PENRITH CITY COUNCIL
Serving Our Community

Productivity Commission's Inquiry into Local Government Revenue Raising Capacity

Penrith City Council

Submission to the Productivity Commission's Inquiry into Local Government Revenue Raising Capacity

Rating

Rate Pegging

The revenue raising capacities of NSW councils are significantly restricted by the current rate pegging system. NSW is the only state in which rate pegging is imposed and its effects are being felt by many councils.

Under the current legislative framework the NSW State Government sets a limit on the total amount of income a council can raise from rates. A council must not make rates and charges for a year that produces general income above the notional general income of the council from the previous year, plus the percentage variation allowed by the Minister for Local Government. The notional general income is the amount that would have been derived if the same rates and charges used in the previous year were applied to council's new rating base the following year.

The notional yield calculation is a complex process that fails to correlate rate income variations with rising costs faced by councils. Council's operating expenses, service costs and infrastructure maintenance costs should be considered when setting rate pegging limits. For example, award wage increases over the past three years have seen wages rise by 4% (2004-05), 3.5% (2005-06) and 3% (2006-07) while Ministerial rate increases have been set at 3.5%, 3.5% and 3.6% respectively. While it may be argued that these rate increases were commensurate with wage rises, they did not compensate for other factors such as the rising costs of infrastructure maintenance. To fund such works or projects, councils are reliant on special rate increases that may only be applied following a successful application to the Minister for Local Government.

It is also worth noting that the NSW Local Government Act 1993 requires councils to include a 3 year budget in the Management Plan however under the current rate-pegging system rate variations are announced on an annual basis making preparation of the management plan difficult. As stated in Council's submission to the NSW Department of Local Government recent reform papers, the current system is not well adapted to the need for effective and integrated long term financial planning.

Differential Rates

In regard to the application of NSW rating legislation, councils are unreasonably restricted in their ability to apply differential rating methods. The NSW Local Government Act 1993 sets out the conditions under which properties are to be categorised for rating purposes. Properties are to be categorised as Residential, Farmland, Business or Mining. A Council may determine a sub-category for one or more of these categories under the following criteria:

(a) For the category "farmland" – according to intensity of land use, the irrigability of the land or economic factors affecting the land.

(b) For the category "residential" – according to whether the land is rural residential land or is within a centre of population.

(c) For the category of “mining” – according to the kind of mining involved.

(d) For the category “business” – according to a centre of activity.

Should a council wish to make a separate rate for certain types of properties that better reflects their demand on council resources or allows for greater flexibility in the application of rating principles, the options available are limited. For example, it is very difficult for councils to rate commercial and industrial properties separately as the legislation only allows business sub-categories to be created according to “centre of activity”.

Pension Rebates

Another issue of concern is council’s limited capacity to assist eligible pensioners. The maximum pension rebate amount for rates and charges is currently $250. Councils receive reimbursements of 50% from the State Government and 5% from the Federal Government, leaving the balance of 45% to be funded by council.

The total rebate amount of $250 has been fixed for many years. Penrith City Council is finding that many pensioners are struggling to pay their rates and domestic waste charges as the cost of living continues to increase. Penrith City Council is concerned that pensioners are not receiving increased benefits in line with the cost of living. Councils do not have the financial capacity to provide further assistance to pensioners. Penrith City Council’s position is that pensioner rebates should be increased and full funding of the subsidy should come from Federal and State Governments. Perhaps a system that adjusts the mandatory rebate according to CPI changes or more appropriately, rate increases, would be more suitable.

Developer Contributions

The Inquiry raises a number of questions regarding the extent that developer contributions are employed, the legislated constraints and the most appropriate way to recover the costs of new and upgraded assets. An excerpt from a submission made by Penrith City Council to the New South Wales Department of Infrastructure, Planning and Natural Resources Section 94 Contributions and Development Levies Taskforce in 2003 is below.

While the role of Section 94 is to provide funding of infrastructure for new development, it is not permitted to contribute toward recurrent costs, including the maintenance of these assets. Therefore Council is required to meet the maintenance costs of an increasing asset base via rates revenue. Additional rate income from new properties in developing areas assists in meeting these costs.

A number of NSW Councils have experienced problems maintaining realistic values in their contributions plans over time. This is particularly relevant for Councils with new release areas in Western Sydney. The increasing value of land in this area has been at such a rapid rate that difficulties are being encountered in effectively managing appropriate contributions levels which remain reflective of the market. Funds collected over time therefore may not match the cost of land acquisition obligations. Shortfalls in Section 94 plans can occur as a result, particularly where the multiplicity of ownerships either delays or complicates acquisition programs.

While methods such as CPI are utilised to moderate the impacts of inflation, it is clear the issue of land cost has such an impact as to make this method ineffective as a comprehensive application …

Other mechanisms which might be of advantage to consider include:

- *Exploring opportunities for inter-section 94 fund borrowings to respond to pressing infrastructure priorities over time within an LGA;*
- *Special government loan borrowing programs to assist early delivery of infrastructure, particularly to kick-start new urban areas;*
- *To separately deal with major land transfers related to negotiated biodiversity conservation outcomes and other environmental imperatives as a precursor to the rezoning process.*

Penrith City Council is a rapidly growing council and has been identified by the New South Wales state government as one of the regional cities. Forecasts predict a population growth of 20,000 over the next twenty years. As a growth council there are a number of developer contributions plans in operation.

Income of $5m and expenditure of $7.8m of developer contributions is included in the 2007-08 council budget. This income is integral to enable council to adequately supply, or facilitate supply of the infrastructure required by new residents to the city.

Council advocates the use of Developer Agreements as an option to deliver required public facilities and services in developing areas where there is a single ownership/developer interest as it enables development contributions to be obtained from planning (developer) agreements without limiting Section 94. The contributions so sought may be used for, or applied towards, any public purpose, including the funding of recurrent expenditure and monitoring the impacts of development.

While there have been recent reforms in Section 94 legislation there is still no legislative ability to capture the increased value of land that results form rezoning to allow new development. Council sees “value capture” as an equitable and practical method of funding, paid by the major beneficiary of the rezoning that can be directed to construction of new infrastructure.

Infrastructure Backlog

The Percy Allan inquiry identified an infrastructure funding backlog of $6.3 billion across the State. Penrith City Council has identified the problem of maintaining infrastructure to satisfactory standards and has made a commitment to provide increased levels of funding for asset renewal over a number of years. In 2006 Council was successful in an application for a Special Rate Variation of 5.2% above the allowable Ministerial rate rise to fund, in part, asset renewal. To provide adequate funding for infrastructure renewal without such an increase would mean a wholesale review of, and cuts to services that the community relies on council to provide.

Ability to reduce unit costs of operations

Limits on the capacity to raise “own- source” revenues can be offset by more efficient operations and the Productivity Commission has raised questions regarding local governments ability to reduce the unit costs of operations.

Council’s comprehensive service specification program actively assists in identifying and reviewing the unit costs of operations. Opportunities for resource sharing with other local government authorities are considered and Council has had considerable success with joint tenders achieving significantly lower costs for some major expense items including telecommunications along with significant savings expected as a result of the recent asphalt tender.

Ability to adequately plan for the future

A greater commitment is needed from the State Government to a longer term funding arrangement for Council programs. Council’s management spends an inordinate amount of time lobbying for the continuation of funding for various programs and projects (roads, community services etc); time which could be better spent on planning and delivering those same programs in a more structured way if the certainty of future funding was present. Similarly, State Government commitment to approval for Council’s longer-term borrowings would provide more certainty about Council’s capacity to deliver programs. Any guidelines that the State Government may wish to set to enable this to happen could be dependent upon Council’s meeting certain financial benchmarks, a strong credit rating for example.

Financial and Asset management skills

An area of concern raised in the issues paper was the need to identify the extent of difficulties in attracting and retaining suitably qualified experts in financial and asset management. There are increasing difficulties in attracting high calibre staff. As a regional city Penrith has the advantage of a large pool of suitably qualified people to draw upon but the proximity to Sydney increases the competition for these staff.