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Local Government Study
Productivity Commission
LB2 Collins Street East
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Email: localgov@pc.gov.au
Attention: Carole Gardner

18th February 2008

Dear Carole

Submission to Productivity Commission
'Assessing Local Government Revenue Raising Capacity'

Strathbogie Shire Council calls on the Productivity Commission to recommend to the Commonwealth Government to introduce a structural adjustment fund for Local Government that is allocated according to strict eligibility criteria.

The recently released Productivity Commission's Draft Research Report on Assessing Local Government Revenue Raising Capacity paints a grim financial outlook for our Council. Finding 5.1 in the commission's draft report cites rural Shires have at or below average fiscal capacity.

Finding 3.4 confirms rural Councils have higher expenditure per person compared with urban Councils, faced with the burden of higher input costs, maintaining more kilometres of roads per person and undertaking a relatively more extensive service mix.

The Federal Governments Roads to Recovery grants provided direct to Local Government has been very effective in assisting struggling small Shires but the Department of Transport and Regional Services have acknowledged that this funding is half of what is required.

Increasing funding for the existing Financial Assistance Grants Scheme would only result in those Councils that may not need the funds receiving more at the expense of those that really need it.

A 'conditional', structural adjustment fund would ensure those Councils that need the money most will receive it. The net result would create an accountable, benchmarked and sustainable standard of Local Government.

Eligibility for a structural adjustment fund should be based on an assessment of 'conditional items' against an individual Council's actual performance.

Conditional items would include:

- Is the Council charging rates at or near 100% of the community's ability to pay
- Are fees and charges appropriate
- Are the services delivered appropriate for community needs
- Are services provided efficiently
- Are Corporate / Business, Asset Management and Long Term Financial Plan assumptions realistic
- Does Council have the ability to borrow and service a Long Term Borrowing to address its problems
- Are new economic development opportunities being pursued

Strathbogie Shire Council has:

- Substantially raised rates in the last five years, but its community cannot absorb a further 35% increase to address the infrastructure backlog;
- Fees and charges have been reviewed
- Service levels and their appropriateness have been reviewed
- Outsourcing of services has been introduced, staffing levels have been reviewed and the council is currently pursuing opportunities to 'regionalise' services
- Corporate / Business, Asset Management and Long Term Financial Plan assumptions have been independently reviewed
- Independent advice has confirmed that Council could not service a Long Term Borrowing
- Council is making steady progress to create new economic generators, particularly in the business sector.

However, these efforts will not come close to making up the Council's \$20 million infrastructure shortfall.

The introduction of a structural adjustment fund would identify Strathbogie Shire's urgent need for direct Federal assistance and protect its residents against an unaffordable 35% rate increase needed to fix the municipality's roads, bridges, halls and libraries.

By demographic description, Strathbogie Shire ratepayers are not high income earners and are the third-fastest ageing Council in the State. Already, residents have experienced a 45% rate increase over the last five years. They cannot absorb further, more significant increases; nor can it afford to pay back a long term loan Council might take out on their behalf to fix the problem.

Strathbogie Shire Council has undertaken an analysis of its financial management and efficiency in service provision. This information was included in Council's earlier submission to the Productivity Commission's Review.

The findings revealed Strathbogie Shire Council works within a prudent framework that offers little margin for operational shrinkage or expansion in revenue raising. On top of this, the Council has independently scrutinised its internal operations through efficiency reviews of corporate, asset and community services departments plus its planning and regulatory processes.

The Productivity Commission report is a response to recommendations from the Hawker Report. The Australian Local Government Association commissioned Price Waterhouse Coopers to undertake a national study on the financial sustainability of Local Government. Various State associations (e.g. Municipal Association of Victoria, Local Government Association of South Australia) have also commissioned studies of the financial sustainability of their Local Governments. Strathbogie Shire has previously submitted to the Productivity Commission its own Ernest and Young review of revenue raising capacity and potential to undertake a long term borrowing. It is acknowledged that the Productivity Commission Terms of Reference are related to a study of the capacity of Local Governments to raise revenue and to examine the impacts of their revenue raising on the community.

Strathbogie Shire's call for a 'Structural Adjustment Fund' may not fit within the Productivity Commission Terms of Reference. However, Council is frustrated with the myriad of Federal/State/Local reports undertaken identifying concerns with the financial sustainability of small rural Shires. None of these reports recommend any proposals to assist small rural Shires. When will State/Federal Governments take action to work with Local Government to address these issues?

Yours faithfully

Kevin J Hannagan
CHIEF EXECUTIVE OFFICER