Port Stephens COUNCIL

... a community partnership

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Mr James Cox
Acting Chairman
Review of Revenue Framework for Local Government
Independent Pricing and Regulatory Tribunal
PO Box Q290
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Re: Review of the Revenue Framework for Local Government

Dear Sir

Thank you for the opportunity to provide comment on this matter.

Port Stephens Council's position in relation to the appropriate future revenue framework for NSW local government is one of greater revenue autonomy for councils. In return they must adopt long term strategic, financial and asset management planning with the involvement of their communities, in accordance with the recommendations outlined in the 2007 Allen Independent Inquiry into Local Government Sustainability.

Having said that, Council wishes to comment on particular aspects of the IPART Draft Report on the Revenue Framework for Local Government.

1. Eligibility criteria for a Council to move from Option A to Option B – Financial Performance

IPART's current position is that a key requirement of eligibility for Option B is demonstration of a track record of sound financial performance, in other words, positive operating results over the economic cycle.

Council's view is that a more appropriate focus is on the demonstration of sound financial policies and practices, linked to comprehensive asset management plans, that combine to chart a course for long term financial sustainability.

Councils can and do make conscious decisions to address the deterioration (due to historical underfunding) of their infrastructure, whilst not wanting to place additional financial burdens on the present day ratepayers. The deferral of asset renewal expenditure can often result in that expenditure increasing exponentially in future years. What is important is that these decisions are made in accordance with long term financial and asset management plans and that a strategy exists for the achievement of long term financial sustainability.

Additionally, it is appropriate for government at various levels to sustain operating deficits over the short to medium term when circumstances arise that warrant such a decision.

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2. Eligibility criteria for a Council to move from Option A to Option B – Community Mandate

IPART's current position is that a key requirement of eligibility for Option B is demonstration of a community mandate for the Council's proposed medium term revenue plan.

The two approaches proposed by IPART are firstly, tying the community engagement to the electoral process or secondly, obtaining support through a community survey.

The first approach presents significant concerns for Council. In addition to the likely costs of this approach, the messages would be lost in the electioneering with a risk that special interest groups could hijack the debate and derail it. It is highly unlikely that a candidate would actively advocate for rate increases, even if they were existing councillors with a full appreciation of the issues.

It takes a newly elected councillor at least six months of intensive work to get up to speed and it is not possible to pre-brief prospective councillors to the level and depth required to actively pursue such a proposition.

The second approach is the superior of the two however the suggestion that a response rate of 25% would be necessary is unrealistic and cost prohibitive. It is Council's view that a statistically valid sample executed independently would yield a strong result.

Additionally, councils are now using much more sophisticated methods of community engagement and participation. Port Stephens Council has a Residents Panel with strong community representation which is used for surveys, workshops, and other means of engagement, on a large range of matters, council-initiated or citizen-initiated.

Council's view is that Councillors represent the community and are elected to make decisions on behalf of, and in the best interests of, the community. The new Integrated Planning and Reporting Framework already mandates an appropriate level of community consultation be undertaken in the preparation of 10+ year Community Plans and 4 Year Delivery Plans.

It is foreseeable under the proposed IPART community mandate model that a high level of community support is obtained for Council's long term community and delivery plans but insufficient support is obtained for the financial plans required to fund them.

3. Local Government Cost Index under Option A

IPART's current position is that the proposed Local Government Cost Index (LGCI) should be adjusted by a "productivity factor" to encourage efficiency within the industry. Whilst this rationale is understandable in some respects, the proposed LGCI calculation effectively results in the continuation of the status quo as far as infrastructure spending is concerned. The removal of the "productivity factor" from the LGCI may provide some opportunity for those councils who are able to achieve efficiency gains to "claw back" some of the infrastructure backlog that has accumulated over many years.

There is also an element of uncertainty within the industry as to the amount of the annual "productivity factor", the level of relevance to local government and transparency of this element of the LGCI calculation.

Therefore Council's view is that the LGCI should not include a "productivity factor" in order to provide councils that are able to achieve efficiency gains with an opportunity to "claw back" some of the infrastructure backlog that has accumulated over many years.

4. Four Year Revenue Path under Option A

IPART's current position is that under Option A, councils will have the choice of accepting the annual rate peg increase or applying for a "four year revenue path" which would be integrated with the four year Delivery Program under the Integrated Planning and Reporting Framework.

The Draft Report is not clear on whether the two options currently available to councils under the special variation process will continue to be available to councils under the four year revenue path process. The two options referred to above are:

1. apply for a rate increase for a defined period of time under S508(A)
2. apply for a permanent rate increase under S508(2).

Council's view is that Option A should allow councils to continue to apply for rate increases that are either permanent increases to the rate base or increases that apply for a defined period of time. This can be incorporated into the four year revenue path process.

The key reason this choice needs to remain available relates to the future effective utilisation of debt to address the infrastructure backlog. IPART's Draft Report and the 2007 Allen Independent Inquiry into Local Government Sustainability both identify debt as being traditionally underutilised in NSW Local Government. Both champion the increased utilisation of debt to address the growing infrastructure backlog. In order for debt to achieve greater recognition as an appropriate funding source for addressing the infrastructure backlog, councils require certainty of additional future income for the life of the debt in order to service that debt. That debt will almost always have a life span much longer than four years, and in some circumstances, have a life span of thirty years.

The availability of a permanent increase to the rate base which can fund this debt is essential for the future utilisation of debt by NSW Local Government to address the infrastructure backlog.

5. Limited Scope of IPART's Draft Report

Council notes that IPART's Draft Report is almost exclusively focused on the development of a framework for the future of rating in NSW Local Government. IPART's Issues Paper of July 2008 asked the question "How does rate pegging and **other constraints on councils' revenues** affect the efficiency of councils' operations". It was Council's expectation that IPART's review, and Draft Report would have included consideration of issues such as statutory charges and the capping of Section 94 contributions. These are only two of a number of other issues impacting Council's revenue raising abilities and Council believes it is important that any review of the Revenue Framework for Local Government considers these other issues.

Options A and B need to be evaluated relative to longer term planning for development, infrastructure capital expenditure and maintenance costs. This Council – and most Councils encountering significant population growth – have developed sophisticated planning approaches that integrate planning for development with infrastructure provision. This includes cost estimates and cost apportionment between developers, State agencies and Council. Such planning and cost estimates extend well beyond the period of a single 4 year Delivery Program and "revenue path". Hence, financial planning and applications for rate increases or 4 year revenue increases need to be evaluated in the context of that longer term development and infrastructure planning and costing.

Port Stephens has a current population of approximately 65,000 and, based upon the State Government's Hunter Regional Strategy, this population is estimated to grow to over 70,000 by

2012 and to approximately 100,000 by 2031. Most of this growth is contained in two urban release areas – Kings Hill/North Raymond Terrace (estimated 4,000 dwellings) and Medowie (estimated increase of over 3,000 dwellings). Council therefore must undertake long term planning of these developments and related infrastructure provision in a collaborative manner with State Government agencies. The NSW State Plan and State Infrastructure Plan are of limited value in clarifying such planning for release areas.

Currently, if a Council proposes a development contribution in excess of $20,000 per lot in a Development Contributions Plan, approval of the Minister for Planning is required. Such a proposal is assessed by a Panel of industrial and government representatives (including from the NSW Department of Local Government) and is evaluated relative to other financial and funding capability factors of the applicant Council. The fundamental premise of Section 94 is if growth demonstrably leads to demand for increased public services and facilities, then the developers implementing that growth could be responsible for funding those facilities and services. If development contributions are limited by the NSW Minister for Planning, then Council may be in a position of effectively subsidising capital costs as well as incurring the longer term maintenance liabilities. Such "subsidisation" could be considered inequitable to existing ratepayers.

Alternatively, a growth Council may not provide funding to supplement development contributions and therefore there is some level of under-provision of services and facilities to new residents. Therefore, the total scope of Council's funding and expenditure – including Section 94 development contributions – needs to be carefully evaluated on a long term as well as 4 yearly basis for decision making about rating processes.

If this Council follows through on Option A or Option B in 2011/12, then there is a very significant number of other "customers" – future residents of the Shire – who will not have a voice in decision making on an application for rate increases, which will in part be founded upon the longer term financial planning associated with future development and infrastructure provision. There is a significant inter-generational equity issue here.

6. Other Issues

Council would also like to take this opportunity to comment on a number of other issues raised in both the Draft Report and the consultation workshops:

- Comparisons of NSW with other states need to be undertaken cautiously given we are a different jurisdiction, operating under a different constitution and with very different governance paradigms to those of other states.

- The fact that some councils have chosen to not apply the full rate peg amount in previous years has been for political reasons due to a number of external factors. It does not reflect what is prudent for the long term financial health of the councils.

- IPART examined the option of introducing several indices to replace the current rate pegging system in order to reflect the diversity of councils but is supporting a "one size fits all" option, based on the fact that labour costs were the largest budget item and that this did not differ greatly across councils state-wide. In Council's view this is fallacious as we in the Hunter are competing with private (especially mining) companies for skilled workers; and as we have a large regional city next door, competing with Newcastle also. Even within local government, it is possible to live in Port Stephens and work for any one of at least five councils, so intra-industry competition is also a factor in labour costs. We believe IPART needs to re-examine the drivers of labour costs.

CONCLUSION

The release of IPART's Draft Report on the future of the NSW Local Government revenue framework presents an important opportunity for all stakeholders to consider the recommendations put forward and provide comment on their appropriateness and to articulate other alternatives that should be considered.

The recommendations put forward by IPART, whilst a step in the right direction, fall well short of the expectations of many NSW councils.

The Department of Local Government has introduced the Integrated Planning and Reporting Framework, requiring councils to prepare Community Strategic Plans and Delivery Plans all supported by integrated resourcing plans encompassing financial, human resource and asset management plans. Additionally, NSW Local Government is in the middle of the transition to fair value asset accounting which is providing more robust and reliable data for councils' strategic planning. Surely now that these requirements have been mandated the case for abolishing rate pegging becomes all the more compelling.

NSW is the only State in Australia where rate pegging exists. As is the case in every other State, with appropriate accountability and transparency in place, the role of determining annual rates and charges in NSW should be a matter for Council and its community to decide.

Yours faithfully,

Jeff Smith
GROUP MANAGER COMMERCIAL SERVICES

22 September 2009