

## IPART Report on Rate Pegging

I have over 15 years experience in local government across four councils (Ku-Ring-Gai, Gosford, Lake Macquarie & Cessnock) having worked both in the finance area and corporate planning. I believe this depth of experience entitles me to comment on rate pegging and this enquiry.

### Introduction

The Terms of Reference are to make recommendations on 'an appropriate inter-governmental & regulatory framework for setting rates & charges that facilitates the effective & efficient provision of local government services' and 'a role for IPART in setting rates & charges in future years'. IPART notes that the State Government remains committed to rate pegging.

### Existing

The Rate Pegging amount is determined under Section 506 of Local Government Act 1993 (LGA) by the Minister

A Special Rate Variation may be applied for under Section 506(2) of the LGA for a finite period or an ongoing one. Approval is by the Minister. An ongoing one will form part of the rate income base.

Alternatively a Special Rate Variation may be applied for under Section 508A for up to a maximum of seven years. Approval is by the Minister. It is cumulative for each year & the final year forms part of the rate income base

### Proposed by IPART

In principle, Rate Pegging to remain.

Under Option A, IPART determines a local government cost index (adjusted for productivity). The Minister would then make a decision as to the level of increase. If different to that of the IPART figure, reasons would have to be provided.

To seek an increase above this a council would have to,

- Estimate their four year revenue requirements; and
- Engage & consult with the community – undertake public consultation e.g. surveying ratepayers.

The increase would be for four years. Clear criteria would be established but would appear to be more demanding than the current special rate variation process. The Minister would make the final decision.

Under Option B, IPART proposes that a council could be exempt from rate pegging for four years. A council would have to satisfy the Minister that it has a demonstrated track record of good financial management, planning & reporting and demonstrate a mandate from the community. IPART suggests the mandate would be demonstrated by participation of 25-30% of ratepayers & the support of 50-60% of those ratepayers in a survey. Alternatively a proposal would be put to the community at election time.

IPART considers that there is a low level of borrowings by NSW councils & that there is scope for increased borrowings to fund infrastructure programs.

IPART places a very strong emphasis on transparency, accountability, & community engagement.

## Comment

The process was flawed from the start. The Terms of Reference indicate a bias towards some level of regulation. As indicated in a footnote (Introduction and Executive Summary, page 1) 'In announcing this review the then Minister for Local Government stated that the Government remains committed to rate pegging'. Abolition of Rate Pegging was never really an option. That rate pegging would have widespread support as referred to in the NSW Government's Response to the Final Report and Recommendations of the "Independent Inquiry into the Financial Sustainability of NSW Local Government" (released 11/9/09) indicated in Recommendation 21 Rate Pegging is not surprising. Of course the public do not want any increase in rates. That many councils have applied for special rate variations clearly indicates a failure of the concept of rate pegging. The NSW Government response is further confirmation that this process was flawed from the outset.

The process requires a greater accountability than that required of the State Government. The State Government does not seek community support if it increases state charges beyond inflation. Section 232(2) of the LGA refers to the role of a councillor as representing the community & providing leadership and guidance. By requiring extensive community consultation it tends to negate the role of the councillor and the concept of a democratically elected council representing the community.

IPART appears to have taken a very narrow definition of cost shifting & largely ignored it. With the backlog of infrastructure maintenance it has compared it to the rest of Australia & considered that it's no worse & then appears to have largely ignored it. Whether it is comparable to the rest of Australia is irrelevant. The infrastructure problem has been identified by independent inquiries and IPART's proposals will not resolve it.

The proposed Option A in providing a local government cost index is a positive. However the ability to apply for an increase above that is restricted to four years & it does not appear to form part of the base rate income. This is a major negative.

With Option B, if a council had good financial management, it is unlikely it would need an exemption from rate pegging. Either method of community engagement would be costly & time consuming and be a logistical nightmare for the survey method. The increase does not appear to form part of the rate income base.

The State Government has a Bill before parliament to require councils to have a strategic plan of at least 10 years (including long-term financial planning but the IPART proposal only allows for a revenue determination of four years.

There is only brief reference to other sources of income, in particular 'NSW councils have substituted rates income with other sources, particularly user charges and fees, ...' (page 84). Whilst councils can be innovative in what they charge for, there is a limit politically as to the extent of new charges that can be introduced and on increases above inflation on existing charges. Many of the charges associated with development are in effect set by the state government, which further restricts the ability of councils to raise their income levels.

Whilst borrowings may be appropriate for new infrastructure, it is not an appropriate use for maintenance, as borrowings should never be used to finance operational expenditure. Borrowings, of course, are limited by the ability to repay from future income sources.

### Conclusion

The IPART proposal is a backward step. It does not adequately address the problems with cost shifting and infrastructure maintenance backlog. There is no indication of how a productivity adjustment would be determined across all councils.

Option A using a local government cost index would only be marginally better than using the CPI. With a restriction under either Option A or B to four years, the flexibility under Section 508(2) & 508A of the LGA would be lost. Councils overall will be no better off. It will be a more bureaucratic process, time consuming & costly. It's like moving the deck chairs on the Titanic. This may be strong language but in my opinion, IPART's proposals will not make the provision of council services more effective & efficient. They do not solve the underlying problem of an inadequate income base.

Rate pegging should be abolished and individual councils allowed to determine their level of rates. They would then be accountable at the ballot box as are the other two levels of government.

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