RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

Response Draft Report Revenue Framework for Local Government

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RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS RESPONSE
ISSUES PAPER
REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

The Riverina Eastern Regional Organisation of Councils (REROC) is a voluntary, strategic alliance of 13 General Purpose Councils and two water county councils. The members of REROC are the councils of Bland, Coolamon, Cootamundra, Corowa, Gundagai, Greater Hume, Junee, Lockhart, Temora, Tumbarumba, Tumut, Urana and Wagga Wagga as well as Riverina Water and Goldenfields Water.

Our members believe that a strong and viable local government sector capable of delivering quality services that communities want at the grassroots level is imperative to the economic, social, cultural and environmental well-being of NSW. Underpinning the ability to achieve this goal is an appropriate funding regime that recognises our role as a third tier of government.

Our members major concerns in relation to the recommendations put forward by IPART are stated below. In preparing this submission REROC has consulted with its membership.

Rate Pegging

We note that IPART has found that since rate pegging was introduced revenue from rates has increased by 1.9 percent in NSW compared with 3.4 per cent for the rest of Australia.[1] IPART concludes that "rate pegging has constrained the growth of NSW councils' rate revenue compared with the other states."[2]

This is supported by the ALGA who have estimated that rate capping in NSW cost local government an average of $200 million per annum, assuming that NSW Councils would have increased rates to the same degree as other states.[3]

The IPART Draft Report then goes on to note that councils have managed to off-set this disadvantage by increasing revenue from sales of goods and services, with the average annual rate of 7.5 per cent compared with 4.9 per cent in other states.[4]

Our members maintain that rate capping has consistently undermined local government's capacity to achieve financial sustainability. The 2003 Federal Government's Inquiry into Local Government and Cost Shifting stat ed that

> The rate capping system in NSW exacerbates local government's inability to raise sufficient revenue. Moreover, it has negative implications on local revenue stability and strategic planning.[5]

Our members are very concerned that IPART appears to be justifying the rate pegging regime by arguing that NSW Local Government's ability to raise revenue

[1] IPART, *Draft Report*, 81.
[2] Ibid, 82.
[3] House of Representatives Standing Committee on Economics, Finance and Public Administration, above n1, 43.
[4] Ibid, 84.
[5] House of Representatives Standing Committee on Economics, Finance and Public Administration, Commonwealth, *Rates and Taxes: A Fair Share for Responsible Local Government* (2003), [41].

from Goods and Services and “Other Revenue” offsets the losses incurred through rate pegging. IPART ‘s Report concludes:

> The analysis of this chapter suggests that rate pegging, until recent years, has not been a significant factor affecting councils total revenue growth....councils have been able to substitute other sources of revenue....as a result local government revenues...have broadly grown in line with revenues in other states...[6]

This is spurious argument because it ignores that much of the income derived through these sources is in fact ring-fenced; it is revenue that can only be used for specific purposes and cannot be applied to a council’s general expenditure needs.

IPART has identified that 34% of council revenue is derived from the Sale of Goods and Services,[7] our members argue that the majority of this revenue is derived from charges for domestic waste management, which must be applied to the delivery of that service. Similarly fees for regulatory services are applied to the delivery of those services and are not applied to general expenditures.

Further IPART has identified that 17% of revenue is derived from “Other Revenue” which includes Section 94 contributions. Again our members argue that the majority of this revenue is attributable to Section 94 contributions which must be applied to new infrastructure. It cannot be applied to general expenditure needs, or even for infrastructure renewal. It is grossly misleading to suggest that revenue from this source somehow offsets losses incurred to general funds as a result of rate pegging.

IPART’s assertion that NSW council revenues have broadly grown in line with the revenues of other states is misguided. The revenue growth in other states has occurred through increases in rates, creating revenues that can be applied not only to general expenditures but also to infrastructure renewals. Revenue growth in NSW is primarily tied to specific purpose sources and consequently cannot be compared to revenue growth in the other states.

IPART concludes that “rate pegging has not limited NSW council expenditures”[8] however as is clearly shown further in the Report, expenditure is focussed on operational needs rather capital needs. IPART has noted that NSW has “a lower growth in capital expenditure by local councils than other states”[9] with NSW capital expenditure at 1.9% compared to 3.5% for the rest of Australia. Councils are unable to fund capital items because this funding is traditionally sourced from rates or borrowings (which are underpinned by rates revenue) rather than other sources.

While councils continue to be constrained in determining their revenue path investment in infrastructure must also suffer because of councils’ inability to plan long-term for rate increases. We believe this also undermines councils’ willingness to utilise borrowings to fund capital works because there is no certainty available in relation to their rating capability.

Options A, B or C

It is REROC’s firm belief that IPART should have proposed an Option C – the complete removal of rate pegging.

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[6] Ibid, 90.
[7] Ibid, 20.
[8] Ibid. 91.
[9] Ibid. 97.

IPART has identified that growth in revenues from the Sale of Goods and Services has slowed and that this may indicate "that councils have taken up available opportunities to increase income from sales of goods and services" and has concluded that "...councils may not be in a position to maintain growth in total revenues in line with other states in future".[10] However, despite this conclusion IPART has recommended that rate pegging remain.

At the Public Consultation held in Wagga Wagga on 8 September, comments made by IPART representatives suggested that the major reason for recommending Options A and B was that Option C would not be acceptable to the Government. Our members are very concerned that IPART's motivation for holding onto rate pegging is driven by what IPART believes is achievable from a political perspective rather than what is best from a financially sustainable one.

We were further concerned to hear during that 8 September meeting that a number of Ratepayer Associations were against the removal of rate pegging and this informed IPART's decision-making in relation to Option A and B. We are concerned that the views of these lobbying organisations have been used as a further justification for retaining rate pegging. In our experience, despite their name, they rarely represent the views of the community as a whole and are often single issue organisations with political motivations or aspirations.

Our members are somewhat non-plussed to find that the **Independent** Pricing and Regulatory Tribunal appears to have allowed the politics of rate pegging interfere with the identification of a best practice pricing and regulatory regime that can appropriately support and sustain the work of local government.

REROC's discussions last year with then Treasurer, Hon Michael Costa, made it very clear that NSW Treasury did not support rate pegging and comments made by IPART at the 8 September Consultation indicated that Treasury's stance on this issue has not changed. We are therefore at a loss to understand the reasoning for IPART's failure to include Option C when all the financial data indicates supports the inclusion of the proposal.

While the proposed Option B offers the opportunity for "earned autonomy" REROC is very concerned that the financial hurdles that must be overcome to earn autonomy will in fact result in more costs to councils. We are also very concerned with the notion that councils must "earn autonomy" because it suggests that local government is somehow unfit or in incapable of managing itself in a sustainable fashion. We would argue that as councils are in a net credit position[11] given the financial regime that has been forced onto them by the State over the last 30 years that they are exceptional financial managers.

Cost Shifting

REROC accepts that it is within IPART's discretion to determine its own definition for cost-shifting. However we are disappointed that in doing so IPART has chosen such a narrow definition and as a result has completely ignored entire areas of council activities on that basis that they are discretionary responsibilities.

The NSW Upper House Inquiry into Cost Shifting identified that 'much cost shifting has occurred by the level of State's grants failing to keep pace with changing

[10] Ibid, 90
[11] Ibid, 137.

responsibilities and cost increases.'[12] We note that the Draft Paper does not address the issue of whether or not the State is paying its fair share of the cost of service delivery.

For example, the State Government currently provides approximately $23 million towards the cost of running 363 libraries in NSW (60% are in rural and regional areas). In 1980, the State Government contributed 23.6% of the total operating costs of public libraries. The State contribution dwindled to 7.8% in 2004-05 with further reductions in years since then, including a massive cut of $1,023,000 (4.16%) in 2006-07. NSW has the lowest State Government per capita contribution to public libraries of all states and territories in Australia. It is local government that is picking up the funding shortfall of $265 million, which is coming from rate-pegged, ratepayer funds.

The problem of the State failing to keep pace financially with the cost of service delivery is further supported by the Commonwealth Grants Commission who identified that while the level of State Specific Purpose Payments (SPPs) had increased over time it had actually fallen as a proportion of local government revenue. In 1974-75 State SPPs represented 15% of local government revenue, but by 1997-98 it was about 7%.[13]

In addition our members note that the Paper does not address the cost of compliance, reporting and planning requirements that have been introduced by the State, particularly over the last 10 years. It appears that these costs are defined by IPART as "functional" and consequently do not fit the IPART definition of cost-shifting, because they are neither asset transfers nor a legislative mandates. IPART argues that functional costs are not cost-shifting because "…local government is in the same situation as a private sector provider."[14]

This assertion is nonsense. Local government is not in the same situation as the private sector – local government responsibilities for compliance, reporting and planning are far in excess of the private sector. For example the new integrated planning regime introduced by the Department of Local Government will be very costly for councils; surely IPART cannot suggest that this requirement is somehow similar to preparing a business plan?

Additionally local government is not in a position to choose not to do something simply because it is not profitable to do so, if that were the case councils would simply stop fixing local roads.

IPART's definition of cost shifting has also failed to address the increasing costs to local government of state-based services. REROC argues that the State is shifting its responsibility to adequately fund activities such as NSW Rural Fire Services, NSW Fire Brigades and State Electoral Office (SEO) onto local government by constantly increasing fees without reference to either improved service provision or indeed local government's capacity to pay.

Our members are at a loss to understand how the State can raise its fees and charges to local government with no regard to councils' financial constraints. The most recent round of local government elections resulted in a threefold increase to

[12] House of Representatives Standing Committee on Economics, Finance and Public Administration, above n2, 36.
[13] Ibid, 37.
[14] Ibid. 145

many councils for State Electoral Office (SEO) charges without any significant increase in service provision. The SEO is a monopoly service provider and councils have no choice but to use their services, however we note that IPART has not identified this as cost-shifting.

Our members argue that the Report should have properly addressed the responsibilities that the State has to maintain appropriate levels of funding for State-based services.

Local Government Cost Index

REROC supports the concept of a Local Government Cost Index (LGCI) as we believe that it could be utilised by councils as a voluntary benchmark to assist them to determine their own rate increases.

However, the LGCI as it is currently proposed is inadequate. The basket of items to be included must be expanded to reflect the cost imposts borne by councils including costs imposed by the State for state-based services such as:

- NSW Rural Fire Services
- NSW Fire Brigades
- Department of Lands – Valuation Fees
- State Electoral Office fees
- Planning Panel costs

We believe that the LGCI should also act as a benchmark or ceiling for all State agencies and departments when they are setting fees and charges that are applied to councils.

We suggest that there should be a great deal more consultation on the basket of items that will make up the LGCI. REROC would like to see some recognition in the process of the different constraints between rural, regional, fringe and metropolitan councils.

At the 8 September Consultation the IPART representatives suggested that there would not be room for more that one LGCI. However this appears to be contrary to the IPART's conclusion in the Draft Report that:

> …a one-size-fits-all approach to the revenue framework may not address financial constraints or risks, particularly for rural councils…There are significant differences in council's ability to raise revenue and different types of expenditure…these need to be considered with the revenue framework.[15]

REROC strongly supports this conclusion; one-size-fits-all approaches cannot meet the significant differences and responsibilities of councils across the State. We note that the current basket items does not cover traditional services such as governance, emergency services or roads nor is it recognising the delivery of non-traditional services.

In relation to traditional and non-traditional services REROC believes that it is important that IPART recognise that the "roads, rates and rubbish" perception of local government does not reflect councils' 21st century role as a community builders. In determining the basket of items for the LGCI it is important that IPART recognise that while some activities may not be "traditional" they are in fact core service provision and therefore must be included in the LGCI.

[15] Ibid, 90.

Reliance on Grant Revenue

Our members wish to express concern with regard to IPART's description of the General Purpose Grants and the Specific Purpose Payments as grant revenue and the underlying assumption that a "reliance" on such revenues is an indicator of lack of financial capacity.

Our members view these payments as local government's share of the taxation revenue which is collected by the Commonwealth on our behalf, because we are not able to levy taxation ourselves.

The stance taken by IPART implies that councils should not be entitled to receive a share of taxation revenue. Local government is a recognised tier of government and just as the State government receives "grants" from the Federal Government in order to deliver services to communities, so should local government.

When the State receives funding from the Federal government by a variety of mechanisms including a share of the GST, which local government in this State does not receive, it is not suggested that they lack financial capacity, instead it is perceived as receiving its share of taxation revenue. In fact the State usually argues vociferously for a bigger and better share of that revenue.

When local government receives funding from the same source it is described as a grant and perceived as a form of dependency. We request that IPART accord local government the same level of respect as it does the State, by applying the same perspective to the way it views funding received by local government from the Federal government.

Conclusion

REROC is pleased that IPART has identified a great role for its services in determining the pricing controls that are imposed on local government. However, it is disappointing that IPART has not taken the opportunity afforded by this Review to address some fundamental issues in relation to the financial and regulatory structures of local government.

The narrow definition of cost-shifting adopted by IPART has meant that it has not properly addressed the increasing costs to local government of community service delivery, much of which has resulted from Federal and State governments pulling back from their service delivery obligations. Our members firmly believe that if the revenue regime of local government is to be properly addressed then a service delivery framework between all three tiers of government must be developed.

In addition our members strongly support on-going proposals for the establishment of an Intergovernmental agreement on service delivery that is underpinned by appropriate funding for the identified responsibilities.

Our members would welcome the opportunity to meet with IPART to discuss the issues we have raised.