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Our Ref: SF770

18 September 2009

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Dear Sir/Madam

**REVENUE FRAMEWORK FOR LOCAL GOVERNMENT—DRAFT REPORT**

Council considered the Draft Report at its meeting on 17 September 2009 and resolved to advise IPART that the Draft Report is a positive step towards a more enlightened approach to Local Government finance and that the threshold requirement for a Council to be eligible to adopt option B should be based on adequate financial and asset management policies as opposed to adequate financial performance.

Council looks forward to the finalisation of your Draft Report and its consideration by the NSW Government.

Please find attached the report considered by Council.

Yours faithfully



**MICHAEL COULTER  
GENERAL MANAGER**

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**GENERAL MANAGER'S REPORT**

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**ITEM 8.6 SF770 170909 INDEPENDENT PRICING AND REGULATORY TRIBUNAL -  
REVENUE FRAMEWORK FOR LOCAL GOVERNMENT - DRAFT REPORT**

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**AUTHOR/ENQUIRIES:** Michael Coulter, General Manager

**SUMMARY:**

The Independent Pricing and Regulatory Tribunal (IPART) has released its draft report on a Revenue Framework for Local Government.

IPART is proposing a revised framework for regulating local government rate increases. IPART has developed two options, Option A and Option B.

Option B—is a new element in the Council rate revenue framework, but it is not envisaged that it would be operated in isolation of Option A. In essence Option B provides that Councils that have achieved high standards of financial performance, planning and reporting, and have received a community mandate through consultation or a public vote can be granted full autonomy in rate setting over a four year electoral cycle. The Minister would be responsible for determining each Council's eligibility to move to Option B.

The threshold requirement for a Council to be eligible to adopt Option B should be based on adequate financial and asset management practices as opposed to adequate financial performance.

**RECOMMENDATION:**

**Council make a submission in response to the IPART draft report, "Revenue Framework for Local Government", advising that the report is a positive step towards a more enlightened approach to local government finance and that the threshold requirement for a Council to be eligible to adopt Option B should be based on adequate financial and asset management practices as opposed to adequate financial performance.**

**OPTIONS:**

The form of any submission is completely open. Council could also choose not to make a submission.

**DISCUSSION:**

The Independent Pricing and Regulatory Tribunal (IPART) has released its draft report on a Revenue Framework for Local Government. The executive summary is a **circularised** document.

The report contains detailed discussion of the apparent advantages and disadvantages of rate pegging as it exists in NSW. The draft report summarises the key arguments for and against rate pegging as follows:

*"The key arguments against rate pegging, as it currently operates, are:*

- it lacks transparency and weakens the accountability of Councils to their communities by removing the link between Councils, communities and the rate setting process*
- it does not necessarily reflect movements in Council costs*
- it encourages a short term focus and discourages medium term planning of expenditure and income.*

*The concerns relating to transparency, accountability and efficiency are not unique to NSW. However, no other state (with the exception of the Northern Territory) has had rate pegging for the last decade. IPART found that while other states (eg Victoria) have at times controlled Council rates, and that similar controls are used in some overseas jurisdictions, it is now more common for local government in Australia to have a greater autonomy in rate setting than is currently the case in NSW.*

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*Against this, a number of Councils recognised the primary benefit of rate pegging; that is, the protection of ratepayers from excessive increases in their rate bills. In addition, it was argued that rate pegging encourages the use of alternative revenue sources such as user charges, which, for users, have a more transparent link between their decision to use and pay for, Council services.”*

IPART is proposing a revised framework for regulating local government rate increases. IPART has developed two options, Option A and Option B.

Option A—arrangements are envisaged as the minimum or default option for all Councils under the framework. Option A maintains the essential ratepayer protection elements of the current system while improving the rigour, transparency and independence of the rate pegging process. In terms of reporting, there is a close nexus with the requirements under the Integrated Planning and Reporting Framework.

Option B—is a new element in the Council rate revenue framework, but it is not envisaged that it would be operated in isolation of Option A. In essence Option B provides that Councils that have achieved high standards of financial performance, planning and reporting, and have received a community mandate through consultation or a public vote can be granted full autonomy in rate setting over a four year electoral cycle. The Minister would be responsible for determining each Council's eligibility to move to Option B.

The proposed reforms are a positive step towards a more enlightened approach to local government finance that is comparable with that of other States. The threshold requirement for a Council to be eligible to adopt Option B should be based on adequate financial and asset management practices as opposed to adequate financial performance. It may not be possible for many Councils to demonstrate their financial sustainability. Nonetheless this should not prevent them from moving to a more sustainable footing.

Submissions on the IPART draft report are due by 18 September 2009.

**CONSULTATION:**

The matter has been discussed by the Mid North Coast Group of Councils. Reference has been made to a submission to the Inquiry by Professor Percy Allan AM, Research Director of Review Today Pty Ltd.

**SUSTAINABILITY ASSESSMENT:****Environment**

There are no implications for the environment.

**Social**

There are no social implications.

**Economic**

At this stage there are no economic implications.

**Risk**

At this stage there are no risk implications.

**FINANCIAL IMPLICATIONS:****Direct and indirect impact on current and future budgets**

At this stage there are no budgetary impacts.

**Source of fund and any variance to working funds**

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There is no impact on working funds.

**ATTACHMENTS:**

1 CIRCULARISED DOCUMENT - DRAFT REPORT