and Reporting. It seems incongruous however to implement such a system with the intention of achieving similar outcomes but then take away the local accountability for setting rates which works so effectively in New Zealand. The obvious questions are why is the additional layer of a centralised administrative system necessary and what value does it add?

The State Government should rightfully have a role in regulating the process of making rates (through the Integrated Planning Framework) and issuing guidelines. Councils can then be regulated based on compliance with the guidelines. This is very different to regulating the level of rates. This system operates successfully elsewhere and is based on intervention where necessary (or by exception).

Council also refers IPART to the Local Government and Shires Associations of NSW Submission dated September 2008 in response to the IPART Issues Paper. Council supports the details in this submission which identifies the rationale for removing rate pegging.

While Council welcomes the development of a Local Government Cost Index prepared by IPART it considers this should be used in conjunction with Option 5 to assist the public accountability process. The productivity adjustment factor is not supported as it lacks detail of how this would be calculated and does not consider the diversity of local government service delivery, across NSW councils. Can a productivity adjustment factor be applied equally to metropolitan Sydney road maintenance and Bourke Shire Council road maintenance?

Key Issues Arising from the Draft Report.

Recognition of Diversity of Councils

The IPART Report acknowledges the significant diversity between councils across NSW and their capacity to raise revenue. The recommendations however contain nothing to address this. Metropolitan councils have the ability to raise significant revenue through paid parking schemes and parking fines. Some metropolitan councils raise the same amount or more from parking revenue as they do from rates. These amounts are significant and when averaged across NSW paint a picture of councils being able to raise revenue through alternative means. **Great Lakes Council for example raised \$120,000 in parking fines for 2008/09 which equates to 0.55% of Rates Revenue. As quoted above some metropolitan councils parking revenue equates to 100% or more of rate revenue.** This inequity is pointed out to demonstrate the inaccurate picture portrayed by the notion that councils raise revenue through other means. Some councils have this option but opportunities are very limited for rural and regional councils. In relation to Great Lakes our User Fees and Charges appear to be relatively healthy at \$8.7m however \$4m of this is Caravan Park revenue. Council's Caravan Parks are located on Crown Reserves over which Council is Trust Manager and all revenue must be reinvested in these Reserves. In effect this revenue has no impact on Council's bottom line.

For the report to assume all councils have the ability to supplement revenue through other sources, to a meaningful level, ignores the differences between councils and is an inaccurate generalisation.

There are various other points of diversification which impact on the types of services demanded, the ability to realise efficiencies, and the level of infrastructure backlog. Rural and regional councils often have vast areas to cover and many small population centres to service. This results in duplication of services across a council area. The weighing up of the need for services and capacity for ratepayers to pay can only realistically be achieved by a local democratically elected council in touch with its community. It is unreasonable to expect a Minister to sit in judgement of service provision across 152 councils using an administrative assessment system through the Department of Local Government. In effect the IPART proposal does not alter this it just proposes an alternative system which still has no local accountability.

Rate Pegging in Another Form

The IPART Report refers to councils needing to earn their independence by demonstrating a community mandate for a councils medium term revenue plan. In theory this sounds like an independent umpire decision but in reality this is a flawed system likely to continue to penalise local communities through loss of services effectively regulated by the Minister for Local Government. The Local Government Act gives councils responsibilities and a legal framework to operate under. Councils have to be accountable for their actions, defend actions through the legal system, provide services, and be responsive to community needs but cannot determine appropriate rating levels without convincing the Minister for Local Government that it is reasonable. **This means the Minister and Department officers have to understand the issues in communities across NSW.** This we know is impossible so reliance is placed very heavily on an administrative assessment system and soon on integrated planning and reporting. Councils with capacity to meet these requirements and the proposed IPART requirements may be able to commit the significant resources required to not only engage their communities but to provide a detailed justification to the Department of Local Government. Other smaller councils may already have their communities engaged but do not have the resources to meet the detailed requirements of Integrated Planning and Reporting and the proposed rate variation system. The question has to be asked is that a fair system catering to genuine need?

The current and proposed system is also understandably subject to political influence. It is a significant weight for the Minister to bare all the power to determine how much all ratepayers in NSW will pay. They can be subjected to intense media pressure which can result in a political decision.

In recent times Great Lakes Council had a Rate Variation Application in the process, all signs were positive, and positive and detailed discussions were held with the Department Local Government. A media report dubbed the then Minister the Minister for Rate Increases and no further increases were granted that year including Great Lakes Council's request. **If councils are accountable for their own rate levels within a suitably established framework, it is then the councils individually who must face their own communities and justify their decisions. It is clear that this system works in other jurisdictions very successfully. Rate levels are reasonable and levels of services can be better negotiated with the community taking a longer term view. Surely this is a better community outcome and one which the IPART Inquiry has failed to adequately address.**

Anomalies in the Report

The following identifies some anomalies identified in the report:

- Table 3.2 Page 39 Special Variation Application 2008/09. The IPART report refers to this table with the following comments, "For 2008/09, 22 of the 152 councils in NSW applied for a Special Variation under Section 508 (2). Most were to enable Council to raise additional revenue for infrastructure renewal or maintenance. Nineteen applications were approved...."

The table fails to identify applications that were for renewal of previously approved applications and therefore skews the true level of rate increases. Great Lakes Council is listed in the table as having received a 14.31% rate increase to maintain Council's current level of service and maintenance of infrastructure. This was a renewal of an increase approved 5 years earlier. Council applied for an ongoing increase but the Minister approved it for a 5 year period. **The 14.31% increase stated in the Table resulted in no net growth in Council's 2008/09 rate base compared to the previous year.**

- Survey Option Page 178.
The possible guidelines mooted by IPART for Option B requiring at least 25 to 30% of ratepayers to participate in a survey and then at least 50 to 60% support for the proposal is not well thought out and naïve. A recent web post published by Technology One crunches these numbers using Blacktown Council as an example and shows 90,000 people would need to be surveyed with 50,000 supporting a rate increase. The article comments that a rate rise would be required just to pay for the exercise.

This level of surveying and support from the community for an increase in rates is effectively unworkable, many councils would not attempt it and would effectively cut services to balance their budget. If IPART proposes that this proceed, it is requested that advice be provided of whether the same level of requirements will be applied to State Government Services and State Taxes. The frustration in local government is that other utility providers can increase charges with minimal community engagement other than a business case relating to infrastructure or service needs. Local Government however has an incredibly higher standard of administrative accountability to meet and based on the IPART proposal this administrative accountability would be raised further to an unworkable situation.

If the same level of survey and support criteria were applied to a service such as Public Transport in Sydney, would there ever be enough support from commuters to raise train fares? The answer would most likely be no. However the public transport authority would no doubt be able to mount a strong business case and endeavour to educate commuters over time as to why an increase is necessary. Despite that however commuters would rarely vote in a survey for a fare increase.

IPART needs to acknowledge the inherent difficulties in getting the community to actually vote for a tax increase or put pen to paper to lodge a submission in support of a tax increase. **No other level of government is required to do this other than through the system of public accountability inherent in the Election process.**

- Demographics - the Report does not address issues of the impact of an areas demographics on revenue. Great Lakes Council has a very high level of retirees. This means many ratepayers are eligible for a pension rebate. As the State Government mandates the statutory level of the rate rebate but only funds 55% of the amount this has a high cost to areas with high levels of retirees. In the case of Great Lakes Council the cost to Council of the pension rebate scheme is \$560,000 or 2.6% of rate revenue.

Added to this is an anomaly in the Rating System where integrated lifestyle developments marketed for over 55's etc. are developed in such a way to avoid individual rating of what are in effect separate dwellings. In a retiree destination this can have a significant effect as population (and therefore service demand) grows however growth in the rate base does not.

Great Lakes Council has a number of these developments and more in the pipeline. A worked example of one such development in Tea Gardens which has 146 Residential Units shows the contribution per unit for General Rates from this development is equivalent to \$14.82 whereas the average General Rate in this area is \$888. Council effectively misses out on an estimated \$100,000 plus in rates from such a development. This is pointed out to demonstrate how there are many variables in local government areas and demographics can have a significant cumulative effect.

- Assumption that Rate Pegging creates efficiencies. As stated on Page 23 of the NSW Treasury submission to the IPART Issues Paper the assumption that Rate Pegging created efficiencies is flawed. It is acknowledged that in its initial years after introduction rate pegging probably did create some efficiencies. Most in local government would acknowledge this. Unfortunately now rate pegging in the main just results in service reductions. In the development and review of the Great Lakes Council 2009/10 Budget the following service cuts were made:

Library Books	\$99,000
Community Grants	\$54,000
Lifeguards	\$37,000
Hall Building Maintenance	\$37,000
Parks & Reserves Mowing & other reductions	\$107,000
Tourism Closure of 2 Visitor Information Centres	\$70,000
Pool Closure	\$50,000
Urban & Rural Road Maintenance	\$165,000
Removal of Australia Post Payment Options for Ratepayers	\$46,000
Employee Cost Reductions including: No filling of vacancies, freeze on staff replacements, training and overtime	\$645,000

The above figures are a one year snapshot. Analysis across councils would show that efficiencies have been pushed to the limit and service cuts are now being used. This confirms what NSW Treasury were alluding to in their submission.

Comparison with Other States

The IPART Report compares rate revenues on average across states and acknowledges that over the last 10 years NSW council revenue has not grown in line with other states. The Report also compares balance sheet positions and comments on the need for NSW councils to undertake better long term planning and management of assets through Asset Management Planning.

The premise of the IPART Report appears to be that councils cannot capably set their own rating levels and until they can do this (and even when they can demonstrate this) they will only be given autonomy for a 4 year period (even though the planning horizon required in the Integrated Planning and Reporting Legislation is 10 years plus for the Community Strategic Plan, 10 years plus for the Long Term Financial plan and 4 years for the Delivery Program).

Unfortunately this perpetuates the relationship between the State Government and Local Government which seems to be based on a lack of trust.

Other states have achieved a cooperative relationship with local government through support mechanisms in relation to better long term planning and asset management. In NSW the Department Local Government clearly acknowledges that it can only provide limited support to councils in achieving the requirements of integrated planning and reporting. These cooperative and positive relationships have occurred in other states in an environment of no rate pegging and the outcomes are vastly better for the community. The Better Practice Reviews introduced by the Department Local Government were embraced positively by most councils however the support mechanisms are not there to assist councils of varying resource levels to actually achieve improved performance.

Disappointingly some councils received relatively positive feedback from the Better Practice Reviews only to have rate variation applications refused on the basis that "council will have to achieve efficiencies to meet the funding shortfall". This discord in advice does not assist in creating a positive and cooperative relationship.

While councils will work towards achieving the requirements of the Integrated Planning and Reporting legislation, there is no acknowledgement that this will cost councils to implement. **The reality is that it can only be fully implemented at an additional cost and those councils who cannot afford to employ resources to achieve the requirement will have to reduce service levels in other areas to achieve this.** Councils accept the benefits of Integrated Planning and Reporting however there needs to be an acknowledgement that this comes at a cost.

Conclusion

Council strongly urges IPART to review its recommendations contained in the Draft Report for the reasons articulated in this submission. **The introduction of Rate Pegging in another form will not produce improved outcomes for NSW Communities.**

There are adequate democratic processes in place to protect ratepayers as demonstrated in other Australian States and in New Zealand, without the need for rate pegging.

Council supports Alternative Option 5 in the IPART Report supplemented with the detail in Option C1 proposed by the NSW Treasury in their submission to the IPART Review dated August 2008.

In conclusion, Council draws from the Local Government & Shires Associations Submission to the IPART Review dated September 2008 which stated:

"In the long run rate pegging results in the:

- Under-provision of community infrastructure and services.
- The deferral of infrastructure maintenance and renewal expenditure; and
- Undermining the financial sustainability of councils".