

FFTF – LGNSW Submission: Proposed Freeze of Rating Structures and SRV Applications for Merging Councils – LGNSW Paper

February 2016

Proposed Freeze of Rating Structures and SRV Applications for Merging Councils

Issue

LGNSW calls on the NSW Government not to implement a four year freeze on council rating structures and Special Rate Variations (SRVs) for merging councils. LGNSW is firmly of the view that this is contrary to the objectives of Local Government reform and will be ultimately damaging for affected communities.

The Government's surprise announcement of a freeze on rating structures and SRV applications has shocked councils facing mergers. The councils have expressed the view that it is counterproductive and that it will make the complex and sensitive merger process even more difficult. The freeze on rating structures and the freeze on SRVs need to be considered separately as each has different consequences.

Recommendation

That the MAG recommend that:

- (1) The proposed freeze on rating structures for councils undertaking mergers be abandoned and that provision be made for phased harmonisation commencing within the first four years of the new council; and
- (2) The proposed freeze on SRVs be dropped and that newly merged councils be able to apply for SRVs once they satisfy the normal SRV criteria.

Reasons for Recommendation

Freeze on SRVs

While merging councils will still receive normal rate pegging adjustments, this will only assist in providing for maintenance of the status quo in terms of infrastructure and services. It will not allow the new council to fund and provide improved or additional services or to take corrective action to address infrastructure renewal backlogs.

Indeed, given significant merger costs and recognising that few if any savings are achieved in the first four years of amalgamation, it is more likely that infrastructure, service provision and financial sustainability will deteriorate at a faster rate than would have been the case without the merger.

Without the ability to raise additional rate revenue during the freeze period, the new councils will be faced with the need to seek a larger and more sudden increase at the end of the freeze.

This is contrary to the objectives of the FFTF program and is clearly not in the interests of the communities, councils or the NSW Government.

It would be preferable from a policy position to abandon the freeze on SRVs and allow the new merged councils to apply for SRVs when they are able to satisfy the normal SRV criteria. This would require new Community Strategic Plans, Delivery Programs, Long Term Financial Plans and demonstration of substantial community support for any SRV application. There is no justification for discriminating against merged councils if they satisfy the criteria. This may occur in less than four years for many of them.

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Freeze on Rate Structures

In the presence of rate pegging, the freeze in rate structures and policies primarily raises equity issues. Councils are concerned that it is potentially very divisive. The freeze instantly polarises the community by creating winners and losers - those locked into lower rates and those locked into higher rates. At the same time, most ratepayers are going to expect that service levels are equalised at the highest level previously offered by any pre-existing councils. This will create a dilemma for the new councils in the absence of increased rate revenue; i.e. do they:

- Maintain differential service levels for different parts of the community for the duration of the freeze?
- Do they reduce service levels in some parts of the community to allow subsidisation of increased services levels in other parts in an attempt to achieve sub optimal equalisation?

These outcomes will not be acceptable to communities and are not sustainable. Provision needs to be made to allow for phased rate and service level harmonisation to commence well within the first four years of the new council. It is recognised that changes need to be incremental and understood by communities and that rate shocks should be avoided. If harmonisation is deferred for four years, it is again likely that larger and more abrupt adjustments will be required at the end of the freeze. It is also understood that harmonisation does not necessarily mean equalisation let alone equalisation at the highest level.