Date: 3 July 2007
Ref:

Productivity Commission Inquiry
Locked Bag 2, Collins St East Melbourne
Vic, 8003

Be Email localgov@pc.gov.au

Dear Sir

Re: Submission the Financial Sustainability of Local Government Inquiry

Thank you for the opportunity for Council to make a submission. Lane Cove Council is fully supportive of the lnquiry into this important issue which thus far successive NSW State governments have ignored.

The most pressing issue for all NSW councils is long term financial viability. The Commonwealth Grants commission identified the five main reasons for the financial difficulties facing local government as:-

"Devolution - where a higher sphere of government gives local government responsibility for new functions;

Raising the bar - where a higher tier of government raises the complexity and/or standard at which local government services must be provided;

Cost shifting - either where a municipal council agrees to provide a service on behalf of a federal or state government (with funding subsequently reduced or stopped) or where some other tier of government cease to provide an essential service thus forcing a local authority to take over;

Increased community expectations - where a given community demands improvements in existing municipal services or the provision of a new service; and finally,

Policy choice - where specific councils voluntarily expand and/or enhance their services. Johnson (2003) has observed that in addition to these problems, local governments themselves are also partly responsible for their own financial plight. In particular, a number of councils are reluctant to set their rates and other charges at realistic and sustainable levels."

All of the these matters have been well recognised by the Local Government sector for some time and by the Federal and State Governments, which is reflected in the number of enquiries conducted by them, including the Federal Government's 'Cost Shifting Inquiry'. The issue is understood but there has been little action. The following explores some of the issues which are pertinent to the financial sustainability issues in terms of Lane Cove's operations. The information was the basis of Council's submission to the Percy Allan Inquiry into the Financial Sustainability of NSW Local Government.

Existing Revenue Streams

In 2003 more than 2/3 of the total revenue of NSW Councils, (69.4%) came from rates, user charges and fees. However, only 35.6% of total revenue was derived from rates. In Lane Cove's case 53.6% of Council's total revenue was derived from rates, which means Council is relatively reliant on Rates. Over the last 10 – 15 years, much has been made about councils diversifying their revenue streams in order to increase their financial viability. In particular the 90's saw the user pays regime become prominent, with councils looking to obtain further opportunities to raise revenue through direct user charges. In more recent times councils have expanded into other alternate revenue sources such as property portfolios, parking enforcement and investment income, as councils changed from net borrowers to net lenders of money. The overall ability for any council to supplement its revenue streams on these basis are ultimately more attributable to local conditions and opportunities, than the mere desire of the council to utilise this source.

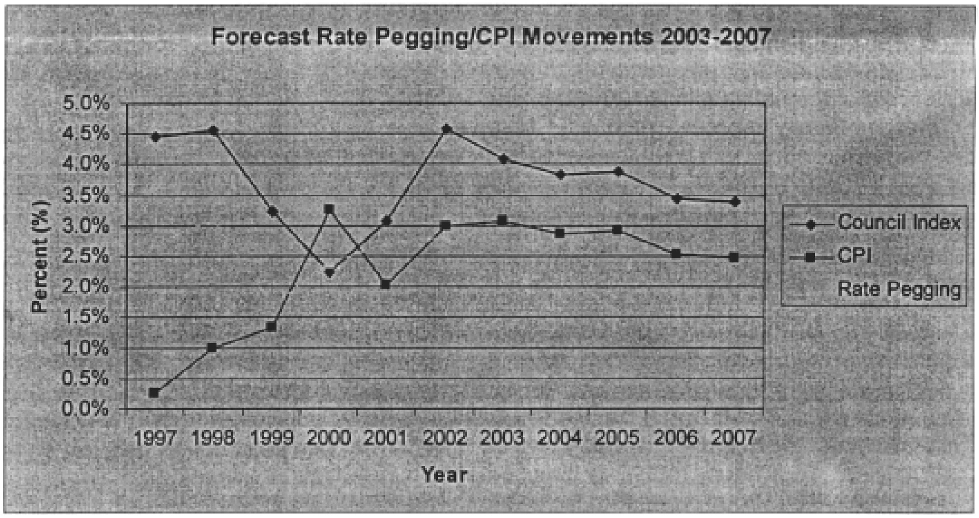
Clearly, the move to alternate revenue streams has been brought about by the rate-pegging legislation and the inadequacy of the traditional Rates funding source to cover current community demands. The question is, is there any value and is it the role of local government to be continually chasing alternative revenue sources?

Determining the best method of raising revenue is a philosophical issue, which all levels of government struggle with. The Federal government implemented the GST to simplify taxation in an attempt to reduce the number of taxes applicable at a federal level to assist community compliance.

At a State level, however, the ever increasing application of the user pays methodology, most notably in relation to road tollways, has occurred despite increased GST revenues, (over traditional taxes) which suggests that the State prescribes to "the more sources the better" philosophy, which invariably adds complexity that requires the community to comply. Governments at all levels should not need to focus on creative revenue raising, but rather, developing creative solutions to the communities needs. If Local Government could be sustainable on the one tax, Rates, then the level of community compliance is minimised and councils can focus on their core activities.

The Rate Pegging phenomenon, however, prevents this from occurring and should therefore be removed. Clearly it is necessary for Council's to have a progressive funding source which can underpin the operations of the organisation.

If this is not possible, then at the very least the methodology attached to Rate Pegging needs to be heavily revised, as capping has not even allowed Councils to keep pace with real costs. The Local Government and Shires Associations of NSW in 2003 prepared a basis for calculating the annual increase for Rate Pegging which uses a variety of indexes relevant to Local Government. Council believes that any increase in charges by the State Government which impact on Local government, should also be capped at these levels. Below is a table from the Associations which indicates how it would operate in comparison to the existing methodology.



Rate Pegging has also had the impact of being a quasi form of social engineering. It effectively means that communities which have a higher capacity to pay for new facilities and services are prevented from doing so (unless the user pays regime can be applied). This has the effect of ensuring communities with less capacity are not left behind. The levels of services and facilities in a community are therefore effectively frozen, in relative terms, and are the same as they were 25 years ago. That is, a council's current financial Rating capability is dependant of the level of Rates 25 years ago, which were frozen and have only been indexed over the period. This means that despite any changes in demography which may have occurred during the intervening period, the ability of established council areas to respond is limited.

Clearly, Rate Pegging should be removed to stop the pressure on councils to develop other revenue sources such as user pays, which are effectively additional taxes for the community to comply with. Its removal will also allow communities to develop inline with their capacity to pay rather than be restricted to twenty five year old relativities.

Provision of Infrastructure

The maintenance and development of infrastructure is a key challenge for all local government, but has two differing perspectives. Councils which have established infrastructure require renewal and/or additional infrastructure to meet the pressures brought about by urban consolidation, and the resultant intensification of land use which places higher demands on existing infrastructure. The infrastructure challenge for new and developing councils primarily relates to their ability to provide any infrastructure at all, in order to meet the needs of their community.

For established metropolitan councils, their budgets are burdened by the fact that many of the infrastructure assets are old and were constructed prior to consideration of user pay principles. The depreciation/maintenance charges for these assets is such that councils are torn between the desire to maintain existing items which may not be ideal or develop newer facilities. As an example the traditional swimming centre that many councils have is no longer a viable alternative in an era of aquatic centre style facilities. Also libraries which are solely book based with minimal computer and other facilities have less community value than those which have been developed with spaces for cultural and social endeavours. Does an established council construct another asset to cater for the latter? What is the additional cost/impact when compared with a developing council building a new integrated project, largely funded from s94 contributions?

The current school of thought is that councils should be looking to private public partnerships to deliver infrastructure demands. While these are relatively new, there have been a number of instances where councils have been successful in utilising this vehicle to achieve a win-win scenario for the community. As has recently been evidenced by Liverpool Council and the state government, there are also examples where with hindsight, it has proved that such public private partnerships, whilst effective in delivering the infrastructure, may do so, without the community obtaining maximum benefit. In particular, I refer to the level of returns that have been provided to the various tollway operators compared to a normal market interest rate. Clearly, if such returns were on offer, the community would have been better off receiving such returns and/or borrowing directly to avoid higher toll charges for the project to proceed.

It is important in any infrastructure provision decision to be able to evaluate the value of a PPP against other alternative funding options. The existing structure of the rate-pegging legislation for obtaining approval to exceed the permitted rate increase set by the Minister, is such that it is not really viable to consider alternate funding options. All options should be considered rather than having a pre-cursor that the vehicle must be a PPP for a project to proceed.

Conclusion

After twenty five years of Rate Pegging and the devolution of a significant number of State Government responsibilities to councils, it is inevitable that the financial viability of local government will be questioned.

Rate Pegging should be removed to provide the opportunity for communities to determine their own destinies, particularly in relation to new infrastructure and service demands. This will lessen the compliance costs for the community and ensure councils do not have to spend undue time and resources devising alternate revenue sources rather than focusing on the key issue of infrastructure and service delivery.

PPP's can be considered as an option for major projects along with other viable self funding alternatives which involve councils taking out specific purpose loans to be repaid via levies. In this situation, Community Contracts and/or relevant legislative amendments can ensure that councils have the support of their communities in order to proceed with the projects, without the need for the State Government to be involved.

Yours faithfully,

Peter Brown

Peter Brown
General Manager