

# **CITY OF RYDE**

## **SUBMISSION TO THE PRODUCTIVITY COMMISSION ISSUES PAPER (MAY 2007)**

### **ASSESSING LOCAL GOVERNMENT REVENUE RAISING CAPACITY**

## **City of Ryde Submission**

### **Assessing Local Government Revenue Raising Capacity**

In this submission, on behalf of the City of Ryde, responses have been provided that follow the general format of the Commission's Issues Paper.

## **REVENUE**

### **Trends in local government revenue**

***What are the principal factors explaining the trends in revenue from Councils various sources.***

The NSW Government restricts the amount by which Councils can increase rate income through rate pegging. Councils continue to explore revenue opportunities to broaden their revenue base and are focusing on non traditional revenue areas which are outside rate pegging constraints. Charges in some areas such as Domestic Waste Charge are on a full cost recovery basis and therefore may be slightly higher than the approved increase in rates.

***Why has other income been growing at a faster rate than Council rates revenues and sales of goods and services.***

Councils are always exploring opportunities to broaden their revenue base and are focusing on areas outside rate pegging constraints.

Therefore, Council's are being more vigilant in reviewing all discretionary fees to increase income.

Councils wages and salaries and operating costs continue to rise above inflation and generally outstrip the CPI rates increase resulting in Councils needing to grow their revenue base from other fees and charges.

***Do these trends differ between States and Territories and between urban, rural , remote and indigenous local governments. If so what are the primary factors explaining such differences***

The NSW Government restricts the amount by which Councils can increase rate income through rate pegging whilst some of the States and Territories have various degrees of autonomy in setting the level of their rates.

Whilst other States and Territories pass on a % of GST collected to local government, the NSW State Government has refused to do so. The GST is a growing consumption based tax and passing a % of GST revenue would contribute to the financial sustainability of local government in NSW.

Many urban and regional Councils are also investing in property to secure capital growth and rental streams.

Sydney and regional CBD Councils and some major coastal Councils due to increasing population pressures on services generally have the ability to collect revenue from various regulatory services through the need for active enforcement.

This point is also relevant in comparing the differences between urban and rural centres in the level of economic activity. This results in significant differences in the level of development activities and the related income including Section 94 capital contributions received.

***Does the composition of Council revenue (shares of each own-source revenue – rates, fees and charges, and ‘other’) differ between States and territories , and between urban, rural and remote local governments? If so what are the primary factors explaining such differences? Do these factors have implications for the potential revenue raising capacity across different types of Councils?***

Clearly, Councils with large CBDs and sustained economic activity have a greater opportunity to source higher revenue from fees and charges. As mentioned earlier, the major differences between the States with NSW is that NSW Councils have rate pegging plus they do not receive any share of GST revenue. In all other States there are agreed formulas for distribution of GST and no rate capping prevails.

### **Capacity to raise own revenue sources**

***What are the principle factors that determine the magnitude of the various revenue raising bases available to local governments?***

Key factors are:

- Population
- Level of economic activity
- Location and area of authority
- Business mix – residential/commercial/industrial
- Ability for development/redevelopment – the level that the area is in demand
- Functions – products and services offered

***How and why might they differ between local governments within and between States and Territories (for example, by type or location and functions required of them), and over time?***

- growth and capacity of each authority
  - differences in State Government legislation and the differences in regulated fees set by legislations compared to ability to set fees on full cost recovery.
  - how aggressive each Council is in reviewing discretionary fees and charges and the capacity of the area to sustain such increases
  - maintaining the balance of why Local Government exists in connecting communities and ensuring that the values of access and equity are embraced in the provision of services to all sectors in their community
  - the distribution of the Commonwealth Government's Financial Assistance Grant is based on a number of factors with one of those being size and diversity of population. This then equates to more ratable properties and thus the potential for greater rate revenue
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- the greater the level of economic activity, the greater the opportunity for development and regulatory related income – development application fees, compliance certificates and Section 94 contributions and voluntary planning agreement contributions.

A factor that can also affect the revenue raising base is the number of non ratable properties in an LGA.

In NSW, rate pegging spreads the rating burden onto the remaining ratable properties. Institutions such as Universities who are exempt from rating in NSW, also attract substantial numbers of students and workers into the local government area. No income is provided to the City however there is extensive use of the assets and facilities of the LGA, invariably at no cost.

The scale and mix of commercial/retail/industrial properties will provide additional revenue opportunities and differ substantially between States and LGA's.

***What are the key determinants of the capacity and willingness of resident households, organizations and businesses to pay for services provided by their local governments?***

Key determinants are;

- Value for money
- Quality of service
- Capacity to pay and the demographics of each LGA
- Perception – many ratepayers are unaware of the range of services that Councils provide for their rate dollar, therefore reinforcing the point that each Council needs to charge additional fees for services in addition to the amount charged for rates.

***What scope is there for local governments to augment their revenues with fees and charges collected from non residents.***

There is limited scope for local government under the current legislation. Councils seek to grow fees and charges however the scope to capture non residents is limited. While some non residents may contribute by way of regulatory controls that may prevail in certain LGA's, the more important issue is that local government has no mechanism to receive any benefit from non residents such as tourists, workforce, students who all use Council's services, facilities and infrastructure invariably at no charge.

Local Government requires a broadening of its revenue base that enables it to collect revenue that reflects the level of use of its infrastructure, facilities and services by all sectors, including non residents. Clearly the GST provides this opportunity and local government in NSW should be receiving a reasonable % of the amount paid to the State Government from the Commonwealth Government. This would provide Local Government with a growth tax and the income received would provide each LGA with a steady and growing revenue stream that would assist in meeting the funding gap in maintaining and renewing existing infrastructure.

***How and why might the scope to do so differ between local governments***

The key issue is while there may be differences in State legislation, this is a national issue and the Commonwealth Government has provided the mechanism for this to occur through the GST.

The Commonwealth Government should require as a minimum requirement on the payment of the GST to the State Governments that an agreed per centage of all GST received be allocated to Local Government. The distribution to Local Government should reflect levels of activity and expenditure across the State. The Australian Tax Office should be able to provide a baseline in gross terms of GST paid within each LGA, that could be used as a guide on how the funds are distributed.

Another option in keeping the system as simple as possible, is for the Commonwealth to withhold this proportion and pay it directly to each LGA.

***Do local governments have policies, which in effect, limit their own-source revenue raising? If so, what are these policies and what might be factors holding back Councils from increasing their own-source revenue? What might stand in the way of changing the policies to expand the ways, and extent to which local governments raise revenues?***

Generally Local Government does not have policies that limit their revenue raising ability. As detailed earlier in the area of pricing of services, Local government provides varying pricing for certain services based on certain criteria and the ability of the community to pay. Over the past few years, Local Government due to the many pressures and constraints on revenue raising has focused on increasing discretionary fees and charges where it can through regular benchmarking. This process is not always easily achieved in gaining community understanding and acceptance and Council endorsement. Most restrictions on local government's revenue raising is by State Government legislation, either as rate pegging or the setting of fees and charges that should be at full cost recovery.

As detailed earlier, Local Government needs a broader revenue base and for Local Government to be financially sustainable it cannot and should not rely on the landholders within their area to continue to meet the major proportion of the revenue burden.

***What strategies might be available to local governments to increase the capacity and willingness of local residents to pay for goods and services provided, and where applicable, non residents. Would any new strategies provide stable sources of revenue over time or would they be subject to variability over time?***

Strategies adopted in past years have been to advocate for legislative change both at State and Federal levels in reviewing the current restrictions and funding arrangements on Local Government. In NSW, this relates to the removal of rate pegging and at the Federal level for Local Government to maintain its fair proportion of all income tax received, seek more direct payments from the Commonwealth to local government and to make GST payments to the State Government, conditional on a certain proportion being distributed to local government.

At the local level, local government is and should be fully accountable to its community in consulting and receiving feedback from them on proposed special rate increases for specific works programs. However in NSW, while this process is undertaken by each Council seeking a special rate increase, the Minister for Local Government has the final approval to determine the increase and not the individual Council. This should be a Council decision as ultimately, like any form of government, the elected Council is accountable to its community and will be assessed on their performance by the electorate every four years.

***Are there any untapped revenue sources that local governments could use to augment or change the mix of their revenue raising? Would any potential new revenue sources be stable or variable over time?***

No.

The Federal Government should require that the NSW Government (similar to other States and Territories) pass on a % of GST collected to local government. The GST is a growing consumption based tax and passing a % of GST revenue would contribute to the financial sustainability of local government in NSW.

Despite numerous motions passed at State and National Local Government forums, no changes have occurred.

## **STATE & TERRITORY GOVERNMENT REGULATORY CONSTRAINTS**

### **Land rating and valuation methods**

***To what extent do limits on land categories that local governments can adopt for rating purposes restrict their capacity to raise rates revenues.***

NSW rate pegging legislation restricts Councils rates base irrespective of what land categories it adopts. ie residential, business etc. Councils have the ability to introduce sub categories of rates. Whilst this redistributes the rate burden across the community, rate pegging restricts the total rate income that can be raised each year.

***What are the principal reasons why some local governments do not pursue differential rate setting even where they are free to categorise their own land.***

It is understood that most Councils would review their rating structure each year in the formulation of their Management Plan and use the mechanisms available in legislation to ensure equity and fairness across the community.

Under current rate pegging legislation this will not derive any additional rate revenue for Council so they may perceive that there is little benefit from changing from the status quo.

***Do restrictions on land valuation methods affect the capacity of local governments to raise revenue. If so, how and to what extent?***

Under current rate pegging legislation the valuation method used will not increase total rate revenue.

However, following the normal revaluation of land cycle for local government and depending on the variability of increases in valuations this will result in a re-distribution of the rating burden across the LGA.

## **Rate pegging**

### ***What are, or might be the reasons for rate pegging?***

The NSW Government since the late 1970s has supported rate pegging as a mechanism to ensure it controls the total annual increase in rate revenue that in turn restricts the annual increase on individual households.

Councils seeking to increase their rates base are required to consult with their community on the proposal. Councils should have the power to determine the appropriate level of rating for the community, as a result of community feedback.

Councillors are elected to act in the best interests of the community to which they serve and are held to account by the community for their actions at the ballot box every 4 years.

In many instances Councils who did not increase or kept their rates low for many years pre rate pegging are now suffering from operating on an extremely low rating base which threatens their ongoing financial sustainability.

### ***To what extent does rate pegging limit the ability of local governments to raise Council rate revenues***

Rate pegging, introduced and maintained by the NSW State Government completely controls Councils' total rate revenue each year.. The Minister for Local Government specifies a maximum % increase by which Councils can raise their rate revenue each year.

Any Council seeking a greater increase has to submit an application to the Minister for their review and approval which includes details of how the Council has reviewed in operations in reducing costs and optimized income from all other sources. It also includes details of all public submissions and Council's response to those submissions. The outcomes and determinations from the Minister are unpredictable and this process needs to be more open and transparent.



***Are Councils able to raise revenues from other sources to compensate for the potential revenue raising limits imposed by rate pegging.? How and with what consequences***

Not really as the impact on restricting the rating increase and thereby the rating base is significant due to the compounding effects over a number of years. Whilst Councils are seeking to maximize other revenue streams where they have discretion, it is questionable on the degree of rigor local government as a whole takes to this area. Whilst Councils may receive a CPI increase in rates, the majority of their operational costs are increasing at a much higher rate due to the various nature of works undertaken ie road maintenance/construction/reconstruction.

Councils are fighting a constant battle to do more with less and continuously review their operations to seek efficiencies and get the best value for money.

As stated earlier, there needs to be a reform of Councils' revenue raising capability and the requirement for the NSW Government to pass on a fixed % of GST revenue collected to Local government which is in place in other States and Territories. This would have a significant impact on the revenue levels of Local Government and the overall financial sustainability of Councils.

**Concessions & exemptions**

***To what extent do mandated exemptions and concessions limit the ability of local governments to raise Council revenue?***

This varies from Council to Council. Exemptions have a significant impact on a Council's revenue base and in particular how the rating burden is met across each LGA. City of Ryde for example have examples such as Macquarie University and the M2 motorway which are non ratable.

In addition State and Federal Government developments are exempt from paying Section 94 Contributions and unless Voluntary Planning Agreements are able to be negotiated, the community bear additional infrastructure pressures without adequate financial contributions to both maintain and upgrade new infrastructure.

As stated earlier, whilst various properties are exempt from rating, Councils still receive their total rate income as determined under rate pegging. This is achieved by spreading the rating burden over all ratable properties, which in effect are at a higher level depending on the level of non ratable properties within the LGA.

***What are the existing arrangements in each State and Territory regarding the payment of Council rates and rate equivalents by Australian, State and territory landholders?***

In NSW land owned by the State and Federal Government is non ratable unless it is leased for private purposes. Certain Government Trading Enterprises such as Sydney Water pay rates on their commercial premises.

***What are the existing arrangements in each State and territory regarding the provision of concessions, and the compensation by State and territory governments for the loss of revenue by local governments from these concessions?***

There are no arrangements for compensation in respect of non ratability of government properties.

In respect of pensioner rebates, Councils grant a rebate of 50 % of the rates up to a maximum of \$250.00 and receives a subsidy from government equivalent to 55% of the rebate.

***To what extent do exemptions and concessions limit the ability of local governments to raise revenues?***

Exemptions/concessions in their own right do not restrict the ability of local government to raise revenue. As stated above the number and extent of exemption/concessions have more of an impact on the remaining ratable properties.

***Are local governments exempt from taxes and charges by other tiers of government. If so, what are they? Does any lack of reciprocity favour or disadvantage local governments?***

Local government is exempt from land tax and stamp duty and with the exception of trading undertakings, payroll tax. Council is subject to FBT and overall, it is believed that Local Government is disadvantaged when all of the above is taken into account in addition to all other payments made to the State Government for various charges and contributions ie Board of Fire Commissioners, Dept of Planning, Valuer General, Electoral Commissioner for elections etc.

## **Setting fees & charges**

### ***What are the regulatory requirements and guidelines applied to local governments for setting fees and charges?***

Maximum fees are set for various statutory fees such as fines, development application fees, licenses and certificates.

Councils are required to have an adopted pricing policy for the basis of setting fees and charges and the Schedule of Fees and Charges is reviewed and advertised as part of the Council's annual Management Plan process.

### ***To what extent are local governments constrained in setting fees and charges?***

Local government is constrained by legislation and time frames in having to advertise any fee for 28 days and then report to Council for the fee to be adopted before it can be implemented.

Local government is also constrained by the fact that the decisions it makes impact on the local community and it is often difficult to strike a balance between what is a reasonable fee based on total costs to the actual fee charged, generally on the basis on the ability to pay..

### ***To what extent are the requirements and guidelines followed by local governments?***

All guidelines and requirements are followed.

### ***To what extent do local governments under or over-recover the cost of supplying goods and services?***

Local government generally under-recovers the cost of supplying goods and services in the following example areas:

Development application process (regulated fees)

Community Services- various services including libraries

Recreation & Cultural Facilities – hire of sporting fields, halls (for certain uses)

**What scope would there be to raise additional revenue if the limits were removed**

The key determinants would be striking a balance between reasonable levels of fees and charges and the capacity of the community to pay. Where Councils are in competition with each other in areas of certain facilities and services e.g. aquatic and indoor sports centres, Councils would need to ensure that their fees were comparable and competitive in the market.

The areas relating to regulatory and development approvals would be the areas targeted to ensure it more accurately reflected the full cost of the services.

***To what extent does local government legislation or other relevant legislation explicitly provide the power to set fees and charges in excess of the cost of supply?***

No specific legislation that explicitly provides the power to set fees in excess of the cost of supply.

The Domestic Waste Management charge is an example where Councils must recover all reasonable costs associated in providing the domestic waste management service to ratepayers. This service cannot be subsidized from general rate revenue.

***If powers are not explicitly provided, to what extent, if any, does this limit the ability of Councils to raise revenue from introducing new fees and charges?***

Outside Council's main core functions, there are limited opportunities that will raise additional revenue that will significantly impact on Councils revenue.

**IMPACTS ON INDIVIDUALS, ORGANISATIONS & BUSINESSES**

**Council rates**

***What would be the effects on individuals, organizations and businesses of local governments increasing Council rates?***

The impact of increases in rates would vary from Council to Council and is always the subject of detailed consideration in the annual Management Plan process. A sensitivity analysis is generally undertaken to assess possible impacts on ratepayers including the effects when a revaluation of properties has been completed by the Valuer General.

The impact of even a modest increase can be significant on individuals and this needs proper and careful consideration. It is believed increases for organizations and businesses are generally more accepted and sustainable.

***What effects might rate pegging and the choice of land valuation methods have upon individuals, organizations and businesses?***

Rate pegging impacts on the total rate income and generally restricts the impact on the amount of rate an individual will pay whereas the choice of land valuation method will have an impact on the distribution of the rate burden across the community.

***To what extent are Council rate revenues used to subsidise the delivery of goods and services for which fees and charges are collected? What are the consequences?***

In general terms the sample areas listed below are subsidized from general rate revenue;

Development application process  
Community Services- including libraries  
Recreation & Cultural Facilities – hire of sporting fields, halls(for certain uses)

Some fees have a maximum set by regulation such as development application fees whereas with others such as sportsground hire, hall hire and libraries, Council makes a considered decision to set the fees at varying levels to ensure all sectors of the community have reasonable access to facilities and services based on their ability to pay.

In many instances Council is the custodian of assets and seeks to maximize the use of the facility and were it to seek full cost recovery, it would price the service/facility out of the community's capacity to pay and would likely result in facilities being under utilized.

***To what extent do efficiency and equity considerations contribute to the attractiveness of Council rates as a source of local government income?***

Not exactly clear on the intent of this question. All Councils certainly underpin all decisions on pricing/ levels of rates with the principles of access and equity.

In previous years, rates income was once an appropriate mechanism for Council to derive revenue to fund its operations, when Councils were focused simply on roads, rates and rubbish. As Councils now undertake a much more expanded role in areas of social and community services, this has tended to highlight the deficiencies of still maintaining a property basis to maintain adequate revenue levels.

As stated, there is a need to identify a suitable funding mechanism for Councils and to reflect this new role. This is seen to be able to be achieved mainly in two ways by abolishing rate pegging and by ensuring a fixed % of GST revenue collected to Local government.

### **Sale of goods & services**

#### ***To what extent do Councils cross subsidise the prices of goods and services?***

As stated earlier, Councils generally through its rates revenue, subsidises various community based services to ensure it provides the community with proper and reasonable access to services and facilities.

#### ***If services are subsidized, are the subsidies funded by higher rates or other fees and charges? Could full-cost recovery fees and charges be collected? What would be the consequences? Are any other revenue sources used to subsidise services?***

As stated, Councils do under recover for a number of services provided (development application fees, hire of playing fields, halls & libraries) and these are funded from rates and other generated revenues. In many instances if Council sought full cost recovery, it would either price itself out of the market and the facility would simply be under utilised to the detriment of the community.

#### ***Do Councils use the return on their long-lived assets (profit and depreciation) to cross subsidise services? If so, what are the consequences for the sustainable provision of infrastructure services?***

The real issue is that Council's assets are in the main infrastructure assets and not revenue generating. Depreciation levels should determine the level of investment each year into asset renewal of existing infrastructure, however many local governments struggle to allocate this amount each year. As identified in the Financial Sustainability Inquiry undertaken by the Local Government Association of NSW last year, significant shortfalls exist across local government in bringing existing infrastructure up to a satisfactory standard.

#### ***What would be the principle implication for individuals, organizations and businesses of applying or removing cross subsidies?***

If Council adopted a user pays regime, many individuals would not be able to access the services offered and many services and facilities would be heavily underutilized. As a result of this action it is anticipated that present income levels would reduce.

The key aspect of applying subsidies for various services is to fully understand the full cost of each service and the level of community service obligation that the Council is providing towards the service.

Councils also have an obligation under National Competition Policy and the competitive neutrality principles, to be fully transparent and to ensure no subsidies are provided to trading undertakings.

## **Developer charges and contributions**

### ***To what extent do local governments employ developer contributions and charges to finance investments in new and upgraded assets?***

Whilst this varies between Councils, it is a major source of finance that is required to fund new and upgraded assets as a result of new development and as described in each Council's Developer Contributions Plan. .

### ***Are there legislated limits to contributions that can be required or charges that can be collected?***

Legislative frameworks have been provided however no specific limits. However Councils need to ensure that they strike a contribution rate that is reasonable and competitive that results in attracting and encouraging development within their area.

A fundamental principle of developer charges is for Councils to demonstrate a nexus between the development and the additional demand on infrastructure in order to charge the contributions.

### ***Are there legislative constraints on the use of revenue raised from developer contributions?***

In NSW developer contributions can only be used for capital purposes and cannot be used for ongoing maintenance.

### ***What are the effects on individuals, organizations and businesses of the use of developer charges and contributions?***

The community at large will enjoy a positive benefit through the provision of new infrastructure. Developers will factor in all costs of the development and pass on their costs in the sales price with the market determining if such pricing is competitive to the general supply of housing.

***What is the most appropriate way to recover the costs of new assets and upgraded assets?***

The most appropriate way to recover costs of new or upgraded assets is for third parties undertaking developments to provide the assets as part of the development ie developer contributions or agreements. Where appropriate, Councils are looking to enter into partnerships with private enterprise to finance and provide major projects including community facilities and infrastructure within the development. This may also include commercial/retail spaces and the like to create ongoing revenue streams for the Council.

However, Councils traditionally have used a number of sources of revenue to provide for new and upgraded assets which include government grants, use of reserves, proceeds from asset sales and loan funds. This would result in the costs of new assets being incorporated into annual budgets and met partially from annual rates. However depending on the revenue source used, it is questionable how equitable various options have been on both current and future ratepayers.

Where Council is required to undertake major development the use of loan funds is seen to be the most appropriate. The annual debt servicing costs would be met by the communities through their annual rates, over the life of the loan which can also be aligned to the life of the asset.

**Fines & other pecuniary penalties**

***What are the effects on individuals, businesses and organizations of fines and other pecuniary penalties and increases in them?***

The impact of fines and other penalties varies from situation to situation and individual to individual.

Fines are a necessary deterrent to ensure that members of the community abide by the rules, controls and standards of behavior that are set in the community's interest.

Increases in fines are often viewed with cynicism and suggestions of revenue raising. However, the levels set for fines in key regulatory areas such as the environment are made to deter inappropriate behavior and reinforce community standards.



***What measures are there in place to protect against the possibility that local governments might view fines as a revenue raising instrument more than as an appropriate deterrent?***

Local Government is required to publicly exhibit its Management Plan, Fees and Charges etc for public comment. Where the community raises issues to be addressed there are any number of avenues available for the matters to be further reviewed. It is reasonable to state that no other level of government is under more scrutiny than local government in working with its community to develop and improve the local environment.

***If conflicts in interest arise between deterrence and revenue raising, is there any evidence of the effects on individuals, organizations and businesses?***

There are always perceived conflicts however, with the processes required to be undertaken, Local Government needs to ensure it has fully consulted and considered the likely impacts of various controls prior to implementation. The focus is on benefits to the whole community and working in the public interest.

### **Interest income**

***To what extent are local government cash reserves the result of State government imposed borrowing limits?***

It is believed there is no direct correlation between cash reserves and borrowing limits.

Prudent financial management dictates that Councils will have a sufficient level of reserves to cover for planned specific projects or contingent liabilities. On this issue, there needs to be a full understanding of reserves held being made up of two types of restricted funds, internal (Council funds) and external (funds held on behalf of other parties).

***What are some of the implications of these limits and how do they affect capacity of local governments to raise revenues?***

Whilst there may be some uncertainty in gaining State Government loan approval, the other key issue is local government's capability to sustain a reasonable level of debt.

As stated earlier, in the interests of intergenerational equity, loan borrowing is the most appropriate funding source for major projects.

***What are some of the implications of cash reserves on both efficiency and intertemporal equity in the community?***

The previous question partially addresses this item.

The key issue is that a Council is not using one generation of community to build reserves that will be then used for a future community's benefit. Given the various constraints on Local Government, it is not believed that this is occurring generally across Local Government.

**FACTORS INFLUENCING EXPENDITURE & REVENUE RAISING**

**Operational efficiency of local governments**

***To what extent is there scope for local governments to reduce the unit costs of their operations? If so, how might they most effectively reduce their costs?***

NSW Councils have operated with rate pegging since the late 1970s and this has forced Councils to continually review and refine their operations to achieve efficiency gains.

There are and always will be opportunities to reduce costs.

Councils to varying levels have rigorously reviewed internal costs to derive savings through a number of initiatives. This includes improved processes through investment in new technology, partnering with adjoining and regional groups of Councils in areas such as procurement, major tenders such as Waste contracts, advocacy roles to obtain legislative change etc.

However many Councils are now getting to the point where they are having to cut essential services and infrastructure maintenance works which is having serious flow on consequences on the condition of the Councils infrastructure and financial sustainability. This puts in question the on going viability and sustainability of Local Government.

***What effect would such cost reductions have upon their revenue raising requirements?***

If Councils achieved cost savings, these should be directed to key service areas and priority works. However, if cost reductions are made in certain areas of operation, this may affect the Council's ability to raise revenue.

Given the large backlog in works required to bring assets up to an acceptable condition as shown by Special Schedule 7 in NSW Councils Annual Financial Reports, any available funds should be used to start to meet this shortfall.

***How and to what extent have structural reforms, such as boundary changes of local governments and service sharing arrangements, affected operational efficiency?***

These initiatives have had a significant impact on operational effectiveness. In respect of partnerships/joint initiatives there are a number of significant examples such as joint tenders in major contracts and various procurement initiatives that have resulted in improved operational efficiencies.

**Service levels & pricing**

***What guidelines and requirements are available to assist local governments to determine the appropriate range and standard of services, to measure and allocate their costs, to determine their revenue requirements, and to set rates, and fees and charges accordingly?***

The Department of Local Government has prepared a number of papers covering Revenue Raising and Asset Management as well as promoting a Better Practice Guide.

These documents are provided as guidelines and it is a matter for each Council to apply as appropriate at the local level.

***Do guidelines properly take into account the allocation of infrastructure costs over the life of long-lived assets such as local roads and other facilities?***

The area of asset management is an area that is still in the process of being developed to fully account for the whole of life costs for all infrastructure assets. The City of Ryde has implemented a 20 year Long Term Financial Plan and supporting asset information. Further detailed asset management plans are in the process of being completed that will provide a more accurate Asset Management Plan. Given the results from last year's inquiry into the Financial Sustainability of Local Government, the area of asset management generally is an area that must be given greater focus and priority.

**Financial & asset management skills**

***What effect might the lack of financial and asset management skills of managers and lack of appreciation of the relevant issues by Councillors have on the revenue raising capacity and effort of local governments?***

These issues certainly are contributing factors in what is a complex issue. Even with the best available skills and the most committed Council, the fundamental framework that local government operates within is restrictive and requires intervention and a genuine commitment by both State and Federal Government to properly equip Local Government with sufficient revenue raising capacity to fully enable it to address all areas of responsibility, including the condition of infrastructure to be financially sustainable.

***To what extent do local governments find difficulty in attracting and retaining suitably qualified experts in financial and asset management?***

It is very difficult to attract and retain suitably qualified experts. In rural areas it is due to location and salary prospects and in city areas it is the availability of greater earning potential and competition between other larger Councils and the private sector.

***What types of local governments experience the greatest difficulties?***

Usually small rural local government authorities with a small revenue base and often a deteriorating road infrastructure network. However, at the other end of the spectrum as mentioned above the level of competition in urban areas still makes it difficult to attract and retain staff.

**Incentive effect of grants & subsidies**

***What grants and subsidies are provided to local government by State and Territory governments? What is the value of each category of grant? Are there any terms and conditions attached to these grants. Do these terms and conditions distort incentives of local governments to raise their own revenue? If so, how and why?***

The major grants received by the State Government are included in Attachment 1

**NSW Department of Planning**

Natural & Cultural Heritage Study (Parramatta River Walk)	<u>70,000</u>
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<b>Total - NSW Department of Planning</b>	<b>70,000</b>
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**NSW Department of Planning & NSW Maritime**

Parramatta Foreshore Improvements	<u>230,000</u>
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<b>Total - NSW Department of Planning &amp; NSW Maritime</b>	<b>230,000</b>
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**NSW Department of Energy, Utilities and Sustainability**

Energy Savings Action Plan *	30,000	
Water Savings Action Plan *	<u>70,000</u>	
<b>Total - NSW Department of Energy, Utilities and Sustainability</b>		<b>100,000</b>
<b>NSW Roads &amp; Traffic Authority</b>		
Traffic Lighting Subsidy	290,000	
Block Grant Traffic M & R	190,000	
Block Grant Roads M & R	48,000	
Bus Route Subsidy	35,000	
Ex 3X3 Grant	67,000	
Traffic Facilities (Threlfall St/North Rd Roundabout)	48,000	
Traffic Facilities (Thompson St/Westminister Rd Roundabout)	55,000	
RTA Repair Program (Wicks Rd (Betty Hendry Pde - Epping Rd)	141,000	
Sub Regional Bike Routes Subsidy	75,000	
Road Community Safety	<u>47,500</u>	
<b>Total - NSW Roads &amp; Traffic Authority</b>		<b>996,500</b>
<b>Department of Infrastructure, Planning and Natural Resources</b>		
Eastwood Floodplain Risk Management Study	106,667	
Parramatta River Catchment Flood Study	200,000	
Buffalo and Kitty's Creek Catchment Flood Study	133,000	
Macquarie Park Flood Plain Risk Management Study	160,000	
City Wide LEP	50,000	
Gladesville Master Plan	30,000	
Wellington Rd Remediation	<u>125,000</u>	
<b>Total - Department of Infrastructure, Planning and Natural Resources</b>		<b>804,667</b>
<b>Department of Local Government</b>		
DWM Pensioner Rebate Subsidy	210,063	
Rates Pensioner Rebate Subsidy	<u>565,000</u>	
<b>Total - Department of Local Government</b>		

	775,063
<b>Department of Community Services</b>	
Community Youth Worker	12,500
Community Worker	12,500
Vacation Care	<u>55,000</u>
<b>Total - Department of Community Services</b>	<b>80,000</b>
<b>Department of Ageing, Disability and Home Care</b>	
Community Aged Worker	20,663
Home Modification & Maintenance	203,500
Volunteer Referral Agency	<u>76,100</u>
<b>Total - Department of Ageing, Disability and Home Care</b>	<b>300,263</b>
<b>NSW State Library</b>	
Library Subsidy	215,700
Local Priority Grant	<u>34,130</u>
<b>Total - NSW State Library</b>	<b>249,830</b>
<b>Environmental Grants (Dept of Agriculture, DEUS, DEC, NRA Council &amp; DIPNR)</b>	<u>127,500</u>
	<b>127,500</b>
<b>Total State Funding:</b>	<b>3,733,823</b>

With the exception of the pensioner rate subsidy, most grants have terms and conditions attached. They do not distort the incentives of local government to raise its own revenue.

***What grants and subsidies are provided by the Australian Government? What is the value of each category of grant? Are there any terms and conditions attached to these grants? Do these terms and conditions distort the incentives of local governments to raise their own revenue? If so, how and why?***

The major grants received from the Australian Government are included in Attachment 2 ( This will be forwarded separately on Monday 16 July 2007)

The main grants provided are the financial assistance grant, road to recovery, and various environmental sustainable development grants.

With the exception of the financial assistance grant, most grants have terms and conditions attached. They do not distort the incentives of local government to raise its own revenue.