The Vaucluse Progress Association

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Local Government Study
Productivity Commission
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STUDY: ASSESSING LOCAL GOVERNMENT REVENUE RAISING CAPACITY

Introduction. This Association was founded to represent residents and ratepayers of the then (1915) Vaucluse Municipality. We still represent residents and ratepayers of the same area, being those living in the Vaucluse and Watsons Bay districts of what is now Woollahra Municipality, on the south-eastern shore of Sydney Harbour.

Our interest in the Commission's study derives from our unique role in Woollahra Municipality, in that we have for many years been the only residents' organisation that has regularly and consistently offered comment and opinion to the Council on its annual management plan and budget, and throughout the year in relation to its general financial policy and practice. Valuing our historic independence, we have not sought support from the other residents' organisations in the Municipality in that role.

Our somewhat conservative views on rating and other financial matters do not always or even often find favour with Woollahra Council, but we continue to offer them in the hope that at least a clear choice will become apparent to the Staff and Councillors, and that our objectives of financial prudence in local affairs and responsible and realistically accountable local government will be furthered thereby.

In case it may assist the Commission in its study, we offer some observations on council revenue issues arising from the more recent history of our dealings with the Staff and elected members of Woollahra Council. Our interactions with the Council are usually amicable, and often productive. In our commentary, we emphasise that we describe the situations mentioned as we see them; there may well be other interpretations fairly available.

Budget-building. Woollahra assesses its requirements for finance from the starting point of retaining what exists in the way of services and service levels. That has been the basic assumption of all recent budgets, and it implies to us a reluctance to assess in depth the relevance and worth of the Council's current service menu in a context of community demand that has changed and is changing over time.

From time to time, we observe projects intended to retrieve lost customers for various Council services. In a climate of financial stringency, we think a realistic alternative - with useful financial implications - might be to see reductions in demand as opportunities for diverting resources to other services where demand is rising. However, we recognise that service menu adjustment is not necessarily politically easy for elected people, or for an administrative arm that occupies itself mainly in specifically-skilled activities.

If Woollahra pursues its recently-stated intent to consider service type and level adjustments in July this year, that will be the first time in recent years that it has undertaken such a task explicitly. We are not optimistic. The Council has claimed annually that it has reviewed priorities, but the published management plan and budget documentation is unwieldy and nearly impenetrable for the purpose. We therefore lack confidence that Councillors could discharge a service rationalisation task effectively. A copy of our most recent submission relating to the Council's 2007-2010 draft Management Plan is attached.

Recognising the conventional wisdom about council borrowing, our experience suggests that it is generally undesirable to utilise borrowed funding for local works. The inter-generational equity often said to attend such funding is not significant in the context of the very wide dispersion of operating lives of council assets. Perhaps more to the point, borrowing seems to be too readily used as a substitute for financial discipline, and it rapidly generates budget rigidity of a kind that limits the ability to respond to new circumstances. Faced with a (chosen) service menu that has to be funded, councils may resort to loan funding all too readily.

We recall the resentment of local ratepayers to the debt servicing and repayment obligations that accompanied Woollahra's annual budget for many years, and constrained the Council's ability to maintain the roads and reserves of our district. After a brief period of debt-free status achieved by previous Councils by setting aside debt redemption reserves and proceeds from the sale of certain property, the current Council has recently resorted to borrowing, mainly for beautification of some local shopping centres rather than for overtaking the road, drainage and general infrastructure backlog.

The assessment of community needs by councils is theoretically the avenue through which new or different services appear on council menus. In Woollahra, we have observed a consistent thread of inquiry in community surveys undertaken for and by the Council, in which respondents are invited to nominate things/services they *want*. While the responses are often of interest, they are generally made in a financial vacuum: the surveys do not typically postulate a user charge, or a rate increment or other indicator of cost/funding, and so the responses by participants are simply wish lists. Nevertheless, such outcomes are frequently presented to and by the Council as needs and adopted by the Council, with resultant pressure on council financial resources.

Legacies of the past. Past financial decisions impact quite directly and significantly on present requirements for traditional municipal services. The realisation that less visible infrastructure maintenance and replacement in an ageing area has been severely compromised by diversion of funding to more visible popular services is quite belated in Woollahra. Our persistent submissions on this issue were effectively disregarded.

As one consequence of postponed and skimped maintenance, the cost of retrieval of standards of road, footpath, park and recreational facilities quality has escalated disproportionately while the rate of deterioration has compounded. In Woollahra, the Council has taken explicit resort to `special' revenue measures, in the form of above-average rate increases, and special rate levies, and external borrowings, to fund a stated program of overtaking the backlog. However, it has not simultaneously slowed the expansion of non-infrastructure activity, nor has it stopped taking on new activities. Instead, the core task of managing infrastructure is being moved gradually onto and virtually quarantined within the limited revenue stream derived from those `special' measures, and it is arguably self-limited by that device. The cost to ratepayers of the rest of the (populist) service menu continues to grow, sheltered by the `normality' of the ordinary rate revenue that funds it.

Residents irritated by road potholes and unswept gutters and untended parks and overtaxed stormwater drains and uneven and hazardous footpaths are understandably keen to get them fixed. Because the infrastructure defects are everyday irritants to everyone, and any ratepayer opposition to levies and loans specifically raised in order to remedy them is translated to the community as simple meanness and backwardness, the special revenue measures are `accepted' by the community, arguably with better grace than is given to the ordinary rate levy which is assigned to a diffuse and less readily identifiable program of activity.

Ministerial approval of special levies has been based on the provision of an identifiable program of works and some notion of community acceptance. The format for the Ministerial approval thus tends to reinforce the notion of a necessary nexus between the levy mechanism and the core infrastructure activities of councils. However, we think the core infrastructure functions should be funded from ordinary rate revenues, and non-core and optional services should be funded by `special' levies if user charges and Agency reimbursements are inadequate to cover costs. In that way, the costs of those non-core services and the justification for their provision by the council can be readily identified and the relevant services provided without adverse impact on the basic tasks.

Simply not trying? One matter of much community concern at present lies in the perceived inconsistency of application by Woollahra Council of the requirements of its development control policies. As the incidence of approved non-compliances increases and objectors become less and less confident that the Council's policies will be enforced, developers in turn are encouraged and emboldened to seek more and more latitude. The assessment processes and outcomes tend to be protracted, litigious, and highly unsatisfactory to many. The administration of development control in this kind of context is necessarily contentious, and heavily inflated in cost by the need to attempt to ensure that all contending parties have their say fairly, or at least often!

It is that kind of cost escalation that leads to demands for more funding to enable `better' control of development. We think a superior response would lie in improvement of the development policies themselves and genuine commitment to their implementation, but in Woollahra the wish of elected members to exercise discretion in their decision-making role seems to over-rule that aspiration.

A layer of financial burden lies over this inflated administrative cost; it is constituted by the statutory ceiling on many of the development fees and charges that councils may levy. The statutory limits on charges are in many instances well below those charged by the NSW Planning Department for services of a similar nature. We observe that Woollahra has taken no initiative of its own to have the restrictions relaxed or removed, despite our suggestions and offers of assistance. It appears that the Council will not attempt the task in its own right. Perhaps this is one reason why it has to resort to `special' revenue measures to fund its core business.

A similar marked reluctance to take action to improve its own position appears in Woollahra's reaction to the matter of the State Government's *per capita* subsidy for library services. We have long encouraged the Council to seek an increase in the statutory limit of the subsidy, or to abandon its adoption of the arrangements which constitute the subsidy scheme. It has done neither. The outcome, which we think is entirely unsatisfactory, is that the Council remains constrained so that it cannot charge users for basic services provided by its library, nor can it operate the library without what has become a heavy and rising drain on ratepayers. Given the relatively small number of resident library users, the equity of the present situation is a matter of real concern to us.

Community asset revenues. The unauthorised occupation of road reservations and parklands in our district has led us to seek regularisation or eviction action by the Council on many occasions, and to advocate the expansion of resources for management of this matter in annual budgets. Our motivation has been to ensure that the public interest in access and amenity and safety is protected and preserved, and to attempt to encourage the Council to recover reasonable reward for the benefits enjoyed by those users whom it may choose properly to authorise. We have had at best a luke-warm response at Staff level, and none at elected member level.

Land values in our area are high by Sydney standards, and proper management of occupations of public land is a matter of economic and political moment. The revenue potential is large but the Municipal will to collect it appears to be weak or absent, as does the will to remove or discipline relevant unauthorised occupations.

The issue is well exemplified in the waterfront lands fronting Sydney Harbour. In Watsons Bay and Rose Bay, the Council has historically taken no action to recover rents from boat-owners storing their boats on public lands of the foreshore, or to have the boats removed, or to manage their storage in an orderly fashion so as to protect the safety and amenity of the foreshore. Instead, it has recently put forward a proposal to construct limited storage facilities for some of the boats concerned at ratepayer expense, but with no corresponding proposal to charge for the use of the storage.

It might be reasonable to conclude that Woollahra, at least, has been unenthusiastic in pursuit of readily available revenue opportunities within the ambit of its own stewardship of the public estate.

Failure to recognise new revenue opportunity. There seems to be reluctance in Woollahra to explore and exploit non-traditional revenue sources. When the company advertised its intention to install a low-impact telecommunication facility in a public park/lookout in our district in 2001, we sought from OPTUS a contribution to the public estate in the form of an extension of its proposed access stairway to a relevant and convenient connector roadway. The company agreed, but the concept was vetoed by Council Staff, on the ground that the company did not offer also to provide maintenance funds (although it had not been asked to do so). The refusal was not referred by the staff to the Council, or to us.

Two years later, a similar facility was constructed in another park, and a company contribution towards park improvement was accepted by the Council. The initiatives to explore and capture it again resided entirely with us, not with the Council Staff or the Councillors.

We think this might indicate that non-traditional revenue opportunities in Woollahra, and perhaps elsewhere, might better be identified by alert and active residents than by those who formally represent them in the Council.

The numbers game. Of some 25,500 rate assessments issued in Woollahra, 24,000 are for residential properties. The resident population is some 53,000; several large schools boost the week-day population considerably. Our Association is very conscious of the reality that ratepayers fund core local council services for all comers. We have traditionally considered that the rate revenue should be primarily directed to those core local services which have some connexion with property - namely, roads, footpaths and traffic facilities, rubbish removal and streetcleaning, stormwater management and the provision of open space for recreation.

Generally, we have argued that users might appropriately pay for other services or, if they are provided on behalf of another Government agency, then that Agency should reimburse the council.

The cost-shifting argument of recent years has often focused on those Agency services begun with seed funding from Agencies, and expanded over time so that the seed funding becomes inadequate for ongoing operations, and ratepayer or user contributions are required. They are not usually core local activities or services, but local councils can often provide them more readily than higher levels of government. We see no reason for such services to be funded by ratepayers, but - as noted above - we have seen no taste in Woollahra for pursuit on its own behalf of additional Agency funding beyond the generally available norm. The population/ratepayer number disjunction is relevant to issues of equity in this context.

Some services are provided by councils to fill gaps left when previous providers withdraw. We note that the decision to add services to the existing menu is one that might reasonably be taken in the light of the available funding and its sustainability, after proper consideration of what services - if any - need to be displaced for the purpose; that councils in NSW are broadly free to decide what they do, and that users who presumably persuade councils to introduce such services might fairly be expected to pay for them. We have seen no such formal consideration in Woollahra in recent years.

Woollahra categorises its fees and charges according to whether they represent full cost recovery, (partial) cost recovery, and subsidy. Very few charges are tagged as representing full cost recovery, partly because (we think) the full costs of provision are not known. In some instances, competitive service suppliers may depress the going rate of charges below Woollahra's costs, especially when it is a high-cost provider. No direct means testing is applied to assess the capacity of the users to pay. However, Woollahra tends to subsidise services for pensioners, especially those who own land, and some perverse equity implications might arise from that practice. Its subsidised services for schoolchildren, disadvantaged people, and similar groups may also raise issues of equity, especially when the subsidy is itself partly funded by ratepayer members of the beneficiary group.

In a community marked by above-average proportions of older people, many Woollahra ratepayers have long histories of occupation of their homes, and rate burdens tend to become proportionately heavier as their incomes reduce in retirement. The relatively high value of their land now is not a practical indicator of their capacity to pay out of their current income streams. Besides, for many purposes land value is only a worthwhile capacity-topay indicator when it is adjusted to reflect the owner's equity in the land. In our district, the rating of land for council purposes can impose severe burdens on owners who perceive little return for their enforced contribution to the community.

We think that the commonly enunciated `problem' of local government revenue is at least partly derived from the populist imperative of elected councils to attempt to please nearly everybody. External critics have little scope for practical input, because most things councils do are `good things' in the view of at least a section of the community. It is often difficult for citizens to comprehend the financial documentation published by councils for comment or information. For example, the standard form of presentation to the public of Woollahra's annual financial statements conveys minimal enlightenment and no reasoning for the practical activity and service decisions reflected in the statements; the draft Management Plan and annual budget are similarly obscure for outsiders.

In a financially disciplined context, the freedom of councils in New South Wales to determine most if not all of their functions is a freedom that can only be exercised with propriety when it is accompanied by an appropriate restraint in access to the public purse of the ratepayers. When that restraint is not evident in the actions of councils themselves, there remains a strong and real need for it to be imposed by statute.

We vigorously support the retention of a form of externally administered rating restraint that recognises and sustains equity in the contribution made by the (relatively much smaller) group of ratepayers to the welfare and amenity of the (much larger group of residents and other users of council services.

Michael Rolfe, President 7 June 2007

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Draft Management Plan - 2007/2010

Noting that the Minister is to be informed of community attitudes as part of his consideration of the Council's request for continuation of special levy funding, we again record our Association's oftenstated view that the Council should adjust its ongoing activities according to the availability of funding for ordinary purposes.

Our view implies that predictable, programmable, and relatively permanent ongoing activities such as infrastructure maintenance should be funded out of ordinary revenues. In the past, the Council has failed to follow that course, preferring instead to enlarge its activities in new and/or non-core fields, without directly indicating to ratepayers and residents that these additional activities necessarily implied a reduction in needed funding for infrastructure renewal and maintenance. Certainly, infrastructure quality has suffered. While `catch-up' funding by way of special levy and loan raisings is now said by the Council to be required to update infrastructure and compensate for the claimed defects of ratecapping, we think the underlying problem lies with the Council's decisions - or nondecisions - about priorities.

The draft Plan notes, at page 11:

> *The outcome of our application to the State Government for an environment and infrastructure levy will determine the level of funding for renewal of ageing infrastructure and environmental projects.*

We observe that there is nothing to stop the Council continuing on that path, where its `special levy' mechanism is being used to fund infrastructure provision and maintenance and its ordinary rate revenue is being diverted more and more to other purposes, within the framework of a continually enlarging services menu. This is bad news for ratepayers, who face escalating burdens without hope of relief.

We have consistently objected to the starting point of Woollahra's annual budget process being based on the *maintenance* of existing services and service levels. This technique is obviously effective in retaining the *status quo* of existing activities, but it is clearly inflexible in the face of changes in community needs and funding priorities. In a climate of financial stringency it encourages only the most politically popular services to be nominated for adjustment or potential cuts, thus virtually ensuring that no real adjustments - let alone cuts - are made at all. We think Council's decision of 30 April 2007 may perhaps envisage (very much belated) consideration of service menu scope and sustainability, but recognise that it will have no impact on the rate level for the 2007/2008 year, and see nothing in the forward financial projections of the draft Management Plan to warrant any optimism about the future on our part.

The draft Plan does not disclose any intention in the Council to seek additional revenues by ways that do not involve the involuntary enlistment of ratepayer funding to service external borrowings or the payment of `special' levies. *For example,* while it has been accepted by the Council that the Local Government Minister will be approached for special levy approval, there is no suggestion in the draft Plan that the Council might apply to the Planning Minister for removal of the statutory limitation of development processing fees, or to the Arts Minister for enlargement of the statutory limit on library *per capita* grants, or to the Community Services Minister for enlarged State contributions for the wide range of community services undertaken by the Council on behalf of the Government.

Likewise, there is no indication in the draft Plan of any intent to enlarge the field of user charges that are entirely under the control of the Council, such as those which might obviously apply to users of the dinghy storage facilities contemplated in the draft Plan.

For those briefly stated reasons and for the expanded reasons that we have set out in successive submissions relating to Council's finances, ***we continue to oppose*** the Council's resort to the special levy mechanism, and the Council's use of loan funding for the commercial centre `beautification' purposes nominated in the draft Plan. Because failure to do so might be thought to imply acceptance, we reiterate our opposition to the proposal for a bike path in Gap Park: the important environmental reasons have been plainly stated elsewhere.

We ***continue to support*** ratecapping as a means of encouraging attention to activity review and financial priority-setting, and because it provides at least some protection for the interests of ratepayers.

The assumption in the draft Plan of a 3% allowable general revenue increase has been overtaken by the Minister's 21 May 2007 announcement of an allowable increase of 3.4%. There are various ways of dealing with this:

- The Council might simply retain the 3% increase assumed in the draft Plan; this would be the most acceptable outcome from our viewpoint.
- The Council might exercise the 3.4% increase allowed, and reduce the quantum of the special levy request by an amount corresponding to the difference in revenue; this would be a quite logical outcome of the decision, and be acceptable to us.
- The Council might exercise the 3.4% increase allowed, and reduce the proposed loan funding by the amount corresponding to the revenue difference; this would be marginally acceptable to us.
- The Council might exercise the 3.4% increase allowed and expand the program of works and services shown in the draft Plan to take up the extra revenue; in our view this would be highly unfair to ratepayers, and opportunistic in the extreme.

We strongly urge the Council to adopt the first of the options listed above.

Yours sincerely,

Michael Rolfe, President 5 June 2007