Submission
No 27

INQUIRY INTO ABILITY OF LOCAL GOVERNMENTS TO FUND INFRASTRUCTURE AND SERVICES

Organisation: Murrumbidgee Council

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Hon. Emily Suvaal, BN MLC
Chair
Inquiry into the Ability of Local Government to Fund Infrastructure and Services
Parliament House
Macquarie Street
SYDNEY NSW 2000

Submitted via Portal

Dear Ms Suvaal

Standing Committee on State Development - Inquiry into the Ability of Local Government to Fund Infrastructure and Services

Council is aware you will be viewing statistics and comparing Local Government entities against each other, informing an opinion towards the answers to many of your terms of reference.

Therefore, a word of caution…no two Local Government bodies are identical. You cannot group Local Government into rural, regional, remote, urban or city for every matrix.

Murrumbidgee Council, for your statistical data, is classified as Rural Local Government:

- We have extensive irrigation agriculture…not all rural Councils have irrigation agriculture
- We run a child care centre…not all rural Councils run a child care centre
- We own and run a caravan park…not all rural Councils own and run a caravan park
- We have three similar sized towns…not all rural Councils have three similar sized towns
- We are the dead centre of a renewable energy zone…not all rural Councils are.

- We have a Road Maintenance Council Contract (RMCC) with TfNSW…not all rural Councils have an RMCC with TfNSW
- We provide three Medical Centres, so we have doctors

The point I am making is that Local Government are only equal in our core activities. We, being rural, and with no private organisations wishing to take on services, provide these services. Where it's the responsibility of the State or Federal Governments, and they fail in delivering on their responsibility, a small rural Council delivers on behalf of its residents and ratepayers.

A question to you *"Is it your firm belief that Local Government should only do core Local Government functions, and that is all you desire to fund?"* If so, please advise us, and then please advise us how you are going to provide a doctor to the community, the provision of weeds inspectors, contaminated land inspectors and every other function devolved to Local Government, including every other service we deliver as the bare minimum for our residents and ratepayers.

As the author, I have had a very fortunate career, working as a General Manager/Chief Executive Officer for 25 years in three different jurisdictions, Queensland, Manitoba Canada and New South Wales. So I have been exposed to three different forms of raising rates. The NSW model is the only system whereby, through no fault of Local Government, Local Government is going backwards, and there are no incentives. Queensland sets the rate to cover the costs in the most part, if ratepayers did not like the decision, democracy meant there would be a change. In NSW democracy, there is a change because Local Government cannot do what they need to do to satisfy the ratepayers because of rate pegging. Manitoba Canada is the best rating system I have ever used, it's not perfect but better than NSW and Queensland in my opinion. In Manitoba we could only set one mill rate (cents in the thousand dollar of valuation) for every class of assets. It was legislated that the class of asset valuations are discounted:

- Railway 25%
- Pipeline 50%
- Farmland 26%
- Residential 45%
- Golf Course 10%
- Institutional 65%
- Business/Manufacturing 65%

and that percentage of the valuation is then used to calculate the rates.

Also, the rate was a Capital Improvement Valuation (CIV), so vacant land was charged a rate, and so too was the value of the buildings and structures. This kept land valuations low, which is an impediment in NSW. The Unimproved Valuation (UV) in NSW, which is the land without any buildings on it, appreciates in value in relation to the sale of the homes around it because of the buildings and structures. To make housing affordable, we need to make the land affordable, so a rating mechanism which does not lead to inflated market value of vacant land, and also provides for more inclusive neighbourhoods, rather than more elite neighbourhoods. In Canada, I bought land for $40,000 and built a $200,000 home, my combined valuation is $240,000, but only 45% is attributed to the mill rate, so only $108,000 is used to calculate my rates. My brother bought the land beside me for $40,000, but he built a $1,000,000 home, with his combined valuation being $1,040,000, so 45% is $468,000. It is a more effective way of distributing the rate burden by wealth and peoples' own choice of their status.

Also, in Manitoba, because it is a CIV, then once or twice a year we could raise supplementary rate notices to capture all the new buildings constructed. This provided for real growth in rates, without anyone being disadvantaged. For many years we never had to change the mill rate, only during revaluation times (reduction in mill rate) because our growth provided enough additional rates revenue to deliver our services.

For Murrumbidgee Council, a small rural Council with little to no ability to raise own source revenue, except via rates, because of the population and not wishing to impose on the ratepayers with high rates, we must choose to reduce service levels.

So imagine, Murrumbidgee Council with the ability to raise rates on a CIV, and set mill rates, as in Manitoba. For today we are staring down the barrel of over $5 billion in renewable energy solar and wind farms. Even if the legislated discount was set at 25%, like the railway in Manitoba, we would have an additional $1.25 billion in rate valuation to attribute our mill rate too. This would actually mean we could reduce our mill rate and be financially sustainable. The growth rate IPART administers looks at population. Wind and solar are not going to increase population to meet any IPART growth targets, so we will always be the minimum rate peg.

What we are alluding too is that we need rate reform, and setting discounts and one mill rate and providing for a CIV, all the things that Manitoba Canada use, is a far better way to ensure Councils can be sustainable, be rewarded for growth, and keep control over Council's ability to increase rates. Have IPART peg the mill rate, but let us do supplementary rates notices as well, and CIVs.

This submission has input of over 200 collective years of Local Government experience, from elected representatives, to the General Manager, Senior Executives, Managers and so on. Because of financial constraints, we do very little capital improvement without a grant. Be it water infrastructure - we would not do anything without receiving a 90% Safe and Secure Water Grant. Be it roads - we rely upon the Roads to Recovery (R2R), Country Roads and Country Bridges Funding etc. For community infrastructure such as pools, sports grounds, footpaths etc. it has been the Stronger Communities Fund (SCF), Stronger Country Communities Fund (SCCF), the Local Roads & Community Infrastructure Program (LRCIP), every acronym under the sun, upon which we rely to contribute to, or pay outright for, the capital works. For 20 years the Jerilderie Swimming Pool replacement was on the books, and every year we would spend considerable money on maintenance, but when we received grant funding it was a new pool installation, which did away with the expensive and on-going annual maintenance costs.

If there were a system as in Queensland, where there is an annual budget allocation from the State Government towards water and sewerage capital works, of which Local Government is guaranteed 50%, then we could plan with certainty, we could borrow or create reserves for our 50% contribution, we could spend the years planning, knowing that at the end we will get it built.

The State sets an allocation, and whether its 50/50, or another ratio, we do not mind. If the State wants to commit 90% with a local contribution of 10%, that's fine. But then we can know with certainty that we can plan to replace the new asset to meet community needs. Happy to work with the State on developing such grant funding programs.

The fact that we would never replace an asset without some grant contribution from the State or Federal Government leads us into the next point, which is the curse of depreciation and financial sustainability.

Depreciation expense in the accounting standards is used as a taxation deduction and not a true sign of the reduction in value of an asset from consumption. So we need a different method of depreciation for Local Government, or any Government for that matter. Condition based depreciation springs to mind - the ability to meet service standards. If an asset can meet the service delivery standards, has it depreciated? We use a gravel road as an example. If you can travel along the road at 80km/hr every single day of the year safely and our service standard is 80km/hr safely, has the road depreciated? All I can think of is how much gravel did we lose in a year from the traffic kicking up dust literally, in our mind that is the only consumption of the asset so possibly 20mm of gravel, so is the depreciation expense only the cost of the 20mm of gravel, and if we had a maintenance schedule that replaced the 20mm of gravel every year would the depreciation be zero?

It is an annoyance that we have a very large depreciation expense, which makes us financially not sustainable. And truly the asset has not lost consumption, to us the annoyance is why are we over charging our ratepayers, collecting rates to cover depreciation which, at best, the Accounting Standards create rubbery figures. If we had a system which guaranteed a 50% contribution from a grant to replace a swimming pool, then why could we not have a system where we only depreciate 50% of the capital? If we had a condition based depreciation model, could we not use it as our depreciation method specifically for roads. For buildings - we depreciate buildings over 50 years, yet we work out of buildings which are fit for purpose and deliver on the service standards even though they can be aged 100 years or more.

In short, the way we fund capital and the way we depreciate capital all needs an overhaul, so we are not overcharging our ratepayers unnecessarily. And creating, at best, a rubbery, unsustainable scenario.

With a low rate base, we rely heavily on the Financial Assistance Grants (FAG), however we need more untied grants so we can deliver our core services, as well as all the services that our residents and ratepayers expect, which are not being delivered by private enterprise or State and Federal Governments. A change to the FAG calculations to provide more for those who do not have the ability to raise own source revenue without serious hardship, such as Murrumbidgee Council, and less to those, like some wealthy city Councils, who can raise own source revenue without causing financial hardship. We can remember the days when we filled in our census for the FAG and had all the disability factor questions to answer, so as to get a greater slice of the pie. The impediment to the pie, and rural Councils, was the per capita allocation. This needs to be a significantly smaller percentage, and the significant majority of the FAG allocation should be more focused on the disability and, in Murrumbidgee Council's case, the disability is to raise own source revenue without causing financial hardship.

Yours faithfully

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GENERAL MANAGER