



muswellbrook shire council

**Submission to the IPART Review of the Revenue
Framework for Local Government.**

Introduction:

Thank you for the opportunities that IPART has provided this and other Councils to participate in the review. Council very much welcomes the review and looks forward to the final report when issued. Upon reading the Draft Report and attending the Public Workshop in Sydney the following submission is made for consideration.

Allowance for Productivity:

In the private sector, increased productivity will lead to improved revenues or reduced costs, all leading to improved profitability. For Local Government, this is much less likely to be the case. General Fund Council revenues under the existing systems of rate pegging, financial assistance grant allocation and other grant allocations are largely fixed and will not alter regardless of the levels of productivity or efficiency gained by the Council.

On the expenditure side, any funds generated through productivity gains are more than likely to be expended either expanding or improving the service in which the productivity gains were made or to assist a different under resourced or under performing service. All of this would indicate that productivity gains have very little effect of the financial “bottom line” for Councils.

Limiting the percentage increase by adjusting it for productivity factors will only continue to place further pressure on the financial sustainability.

As such, it is suggested that no such adjustment be made.

Local Government Index

Council supports the introduction of this index. However, it is disappointing to see the omission of a range of State Government charges on Local Government. Over the past five years, charges to Muswellbrook Shire Council for Fire Brigade Contributions, Rural Fire Service Contributions and Street Lighting have increased, on average, by 4.44%, 27.21% and 7.28% respectively per annum. In addition to this, the Valuer Generals Office has been granted permission to increase fees to Council's by 10% per year over the medium term.

On the revenue side of the equation, over the same period Muswellbrook Shire Council has seen its Street Lighting Subsidy increase by only 2.03% on average, while library funding from the State Government has increased by only 1.56% per year over the same period.

The disparity between these charges and funding levels and the rate pegging limit that has been imposed over the same period has contributed to the current financial difficulties currently being experienced by Muswellbrook Shire Council.

It is therefore suggested that the Local Government Index be amended to include a factor for these charges and grants.

Process for dealing with uncontrollable events

For Muswellbrook Shire Council, the 2009/10 Budget has been severely constrained by factors completely beyond Council's control like the sudden increase in the Defined Benefit Scheme and the sudden and sharp reduction in investment returns caused by falling interest rates. When events of this nature occur Councils have no option but to either reduce services or delay or abandon needed capital renewals in order to "balance the books" because Council's revenues are, to a large part, fixed.

It is therefore suggested that some allowance, either in the index or through some other mechanism, be made when Councils are faced with these uncontrollable eventualities.

More emphasis on operational concerns not just capital renewal

The proposed process for applying for medium term rate increases seems heavily weighted toward the funding of capital renewal and maintenance of assets. This approach is supported by Muswellbrook Shire Council, which recognises the infrastructure backlog that exists not only at this Council, but which also appears to be quite common across Local Government in NSW. However, one of the main causes of this backlog (at least in the case of Muswellbrook Shire Council) has been the Operating Deficits that have been incurred due to the cost of operating day to day services. It is accepted that Muswellbrook Shire Council is providing above average levels of service in some areas in relation to its size. However, many of these services have been maintained due to historical pressures and through the continuation of services that were provided by the Denman Shire Council prior to its amalgamation with Muswellbrook in 1979 and there could be a great deal of community resistance to their removal or reduction.

It is important to recognise the effect that Operating Deficits have on the ability to renew and replace assets.

It is therefore suggested that, if community consultation reveals support for the maintenance of current services and levels of service, Councils be granted permission to access Option B based on the need to fund these operations rather than making application based on Capital Renewals only.

Use of Debt to fund infrastructure

Muswellbrook Shire Council supports the use of debt for the funding of the renewal and/or replacement of long term assets and infrastructure. However, some concerns are raised in regard to some aspects of this principle. The first is that increased borrowing costs will place further pressure on Council's Operating Result and reduce the level of funds available for operational matters. For Councils already experiencing Operational Deficits, increased levels of borrowing will only worsen this result and place further pressure on Council budgets, making the longer term funding of capital renewals more difficult. The other is that Council infrastructure and assets very rarely provide any on going revenues or cash flows that could be used to finance debt

repayments – this means that these repayments would need to be funded by ratepayers anyway.

It is suggested therefore, that the use of debt only be encouraged to fund projects that provide some sort of return, either in the form of increased revenues or reduced operational expenditures.

Approach that IPART has taken to this review

In other IPART reviews that have been conducted, the approach taken appears to be that charges should be set at a rate necessary to fund on going operations and/or replace and renew capital items. In regard to this review, IPART seems to be indicating that, regardless of the level of expenditure (both capital and operational) being incurred, future revenues will continue to be based on past revenues whether those revenues are adequate or not.

Therefore, it is suggested that Councils be given greater opportunity to set rates (and charges) with greater emphasis on the actual cost of providing services and renewing capital rather than being based on previous (and often inadequate) revenue levels.

General funds rates compared with other charges

Council's in NSW have the ability to levy other charges for services such as water, sewer and waste management free of the restrictions placed on them in relation to general fund rates, which are restricted through rate pegging. It would appear that this ability has been used, on the whole, with great responsibility and care by NSW Councils, with charges being set at levels adequate to fund operations and capital works, while still be acceptable to communities. Muswellbrook Shire Council feels that once Council have undertaken the steps necessary to qualify under Option B of this report there should be no further restrictions placed on those Councils in regard to the setting of those rates.

Other Charges and their Relationship with General Fund Rates

For the 2009/10 rating year, Muswellbrook Shire Council was in the happy position of being able to reduce its Domestic Waste Charge by between \$10 and \$12 per assessment. In addition to this, the Water Availability Charge did not increase from its 2008/09 levels. Although the Sewer Availability charge did increase by 5%, overall ratepayers in Muswellbrook Shire Council did not receive an increase in their rates and charges bill that exceeded the rate pegging limit. If Council had the ability to transfer the revenue forgone by reducing and maintaining the charges for these other services to the General Fund rates this would have raised an additional \$80,000 for 2009/10 Financial Year without ratepayers having the burden of an above rate pegging increase for 2009/10.

Therefore, it is suggested that where Councils are able to provide efficiency gains in the areas of water, sewer and domestic waste services and thereby reduce or maintain the charges for these services that the revenue foregone be able to be collected as part of the General Fund rates.

Conclusion

Overall, Muswellbrook Shire Council is supportive of the steps proposed by IPART in its review and suggests that these represent a solid “first step” in achieving financial sustainability of NSW local government. Council would also like to express its appreciation to IPART for its efforts and the opportunities that have been provided for input. Council also hopes that some consideration will be given to the suggestions that have been outlined above.