



15 September 2009

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

Dear Dr Keating

**Re: Revenue Framework for Local Government – Draft Report July 2009**

I am writing to you on behalf of the NSROC member councils to provide comment on the Draft report on the Revenue Framework for Local Government.

The Northern Sydney Regional Organisation of Councils (NSROC) is comprised of seven councils (Hunters Hill, North Sydney, Willoughby, Ku-ring-gai, Ryde, Hornsby and Lane Cove) in the northern part of Sydney which have voluntarily come together to address regional issues, work cooperatively for the benefit of the region, and advocate on agreed regional positions and priorities.

The attached submission was endorsed by the NSROC Board on Thursday 10 September 2009 and outlines our key issues.

Should you require any further information please contact NSROC's Executive Director, Carolynne James on ph 9911 3595 or [cjames@lanecove.nsw.gov.au](mailto:cjames@lanecove.nsw.gov.au)

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Pat Reilly', with a large, stylized flourish above it.

Clr Pat Reilly,  
NSROC President (Mayor of Willoughby)



**NSROC SUBMISSION  
TO  
IPART DRAFT REPORT – REVENUE FRAMEWORK FOR LOCAL  
GOVERNMENT**

**SEPTEMBER 2009**

**OVERVIEW**

The Northern Sydney Regional Organisation of Councils (NSROC) is a voluntary organisation of local governments established to provide strong local government leadership; to work co-operatively for the benefit of the Northern Sydney region; and to effectively advocate on agreed regional positions and priorities. The councils under the NSROC umbrella are: Hornsby, Willoughby, North Sydney, Lane Cove, Ryde, Ku-ring-gai and Hunters Hill.

Our submission to IPART's Draft Report into the Revenue Framework for Local Government focuses on four concerns:

- the merit of the Draft Report's general arguments for ratepayer protection;
- the adequacy of the proposed Local Government Cost Index to capture the key costs of council service provision;
- the adequacy of the proposed community mandate process including suggested survey benchmarks; and,
- the appropriateness of the proposed financial performance benchmarks and capacity of individual councils to meet them and "graduate" to earned autonomy status.

Our submission also reflects previous views proffered by NSROC members: Hornsby, North Sydney and Willoughby Councils, in their submissions to the inquiry in August 2008.

In general terms NSROC welcomes the flexibility recommended by the Draft Report with respect to multi-year revenue determinations and greater financial accountability for autonomous rate setting options. These recommendations recognise the severe impediments for financial and strategic planning posed by current annual rate setting and provide a future mechanism for better alignment of local government revenues and services.

## 1) Ratepayer “protection” principle

In IPART’s analysis of other jurisdictions, for the first 20 years of rate capping the total revenue per capita for NSW residents does not appear markedly different between NSW and the rest of Australia (Finding 18, p.79). IPART notes that in the last decade, NSW Councils have substituted rates income with other income sources such as higher fees and charges (Finding 22, p84). However IPART also acknowledges that the average growth in overall NSW council revenue is equal to that of the rest of Australia. It would appear that, in general terms, residents of councils in “non-capped” States have not been exposed to higher total local government costs than those experienced in “protected” NSW.

Putting aside the inappropriateness of the IPART assumption that democratic local government, if unrestrained, will automatically excessively charge their residents; if protection by rates capping was genuinely effective then surely residents of non-capped councils would have a much higher per capita cost burden for their local government compared to residents of NSW councils. However IPART’s own analysis shows that there is only a marginal difference in outcomes between capped and non-capped states.

NSROC believes that removing rates capping in NSW would not see councils burdening residents with excessive costs, particularly given the local government transparency and accountability mechanisms currently being enhanced in NSW.

***NSROC disputes the Draft Report’s finding that there is ongoing need for rates pegging as a “protection” from “excessive” cost increases by NSW councils.***

## 2) Local Government Cost Index

IPART’s proposal for a Local Government Cost Index partly addresses the concerns of the current rate pegging system. By moving to a cost index and open calculation of a cap level, the costs specific to local government operations can be recognised. However there is a fundamental concern about the possible exclusion of state charges and imposts from this new index.

In discussions on cost shifting (Chapter 14), IPART limits the definition of ‘cost shifted’ items to those that: a) relate to asset transfers, or, b) are legislative mandates.

Clarity is required on whether IPART’s definition encompasses state levies for waste, fire and parking and other legislative requirements, most significantly, street lighting provision, pensioner rebates, election costs and rating property valuation costs. These inclusions to the index are particularly necessary where State agencies have moved to cost recovery pricing such as the Electoral Commission of NSW and the NSW Valuer General’s Office as this changes future cost trends. The Draft Report does not identify these items in the proposed table of index items (see in Table 17.3 of the Draft Report, p196).

***NSROC believes the capture of state charges and imposts are essential to generate a meaningful Local Government Cost Index.***

### **3) Community Mandate Assessment**

In Chapter 16 of the Draft Report, IPART recommends two methods: survey or voting, for Councils to demonstrate a “community mandate” or support for rate changes. NSROC has concerns about both these processes and the benchmarks proposed.

#### **Survey option**

IPART has suggested a survey participation rate for ratepayers of approximately 25-30 per cent and a minimum of 50 - 60 per cent support for a rate change as a determining mandate.

NSROC has various concerns about the legitimacy and reliance upon surveys as determining criteria for decisions on rate changes. Firstly, surveys or polling of this nature can be profoundly influenced by bias questioning, self selection, sampling errors and survey design. Secondly, there are also perceptions about the independence of the commissioning Council. If survey results are directly linked to approvals of rate rises, survey methodology would need to be standardised for use across NSW Councils to avoid perceptions of bias and inaccuracy.

The specific participation rate of 25-30 per cent proposed by IPART is not practical in a community polling setting in terms of cost/benefit outcomes. Based on NSROC member council experiences of both phone polling and direct mail surveys, the proposed participation rate is extremely high and would involve a considerable expense for councils. If the data is correctly sampled, then the participation rate (sample size) may be lowered considerably and still generate an empirically valid outcome.

NSROC believes the use of ratepayer surveys are a valuable tool for gauging community views. However given the integrity concerns and lack of standardisation in surveys of this nature, survey results should not be binding or override the democratic and statutory authority of the elected Council.

#### **Voting Option**

IPART has suggested a two stage alternative mandate assessment process tied to the council election cycle. Stage 1 is where the rate change proposal is integrated into the existing election platform of the incumbent council and is voted on at council elections. Stage 2 is the incoming council's endorsement of rates change prior to final submission to the Minister for approval.

NSROC sees IPART's voting option as flawed and confusing. It has the potential to reduce a Council election to a single issue, limiting the capacity for Councillors to campaign on other policy matters. It requires a costly and time consuming repeat of Council consideration before and after the election, and it precludes the capacity for the council to consider a rate change mid term.

On the other hand, a voting option to determine a mandate for rate changes has qualities of independence and neutrality lacking in the proposed survey option. Rather than a vote implicitly connected to the election platform, NSROC suggests that a separate council plebiscite (non-binding vote) could be undertaken aligned to the Council election cycle. This proposal does bring with it additional costs but separates out the community's views

on general council representation from a specific rate proposal. Although costly, a plebiscite on rates can also be separated from the council election cycle and tied to a State or Federal election event which would allow for mid-term consideration of a proposal.

***NSROC believes a community mandate process which has a binding outcome for a rate change undermines the statutory and political authority of the governing Council. However if a binding community mandate process is required, a Council plebiscite is a more appropriate mechanism for determining community views than a survey.***

#### **4 ) “Earned Autonomy” KPI/Financial Indicators**

NSROC supports the IPART proposal for earned autonomy but suggests that IPART assess the capacity of NSW councils to meet the proposed KPI/ financial indicators based on current financial reporting data. This will give an initial indication of the proportion of councils likely to apply for earned autonomy in the short term.

A particular concern with the earned autonomy concept is that only financially successful councils will be able to meet the thresholds for earned autonomy and therefore independent rate setting. While in the first instance this seems appropriate, these thresholds may also exclude councils who are in most need of rates resetting or enhancement. For example councils which can meet the unrestricted current ratio of 2.0 (which is both higher than the current Department of Local Government benchmark of 1.5 and the private sector benchmark of 1.0) are most likely to be performing well under the current regime and not in need of substantial rate adjustment.

A further concern is the use of strict accounting criteria such as the Sustainability Ratio (capex/ depreciation ratio) which uses depreciation scales that are frequently disputed as a poor measure of the lifespan and degradation of council infrastructure assets (see Table 16.2 of the Draft Report, p.175).

***NSROC recommends that the financial indicators for earned autonomy be set as targets for Councils rather than used as strict eligibility criteria. Alternatively the new system should allow Councils, which are in need but who do not meet the earned autonomy criteria, to apply for a rates variation.***

For further information contact  
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