

**Submission to the
Independent Pricing and Regulatory Tribunal**

**~ Revenue Framework for Local Government –
Issues Paper ~**

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**NSW Farmers' Association
Level 25, 66 Goulburn Street
Sydney NSW 2000**

Ph: (02) 8251 1700

Fax: (02) 8251 1750

Email: *emailus@nswfarmers.com.au*

Executive Summary

- **Viable local Governments are necessary to ensure that essential public services are maintained and developed.** This includes providing people with access to economic and social facilities and services such as local roads, bridges, saleyards, water and sewerage, waste disposal and public buildings.
- **The Association recognises that significant reforms are required to ensure Councils have an adequate support and incentive structure to operate as a financially sound business operation.** The Independent Pricing and Regulatory Tribunal ('IPART') has concluded that a higher percentage of rural Councils and fringe Councils have unsustainable operating results compared with metropolitan Councils and that rural Councils appear to be at greatest risk of having unsustainable long term positions.
- **Rural Councils have unique characteristics which pose significant issues in their ability to raise revenues.** Rural Councils have a small rating base from which they must fund infrastructure maintenance and renewal costs and are much more reliant on State and Federal grants compared to metropolitan Councils.
- **The Association supports the recommendations proposed in Option A which will maintain the benefits of the rate pegging system while maintaining the ratepayer assurances it provides.** The reforms proposed in Option A would go some way to alleviating existing revenue generating issues for rural Councils.
- **The Association has concerns with the practicality of Option B for rural Councils.** Introducing more flexible rating framework for small rural Councils will not necessarily assist these Councils to improve their financial sustainability given their reliance on rates as their primary source of income.
- **Council revenue generating policies must consider other efficiency revenue sources before any proposed rate increase is imposed on rate payers.** This may include the investigation into external auditing into Council integrity and efficiencies.

Introduction

The NSW Farmers' Association (the 'Association') is Australia's largest state farming organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. Through its commercial, policy and apolitical lobbying activities, it provides a powerful and positive link between farmers, the Government and the general public.

The Association is the key state representative body for both intensive and extensive industries ranging from broad-acre, meat, wool and grain producers, to more specialised producers in the horticulture, dairy, poultry meat, egg, pork, oyster and goat industries. The Association also represents the interests of rural and regional communities and the important issues associated with natural resource management, economics and trade.

The Association welcomes the opportunity to provide a submission to the Independent Pricing and Regulatory Authority ('IPART') review of the regulatory framework of Local Government. As local Government rate payers and users of services, Association Members have a strong interest in the operation of their local Councils. Viable local Governments are necessary to ensure that essential public services are maintained and developed.

However, the Association's Members are very concerned that in many cases local Government does not have the resources to provide the necessary services and that the reliance on local landholders for rating income is too high. This is increasingly an issue as Local Councils bear the brunt of State Government cost shifting and take on non-core projects and services, such as the provision of health care centres and medical practitioner housing, traditionally catered for by other levels of Government. On this basis, the Association supports any review that would increase the proportion of funds local Government receive from higher levels of Government, such as a mandated fixed share of Federal Government GST revenue.

Review of IPART Draft Report

IPART's Draft Report for the Regulatory Framework of Local Governments ('the Draft Report') has put forward a number of recommendations which will have significant implications on the revenue raising ability of Councils in NSW. The Association recognises that significant reforms are required to ensure Councils

have an adequate support and incentive structure to operate as a financially sound business operation. For this reason the Association supports the recommendations proposed in Option A. This option maintains the benefits of the rate pegging system whilst preserving the ratepayer assurance that it provides.

However, as the Draft Report states, rural Councils have unique characteristics which pose significant issues in their ability to raise revenues and affect the appropriateness of Option B. Some of these issues include:

- Larger Councils are able to expand into non-core activities and use this revenue to subsidise other services whilst smaller Councils are limited to their legislated role (p.25);
- Rural Councils have a small rating base from which they must fund significant infrastructure maintenance and renewal costs (p.27); and
- Reliance on State and Federal grants is much higher for rural Councils (averaging approximately 44 percent of total revenues) compared to metropolitan Councils (10 percent) (p.85).

Arguably, such factors have contributed to IPART's conclusion that a higher percentage of rural Councils and fringe Councils have unsustainable operating results compared with metropolitan Councils (p.112) and that rural Councils appear to be at greatest risk of having unsustainable long term positions (p.114). As IPART concluded, introducing a more flexible rating framework for small rural Councils will not necessarily assist these Councils to improve their financial sustainability (p.115). Based on this, the Association has concerns with the practicality of Option B as raised in the Draft Inquiry.

The Association is also concerned with the public communication process required under Option B. This includes:

- The cost of conducting the necessary community referendum; and
- Whether a suitable cross section of the constituency would respond to such a referendum to ensure the vote is adequately representative.

Concerns have also been raised with respect to the fact that both options in the Draft Report appear to be prefaced on a continual scope for rate increases and the ability to move outside the rate pegging system to an increasing revenue stream. When compared to a typical commercial environment, such models are unrealistic as almost no business operation has a guaranteed increasing income stream of three to four percent every year nor are open to a liberal cheque book mentality.

In this sense, renewed focus needs to be given to the potential for rate freezing or reductions as well as the investigation into external auditing into Council integrity and efficiencies. This might include:

- The use of natural attrition and redundancies to reduce Council worker numbers;
- A review of those services currently offered by Councils and whether or not Councils can demonstrate the organisational competency to deliver these services in a cost effective manner;
- Sub-contracting of services to private enterprise (e.g. recycling services, parks, garden and toilet maintenance); and
- A peer review of Council high office bearers and their business competency and integrity.

As a general comment, consideration must also be given to those Councils who's rating base have been affected by the conversion of land to a non-rateable classification. Because the rate cap system is calculated on per property terms, revenue grows in line with the number of rateable properties. However many rural Councils face disproportionate increases imposed on them when local properties are exempted from the rating structure because they have been declared National Parks or Reserves. The end result sees Councils having to provide the same level of services from a smaller revenue base.

Conclusion

The Association recognises the need for reform in the revenue raising framework for local Government however does not see Option B as the optimal manner in which to reach this goal. The reforms to the existing rate pegging system

proposed in Option A would go some way to alleviating existing revenue generating issues.

Rural Councils are limited in their ability to source funds outside of rate increases from their constituency and seeking grants from higher levels of Government. However revenue generating policies must consider other efficiency revenue sources before any proposed rate increase is imposed on rate payers.