



Premier of New South Wales
Australia

13 MAY 2008

Dr Michael Keating AC
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230



Dear Dr Keating

I am writing about the Independent Pricing and Regulatory Tribunal undertaking a review of the revenue framework for local government in NSW.

Please find enclosed a reference under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* for the Tribunal to conduct the review.

If your officers wish to discuss this matter, they should contact Mr Paul Elton, Policy Manager, Natural Resources and Economic Development Branch, Department of Premier and Cabinet on (02) 9228 5493.

Yours sincerely

Morris Iemma MP
Premier

Terms of Reference

Review of the revenue framework for local government

I, Morris Iemma, Premier of NSW, under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the 'IPART Act'), approve of the Independent Pricing and Regulatory Tribunal ('IPART') entering into an arrangement with the Department of Local Government to provide assistance to the Department by conducting a review with the following terms of reference.

IPART is to investigate and make recommendations on the following matters:

1. An appropriate inter-governmental and regulatory framework for the setting of rates and charges that facilitates the effective and efficient provision of local government services in NSW.
2. A role for IPART in setting of local government rates and charges in future years.
3. A framework for setting of charges by certain public authorities such as the Sydney Harbour Foreshore Authority, Redfern Waterloo Authority, Sydney Olympic Park Authority and the Growth Centres Commission to enable these authorities to recover costs for the provision of services that are normally provided by local government.

In undertaking this review, the IPART is to have regard to:

- the particular role of local government in the delivery of infrastructure and services to the community;
- the current financial position of local government;
- the present roles and responsibilities of local government, and the extent to which these are self-determined or determined by statutory requirements;
- the current and likely future level of expenditure required by local government to undertake its responsibilities;
- the scope for greater efficiency in the provision of local government services, including the use of total asset management planning;
- all of the revenue sources available to local government, the potential adequacy of these revenue sources, constraints on those revenue sources, and the financial capacity of local government to meet its statutory obligations and remain financially sustainable;
- the extent to which local government provides infrastructure and services that overlap those provided by other levels of government;
- the socio-economic impacts of rates and charges, including the ability of families and pensioners to meet their rate obligations, and local government hardship and concessions policies;
- differences between metropolitan, regional and rural councils, and also between new development areas and established suburbs;
- the current process by which increases in rates and charges are determined and whether this process adequately meets local government wage cost and other expenditure adjustments;

- the roles and responsibilities of local government and State Government in determining local government revenues; and
- any relevant recent reviews of local government such as those conducted by the NSW Local Government and Shires Associations and the Productivity Commission.

In addition, IPART is to consider the matters listed under section 15 of the IPART Act to the extent that they are relevant to this review and they are not otherwise addressed by the matters set out above.

In undertaking this review, IPART is not required to consider, review or make recommendations on:

- issues relating to the valuation of individual properties; and
- matters associated with the operation of councils' water and wastewater businesses.

IPART should provide a draft report to the Minister for Local Government within 12 months of commencement. IPART may also make an interim report to the Minister for purposes of setting rates revenues from 1 July 2009. The draft report should be made publicly available and comments invited from interested parties. A final report is to be provided to the Minister within a further 4 months of the draft report.

Background

The roles and responsibilities of local government have evolved over many years. The *Local Government Act 1993* sets out the means by which councils are financed. Councils have the power to set rates and charges on individual properties in line with local needs and the provisions of the *Local Government Act 1993*, which requires that rates that councils set must be fair and equitable. Local government revenue is also influenced by statutory requirements set out in other legislation, such as the developer contributions provisions of the *Environmental Planning and Assessment Act 1979* (currently under review). Local Government also derives revenue from the Commonwealth Government and other sources. A significant component of the revenue base of councils has been subject to 'rate pegging' since 1976, with provision for special variations.