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Review of Regulatory Framework of Local  
Government – Draft Report  
Independent Pricing and Regulatory Tribunal  
P O Box Q290  
**QVB POST OFFICE NSW 1230**

Dear Sir

### **SUBMISSION – REVENUE FRAMEWORK FOR LOCAL GOVERNMENT**

Ref: *SMB/AMK/SF3786*

Council has directed me to advise that it recognises the political reality of State Government legislative control of Local Government annual rates and overall, supports the new Revenue Framework proposed by the Independent Pricing and Regulatory Tribunal (IPART) in the Draft Report on *A Revenue Framework for Local Government* consisting of Option A & Option B. Operating together, Option A will significantly improve the current system for regulated annual rate increases and Option B will deliver a degree of autonomy to Local Government that has not existed since introduction of rate pegging in 1977.

Notwithstanding Council's support for Options A & B, Council has a number of suggestions and comments which, if taken into account in the refinement of Options A & B, would provide for an optimum outcome for Local Government while maintaining conformity with the thrust of the revenue framework proposals contained within the IPART Draft Report.

### **Integrated Planning and Reporting Framework**

Council recognises that the IPART Draft Report recommendations for Option A and Option B enhances the planning and community engagement approaches in the soon to be introduced *Local Government Integrated Planning and Reporting Framework*. Council understands the reasoning for the incorporation of revenue path autonomy under Option B aligned to the four year term of the elected Council, however, a more optimum outcome approach would be to align revenue path autonomy with the minimum ten year timeframe of a council's Community Strategic Plan, subject to demonstration by the council of:

- a track record of sound financial management;
- high standards of financial management;
- development of a medium term approach to revenue, expenditure and service delivery plans; and
- revenue, expenditure and service delivery plans having the support of their constituent communities, especially when these plans involve greater than the regulated annual rate increase.

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It is proposed in the Integrated Planning and Reporting Legislative Framework, that the Community Strategic Plan will be the highest level plan that a council will prepare. The purpose of the plan is to identify the community's aspirations, main priorities and expectations for the future, with a minimum 10 year timeframe, and to plan strategies for achieving these goals. Would it not be eminently sensible to align revenue path autonomy under Option B to the ten year timeframe of a Community Strategic Plan which would have the added advantage of maintaining a truly community focus rather than the political focus of a four year council elected member term.

The Community Strategic Plan under the Integrated Planning and Reporting Framework is a partnership between councils, State agencies, community groups and individuals and will address a broad range of community issues relevant to the whole community, including those for which councils may not have responsibility. So as to ensure that councils have the ability to fulfil their part of the partnership, a timeframe of more than four years under Option B would provide for greater integrity and resourcing of the strategic planning process.

**Recommendation**

*That IPART include provision in Option B for revenue path autonomy, timeframes for councils to be aligned with the ten year timeframe for Community Strategic Plans required by the legislative dictates of the Local Government Integrated Planning and Reporting Framework.*

**Cost Shifting: Allocation of Government Roles and Responsibilities**

Council agrees with what IPART considers to be true *cost shifting* - *Local Government has no choice but to provide the service and incur the associated cost shifted from higher levels of Government.* Council supports the IPART view that the following two categories, inter alia, satisfy the definition of cost shifting which is where a Federal or State Government responsibility is transferred to Local Government without an appropriate funding source:

- *Asset Transfers: Assets are transferred to Local Government without adequate funding base.*
- *Legislative Mandates: Local Government is required by legislation to undertake a task that is outside its ordinary functions and an additional source of revenue is not provided.*

In reference to the IPART Draft Report comment on Page 146, that given a more rigorous definition of cost shifting, ....*"there is likely to be few instances of cost shifting according to IPART's definition,"* and the comment that IPART considers unfunded pensioner concessions and unfunded transfer for responsibility for regional roads to rural councils to be true cost shifts that satisfy the refined IPART cost shifting definition, the following table is produced which identifies net Council expenditure over the past four years for Regional Roads and Pensioner Concessions.

**Tamworth Regional Council - Regional Roads and Pensioner Concessions**

Item	2005/2006	2006/2007	2007/2008	2008/2009
Regional Roads – Net Cost to Council	\$843,893	\$266,667	\$1,129,643	\$196,300
Pensioner Concessions – Net Cost to Council	\$842,754	\$840,934	\$852,037	\$872,229
<b>Total</b>	<b>\$1,686,647</b>	<b>\$1,107,601</b>	<b>\$1,981,680</b>	<b>\$1,068,529</b>

Council's 2009/10 budgeted net cost for pensioner concessions is estimated to be \$848,250, with this figure increasing exponentially in line with aging population projections.

## ***Recommendation***

***That in line with IPART's more rigorous definition of Local Government Cost Shifting, Council net expenditure for pensioner rate concessions and regional roads be weighting factors included in either the Local Government Cost Index or other calculations and considerations for an annual rating default cap under Option A.***

## **Productivity Factor**

IPART Draft Report Recommendations 9, 11 and 12 provide that the regulated annual rate increase should be based on the annual movement in a local government cost index (LGCI) and, surprisingly for local government, a productivity factor. It is proposed that the local government productivity adjustment factor be calculated by IPART and be used in conjunction with the LGCI to encourage efficiency of local government. It is further proposed that the productivity adjustment factor be estimated by IPART in 2009/10 for 2010/11 and then in the first year of every four year electoral cycle of local government.

It is Council's view, which is arguably shared by the whole of the local government sector, that a productivity factor is purely subjective, is not an issue for IPART but a matter for individual councils. In Council's view the LGCI should be the only determinant for annual rate capping defaults under Option A.

On IPART's own admission at page 155 of the Draft Report, there are no standard measures for the productivity for local government service delivery. In Council's view, productivity improvement and productivity gains will be inherently achieved and will be a consequent outcome of councils' satisfying the following criteria for Option B Rate Revenue Path Autonomy.

- (i) *A track record of having positive operating results over the economic cycle;*
- (ii) *Have a reasonable liquidity ratio;*
- (iii) *Have sustainable debt levels;*
- (iv) *Comply with the Local Government Code of Accounting Practice and Financial Reporting and reporting on Key Performance Indicators;*
- (v) *Having a responsible funding policy;*
- (vi) *Having a track record of asset management;*
- (vii) *Having a comprehensive asset management plan.*

## ***Recommendation***

***That the only determinant for Option A regulated annual rate increases be a Local Government sector agreed Local Government Cost Index (LGCI) and not include a productivity factor.***

## **Community Satisfaction Surveys**

IPART Draft Report recommendation 4 provides that it will be a mandatory requirement for each council to conduct a survey every two years to measure community satisfaction with delivery of key services and that the results of such surveys be published in the council's Annual Report.

Council acknowledges the value of community satisfaction surveys and is a regular user of community surveys to obtain community input to initial service planning and thereafter service delivery performance. However, it is also Council's view that community surveys are not necessarily a true indicator of community satisfaction due to the traditionally low participation rate of community members responding to the survey. In Council's view, the use of community satisfaction surveys should be discretionary not mandatory and are more aligned as an inherent requirement of the new Integrated Planning And Reporting Framework for Local Government and community strategic planning rather than a consideration for IPART under Option B criteria.

## ***Recommendation***

***That the use of community satisfaction surveys as a tool for assessing community satisfaction and improving the effectiveness and efficiency of local government service delivery be at the discretion of individual councils and not be a mandatory requirement for***

*either Option A rate capping default annual amounts or be any consideration in the criteria for Option B multi year revenue path autonomy.*

## **Local Government Infrastructure Expenditure**

In Council's view, which is shared by IPART, the short (annual) term nature of rate pegging has had the impact of shortening Council planning horizons, particularly in relation to infrastructure renewal/asset management, largely due to the limited degree of certainty over future rate revenue sources and cash availability. Due to the regulated nature of many councils' major source of revenue under rate pegging, there has been a tendency by many councils to allocate the bulk of available resources to recurrent community service delivery and delay, if not defer, expenditure on infrastructure renewal and asset management.

It is speculated that in the first instance, only a hand full of New South Wales councils will satisfy the criteria for an Option B rate revenue path. Many councils will struggle in the medium term to achieve the last two criteria of *having a track record of asset management*; and *having a comprehensive asset management plan*.

It is acknowledged that achievement of these two criteria will be a focus of the new integrated planning and reporting framework for local government and that the attainment of an Option B revenue path will encourage and provide a fiscal environment for councils to prioritise, allocate resources and adopt programs for the optimal management and maintenance of council infrastructure assets.

### ***Recommendation***

***That Option B provide for progressive or incremental attainment of a record of asset management and comprehensive asset management plans by way of setting milestones within acceptable timeframes.***

## **Local Government Cost Index (LGCI)**

Council applauds the initiative by IPART to recommend that the regulated annual rate increase under Option A be based on the annual movement in a local government cost index but, as stated earlier in this submission, does not agree that a local government productivity factor should be part of that index. However, in supporting the adoption of a local government cost index as the basis for Option A default caps, the basket of cost input changes must be carefully selected to reflect the peculiarities and diversity of local government and be truly indicative of the annual cost increases to which local government is subjected.

The LGCI must include the following cost inputs:

- local government wages and salaries
- Electricity Costs
- Construction costs
- annual cost increases in landscape supplies, reticulation, pipes, fittings, sprinklers and play/recreation equipment for passive and active recreation areas, parks and gardens;
- plant and fleet items such as heavy plant and motor vehicle capital costs, tyres, oils and lubricants;
- compliance costs to satisfy the requirements of WorkCover, Department of Environment and Climate Change, Australian Standards, licence fees, transaction fees and subscription fees;
- year round care accreditation costs;
- valuation fees;
- contributions to the New South Wales Fire Brigade – 07/08 TRC contribution \$210,660;
- contribution to New South Wales Rural Fire Service – 07/08 TRC contribution \$463,860;
- New South Wales Electoral Commission costs – 2008 election cost \$234,740 (28.9% increase over 2004 election);
- disability factors for small, rural and remote councils.

**Recommendation**

***Council suggests that an IPART/Local Government LGCI Working Party be established with representatives from local government to investigate and agree upon a Local Government Cost Index and basket of annual cost input increases which explicitly and independently track the movement in annual costs for Local Government and accurately reflect the peculiarities and diversity of Local Government.***

Council welcomes the participation of IPART to assist the NSW Department of Local Government to initially conduct a review of the regulation of Council rates and looks forward to the proposed future role of IPART to calculate and publish annual movements in a Local Government Cost Index which would form the basis of an IPART recommendation to the NSW Minister for Local Government for the annual rate of cost increase to be allowed when setting the regulated increase in annual rates under Option A.

Local Government as the important third tier of government in Australia plays a vital role in community development and the delivery of a broad range of property based and human services to the local and wider community. The recommendations of the IPART Draft Report on *Revenue Framework for Local Government - July 2009*, refined to the extent of valid and practical input from the Local Government sector through the consultation process, will provide significant improvement, restore a degree of autonomy to councils and local communities and adopt an independent, rigorous and transparent framework for the determination of annual rates and charges.

Yours faithfully



Glenn Inglis  
**GENERAL MANAGER**

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18 September 2009