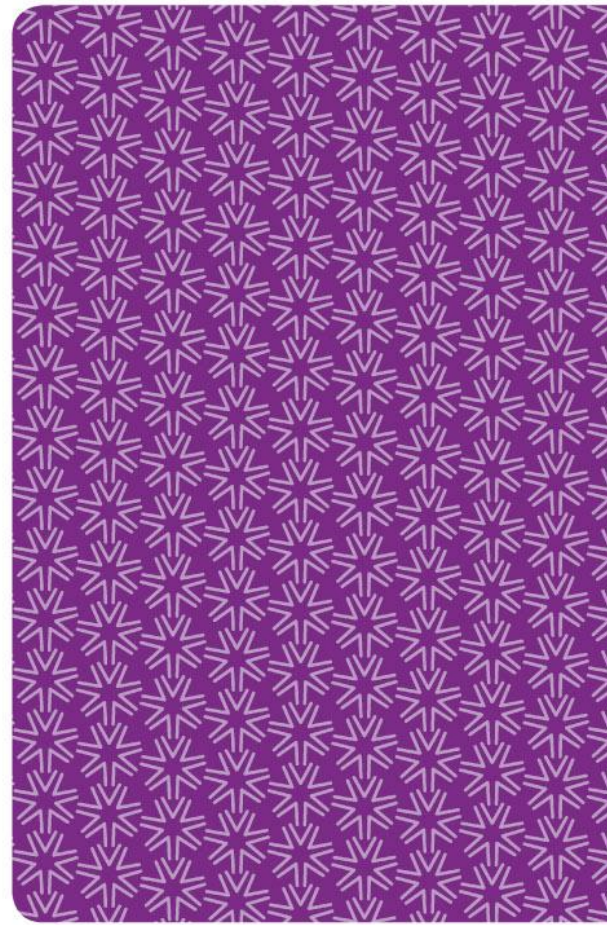
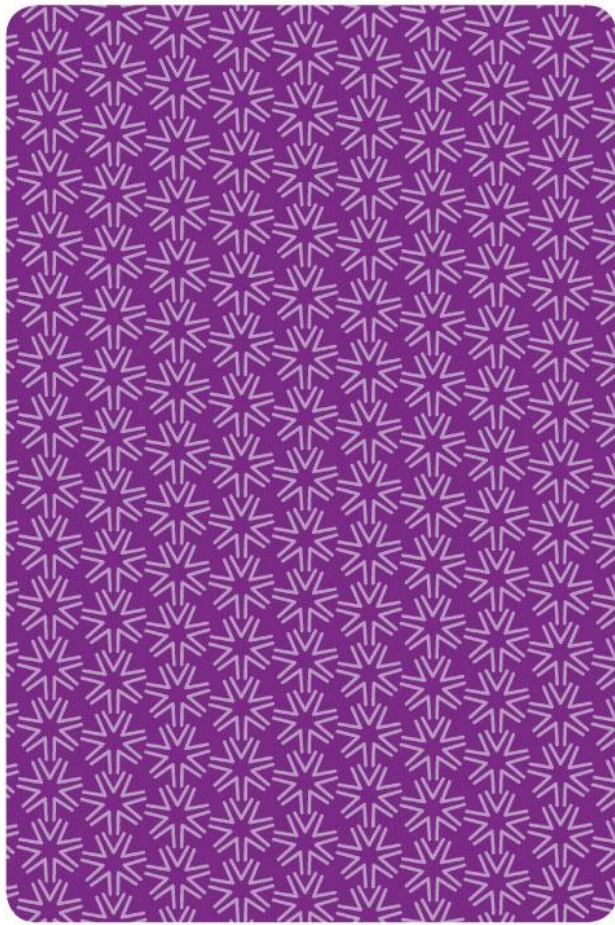


# A Revenue Framework for Local Government

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## Overview

The NSW Business Chamber welcomes the opportunity to provide feedback on the local government revenue raising proposal put forward by IPART in its draft report – *Revenue Framework for Local Government*.

Local Government has a major impact on business, especially small business. It is the level of government that is closest to business and thus has the greatest potential to negatively impact on businesses if it is not operating at an optimal level.

One of the key areas of policy discussion in recent years has been the impact of rate pegging. Local Government argues that the current rate pegging system limits its ability to deliver key services and maintain critical local infrastructure. Meanwhile, businesses – who make a significant contribution to Council rates – are concerned that the blanket removal of rate pegging will result in significant increases in business costs without a subsequent improvement in service delivery.

One of the characteristics of local government is that there is a wide range of financial management ability amongst Councils. Some Councils manage their finances responsibly, while others do not. This leaves the business community nervous about a blanket removal of rate pegging.

Consequently, the two-tiered approach put forward by IPART is generally welcomed by the NSW Business Chamber. The approach has the potential to empower those Councils that are well-managed, have a good track-record of financial responsibility and are undertaking projects endorsed by their rate-payers. Meanwhile, the system also retains a default rate-pegging system which offers protection from unjustifiable rate increases for those rate-payers of local government areas that can not demonstrate strong financial management credentials.

The proposal put forward by IPART has a number of positive attributes. It has the potential to improve transparency and independence around the rate pegging system, retains protection for rate payers, improves certainty for Council's in their budget planning process and rewards those Councils that have a strong track record of community consultation and financial management.

The IPART system, in effect, provides a financial incentive for Councils to better manage their operations and look at all options for doing this – including amalgamations and/or sharing services.

## Increased transparency for rate setting process

The NSW Business Chamber supports the IPART recommendation that it develops a price index for local councils. This should then be used to make a recommendation to the Minister for Local Government for the annual rate increase. The NSW Business Chamber also supports the proposal that the Minister must publish reasons if they decide to deviate from this independent recommendation.

These changes have the potential to improve the transparency of the rate setting system. The current system of an announcement by the Minister does not explain to rate payers how the increase was arrived at.

## Increased incentive for Councils to improve financial management

The NSW Business Chamber offers its general support for the two-tiered option put forward in the draft report for rate setting in NSW.

Businesses recognise that it is critical that Local Government is made more sustainable. A number of reports in recent years have suggested that many NSW Councils are not sustainable. In 2009, Fiscal

Star, an economic consultancy company, assessed the sustainability of the largest 100 Councils in NSW and put them into one of three categories – sustainable, vulnerable or unsustainable<sup>1</sup>. They found<sup>2</sup>:

- 46 councils have sustainable financial and infrastructure policies
- 16 councils are assessed as vulnerable
- 37 councils have financially unsustainable policies

These reports suggest that changes are needed in the funding mechanism for NSW Councils. This does not necessarily mean abandoning rate pegging, but changes do need to be made in the financial management of Local Government in NSW if all Councils are to become more sustainable.

In addition, the current rate pegging system does not provide incentives for Councils to improve their financial management. All Councils currently receive the same base annual rate increase, irrespective of their financial track-record. This does not reward those Councils that have improved efficiency in service delivery.

The NSW Business Chamber believes the two-tier proposal put forward by IPART both increases the sustainability of local government and provides incentives for Councils to improve their financial management practices.

## Strict and transparent criteria needed to access Option B

The NSW Business Chamber urges IPART to ensure that the process by which a Council moves to Option B funding arrangements should be clear, transparent and allow for a high degree of input from the local community. Key features of this system would need to include:

- Criteria that Councils need to meet should be clear, objective and publically available.
- The criteria for achieving a solid record of financial management needs to be a rigorous benchmark – significantly more substantial than just regularly publishing finance reports (such as management plans or annual reports).
- The application should include an active demonstration of community support for the shift – such as a specific local vote on the issue or letters of support from key business and civic representatives.
- Rate-payers should have the opportunity to make comments on the application – including making objections based on the set out criteria.
- The decision to grant a Council 'Option B' status should be made by a state-wide independent panel that includes representatives from the business, local government and the general community. This body would make its ruling based on whether or not the Council met the stated criteria and the arguments put forward by objectors and supporters of the proposal.
- A Council's 'Option B' status should be regularly reviewed to ensure that good financial management practices are maintained. The two-tier system needs to include a mechanism for moving Councils back to 'Option A' status if financial management practices slip below that needed to become an 'Option B' grade Council.

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<sup>1</sup> Fiscal Star (2009) *NSW Local Government Financial Sustainability Review, How sustainable are the existing financial and infrastructure policies of NSW Councils?*

<sup>2</sup> 1 council was not assessed because it had not published its statutory reports in full on its website.



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