

## REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

### Overview of Submission

Wagga Wagga City Council again welcomes the opportunity to provide comment to the Independent Pricing and Regulatory Tribunal (IPART) on the *Revenue Framework for Local Government –Draft Report*. This submission follows the previous submission made by Council in August 2008 on the “*issues Paper*” and the workshop held in Wagga Wagga on 8 September 2009.

The five key recommendations included in Council’s previous submission were:

1. Wagga Wagga City Council is supportive of IPART playing a direct role in the determination of the ‘rate pegging’ limit.
2. The role of IPART should be determinative in respect to the rate pegging limit and this role should be provided for in the Local Government Act.
3. The role of IPART should be limited to determining the ‘rate pegging’ limit only. Wagga Wagga City Council does not support any additional regulation of annual charges or fees charged by Council.
4. Wagga Wagga City Council submits that the current regulatory framework for Council revenue has a detrimental impact on the financial sustainability of local government and does not meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency.
5. The NSW State Government needs to increase the autonomy of local government (in line with other states) to determine the required level and mix of rates, annual charges and fees to fund services and the renewal of infrastructure, in consultation with the local community.

In reviewing the Draft Report, Council notes the following key points:

- The role of IPART is not determinative in respect to setting the rate pegging limit. It is proposed through Option A that IPART will play a role in the determination of the ‘rate pegging’ limit but the role is limited to determining the change in a local government cost index and then making a recommendation to the Minister.
- The Minister is not obliged to accept the recommendation from IPART and may therefore continue with the existing process of making an annual announcement based on political imperatives. The existing process lacks transparency and bears little or no resemblance to the actual cost increases incurred by Councils.
- The local government cost index does not make any distinction between rural and city councils which disadvantages rural councils where the

maintenance of rural roads represents a significant portion of the Council's budget.

- The report supports Council's earlier submission that the current regulatory framework has a detrimental impact on the financial sustainability of local government and does not meet the standards
- Option B provides an opportunity for Council's to obtain greater autonomy in the setting of rates but the criteria for achieving "earned autonomy" are overly onerous and counter productive to supporting those Councils such as Wagga Wagga City Council who have put in place a plan to improve their financial position.
- There is no option put forward in the Draft Report which proposes the removal of 'rate pegging' despite the majority of Councils and NSW Treasury calling for the removal of 'rate pegging'..

The key recommendations that Wagga Wagga City Council now wish to submit are:

- 1. A separate Local Government Cost Index should be calculated for rural Councils which includes additional factors which impact more significantly on those councils such as road maintenance costs and increases in contributions to the NSW Rural Fire Services.**
- 2. Council supports the inclusion of Option B but the specifics of Option B arrangements need to be less onerous and more realistically obtainable for those Council's who wish to put in place long term financial plans in close consultation with their community.**
- 3. The recommendations from IPART must include an Option C which proposes the removal of rate pegging in NSW.**

## **Comment on Option A**

Option A as outlined in the Draft Report represents only a minor improvement on the current rate pegging system. The Minister is not bound to accept a recommendation from IPART to allow rating increases in line with a local government cost index and the current cumbersome (and administratively costly) system of applying for special rating variations is continued.

Whilst Council is supportive of a local government cost index being developed by IPART, the 'one size fits all' approach to the local government cost index does not factor in the differences between rural and urban Councils. The additional costs associated with maintaining an enormous rural road network which services a relatively smaller population and rating base needs to be factored into a separate cost index for rural councils. I

## **Comment on Option B – Partial removal of Rate Pegging - “earned autonomy”**

Wagga Wagga City Council has a fundamental issue with the term “earned autonomy” which is referred to in the report in conjunction with Option B. This term suggests a parent / child relationship which is contrary to the desired position of State and Local Governments working in partnership to provide the necessary infrastructure and delivery of services to the people of NSW. Local Government should not have to earn this right.

The key areas of concern with Option B in its present form are:

- Option B proposes the removal of rate pegging for the 4 year term of the Council. This does not provide any revenue certainty for Councils preparing Ten Year Financial Plans as part of the Integrated Planning and Reporting requirements. The removal of rate pegging needs to extend for the entire ten year period to enable Councils to address long term infrastructure funding issues.
- The financial performance criteria associated with Option B are beyond the reach of Wagga Wagga City Council and most if not all Councils in NSW. The criteria includes a track record of having a positive operating result excluding capital amounts and a capital renewal ratio of greater than 1.0. The requirement prescribed by the Department of Local Government to recognise and depreciate assets based on “Fair Value” has resulted in an increase in depreciation expense from \$9.6M in 2005/06 to \$17.7M in 2008/09. This makes it almost impossible for Council to achieve a positive operating result. The financial performance criteria associated with Option B as proposed in the draft report is counter productive to the objective of providing Councils with more flexible options to address the financial sustainability issues faced.

Council recommends that Option B be retained in the report but the conditions associated with this option be amended as follows:

- The period of flexibility for Councils to set rates is increased from 4 years to 10 years.
- The financial performance criteria should not be linked to financial ratio's but rather those Councils which have developed a long term financial plan in alignment with the community strategic plans of Council and have undertaken community consultation and obtained broad community support in respect of these plans.

**Inclusion of an Option C – Removal of Rate Pegging.**

The report notes on page 4 that *“The majority of submissions to the review were from councils and most of the submissions argued that rate pegging should end. A number of other submissions such as NSW Treasury’s submission, also supported removal of rate pegging.”*

The report also provides analysis which demonstrates that whilst rate pegging has constrained the growth of rating revenue in NSW relative to other States. It should be noted however that the areas of significant growth relate to restricted income sources including Section 94 Contributions, Sewerage and Domestic Waste Management. Council is unable to apply this income towards addressing the urgent and key issues associated with infrastructure renewal and maintaining of service levels.

The introduction of the 1993 Local Government Act had the effect of providing an expanded and generally more flexible role for local government. The intent of the new Act was to empower Councils to make decisions on behalf of their communities and thus the 1993 Act is much less prescriptive than the 1919 Act. It therefore follows that the rate pegging legislation which was introduced under the 1919 Act should have been removed once the 1993 Act came into force to enable the industry to move into the 21<sup>st</sup> Century.

The current Premier has previously made public statements that he is prepared to consider the removal of rate pegging and the IPART report will lack credibility and balance if it does not include an Option C.