

# Report

<b>Subject</b>	Independent Inquiry into the Financial Sustainability of NSW Local Government
<b>File No</b>	05-12219: S47
<b>Prepared by</b>	Manager – Finance
<b>Reason</b>	Preparation of a submission to the Inquiry
<b>Objective</b>	Seeking Council's endorsement of a submission
<b>Strategic Plan Link</b>	Leadership by Innovation
<b>Management Plan Activity</b>	Financial Services

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## Overview of Report

The Local Government and Shires Association of NSW have commissioned an Independent Inquiry into the Financial Sustainability of Local Government in NSW. It is proposed to make a submission to the Inquiry with particular reference to three issues being rates, Financial Assistance Grants and council viability.

## Background

The Local Government and Shires Association of NSW (LGSA) have initiated the 'Independent Inquiry into the Financial Sustainability of NSW Local Government' and are calling on submissions from councils which primarily address the issues outlines in the 'Background and Issues Paper'.

The Inquiry's website [www.lgi.org.au](http://www.lgi.org.au) provides the following information on the terms of reference:

*"The formal Terms of Reference oblige the Inquiry to investigate five major aspects of local government in NSW:*

- *the current financial position and performance;*
- *the adequacy of existing infrastructure;*
- *the adequacy of service delivery;*
- *the financial capacity of local government; and*
- *the administrative capacity of local government.*

*With respect to these aspects, the Inquiry will examine what local government must do to meet (1) statutory obligation and independent standards, (2) community, State, and Commonwealth Government expectations of its role and functions, and (3) emerging challenges posed by demographic, economic, social, environmental technical and governance changes. The Inquiry will then consider potential measures of improvement or reform that could address any problems identified and formulate recommendations."*

From Council's perspective, there are three areas for which it is proposed to make a submission:-

## Rates

- The limitations of the Local Government Act 1993 rating provisions where from an equity perspective, the use of property valuations to calculate the rates creates a difficulty for ratepayers as it does not relate to either access to or use of Council services and facilities.

This view was supported by the community feedback received during the recent review of the Council's rating structure.

At the same time, constraints with the base rate approach, where only a maximum of 50% of the rate income from an individual rating category can be received, was found to be restrictive if a more robust and justifiable rating structure were to be adopted.

While related to rates, other areas that warrant review include:

- a) Section 555 'Exemption from all rates' and Section 556 'Exemptions for all rates other than water supply and sewerage rates' – The Crown is exempt from all rates. While this is not necessarily questioned, it is unreasonable to expect that where a 'government business enterprises' has been created and pays the State Government a dividend, that this commercial venture should be exempt from rates due to Crown ownership.
- b) Level of Pension Rebate Subsidy – Currently, the State Government reimburses local government 55% of the rates, water, sewerage and waste rebate applied to pensioners. The net cost to Council equates to \$580,000 in 2004/05. The issue is that as Council has no control over pensions and eligibility, and the average age is increasing, it is likely that Council's costs will increase and this should be mitigated by increased State/Federal funding

## Financial Assistance Grant

- The inadequacies of the Financial Assistance Grants "equalisation" formula which are compounded by the lack of growth in the pool of Federal funds available to local government.

Lismore City Council's presentation to the NSW Grants Commission in June 2004 highlighted some specific issues, such as the formula application of the revenue allowances and population based functions which disadvantaged Council financially, but more importantly, it was agreed that the FAG funding formula does not place adequate value on the fact that Lismore is a regional city and therefore services the region, not only Lismore. The regional services and facilities provided include, but are not limited to

- a) airport, local and western catchment
- b) regional swimming complex
- c) art gallery and planning for a new facility
- d) sporting facilities to host regional and state events
- e) cultural facilities including the planning for the Art in the Heart precinct and NORPA, and
- f) crematorium, regional facility with the closest being Coffs Harbour and Tweed Heads.

To accommodate this recognition, the funding formula would need to be amended.

In regards to the quantum of funds and certainty of funding on a growth basis, the 2003 Hawker Inquiry report titled *"Rates and Taxes: A fair share for Responsible Local Government"* indicated that these concerns were raised constantly in both submissions and at hearings. There are alternatives proposed in the report, but from Council's perspective, the principle of a fair share and certainty of growth should be endorsed.

## Council Viability

- The need for local government, on a Statewide basis, to rationally address the very real problem of poorly resourced Councils which are fiscally inefficient and/or borderline effective but which have no prospects for a turnaround.

## General Manager's Comments

The viability of local government can be interpreted in many ways but there is one common denominator when it comes to an effective Council – money!

If the council is financially weak it is only a matter of time before its community becomes frustrated with the lack of facilities or standard of facilities which then leads to pressure for increased rates or borrowings which are either secured or, alternatively, the community remains dissatisfied. What is very obvious is that the councils which appear to be weak are those which experience negligible or negative growth and the information which the Inquiry has circulated pinpoints those councils across the State.

Whilst the State Government recently took a heavy handed approach by amalgamating a number of unviable councils, the table of facts indicates that they may not have gone far enough. What is the future of these negative growth councils? How long can such an enterprise function? I don't know the answers but I believe it would be possible to quantify.

On that basis and for the good of local government generally, this is a matter which the Inquiry should investigate thoroughly. It is very predictable that councils across the State will complain loudly about the pressures of growth, cost shifting and ratepegging. Successive State Governments have shown little interest in responding to these complaints from local government but based on their own model of regional service delivery – roads, health, education, natural resources, planning etc. they do seem responsive to a collective voice which proposes a solution rather than a complaint.

To that end, I believe the Inquiry should closely examine the amalgamation outcomes in this State over the past five years with a view to identifying the successes and the failures – it's certain there have been both. Presuming that exercise brings forth some meaningful conclusions it may well be the catalyst for some more selective restructuring which is capable of delivering the basic aims of amalgamation – even if the solution is more akin to a strategic alliance such as in the Armidale region. Restructuring of local government ought to be about:

- retaining community interest and culture
- adequate local representation
- reducing the cost of overheads
- streamlined, effective management
- improved services to residents.

I hark back to the Inquiry's own comparative table. It should establish a measurable benchmark which defines viability and sustainability, apply that to councils across the State and those that fall below the minimum criteria be required to articulate their strategy for achieving the benchmark status.

This Inquiry is a real opportunity for local government in this State to shape its own future but unless it adopts an open, honest, realistic approach the State and Federal Governments will have reason to treat the conclusions with suspicion.

## Public consultation

Not required

## Conclusion

The Local Government and Shires Association of NSW have commissioned an Independent Inquiry into the Financial Sustainability of Local Government in NSW. It is proposed to make a submission to the Inquiry from Lismore City Council's perspective based on the three issues included in the report being rates, Financial Assistance Grants and council viability.

The Inquiry convenes in Lismore on Tuesday, December 13, 2005 as part of their stakeholder consultation process. The submission must be lodged with the Inquiry by December 14, 2005.

## Recommendation (COR01)

That Council make a submission to the Independent Inquiry into the Financial Sustainability of Local Government in NSW based on but the three issues of:

- 1 NSW rating system constraints.
- 2 Financial Assistance Grants inadequacies.
- 3 Definitions of viable, sustainable councils.

