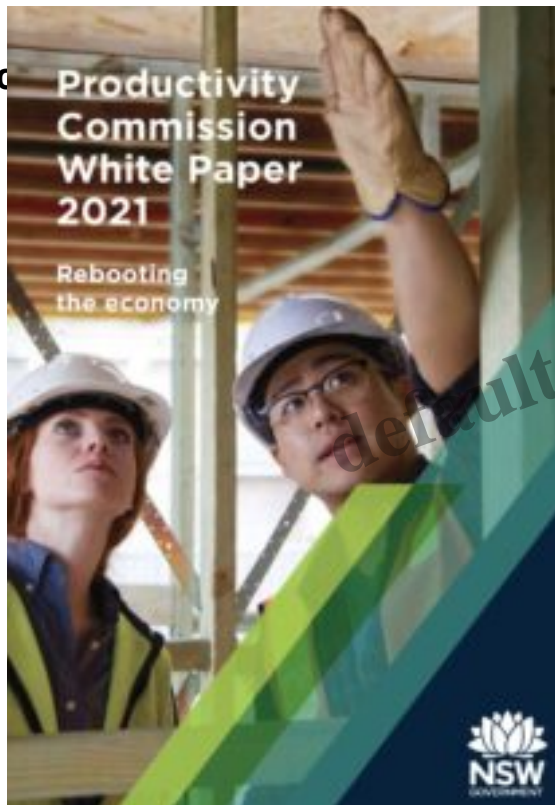


## The NSW Productivity Commission White Paper and Local Government

Desc



*The recently released NSW Productivity Commission report released by the NSW Treasurer Dominic Perrottet*

Being a good local government representative means understanding the landscape that Councils inhabit, and the way we interact with other tiers of government. So, it's well to pay attention when the State Government announces potential shifts in policy.

Constitutionally, Local Government does not exist. This is despite a [decades long campaign](#), which I support, for constitutional recognition. There was a failed referendum in [1988](#). More recently, the Labor

federal government promised another in 2013, which I believe would have passed with [bipartisan](#) support, only for them to [welch at the last minute](#).

I've always believed in the [principle of subsidiarity](#), which suggests that decisions in government should be taken by the level that is closest to the people affected. In my opinion devolution, rather than the endless accumulation of power to higher or more centralised authorities, is not only more efficient, more democratic, but also more consonant with classical Conservative principles of government.

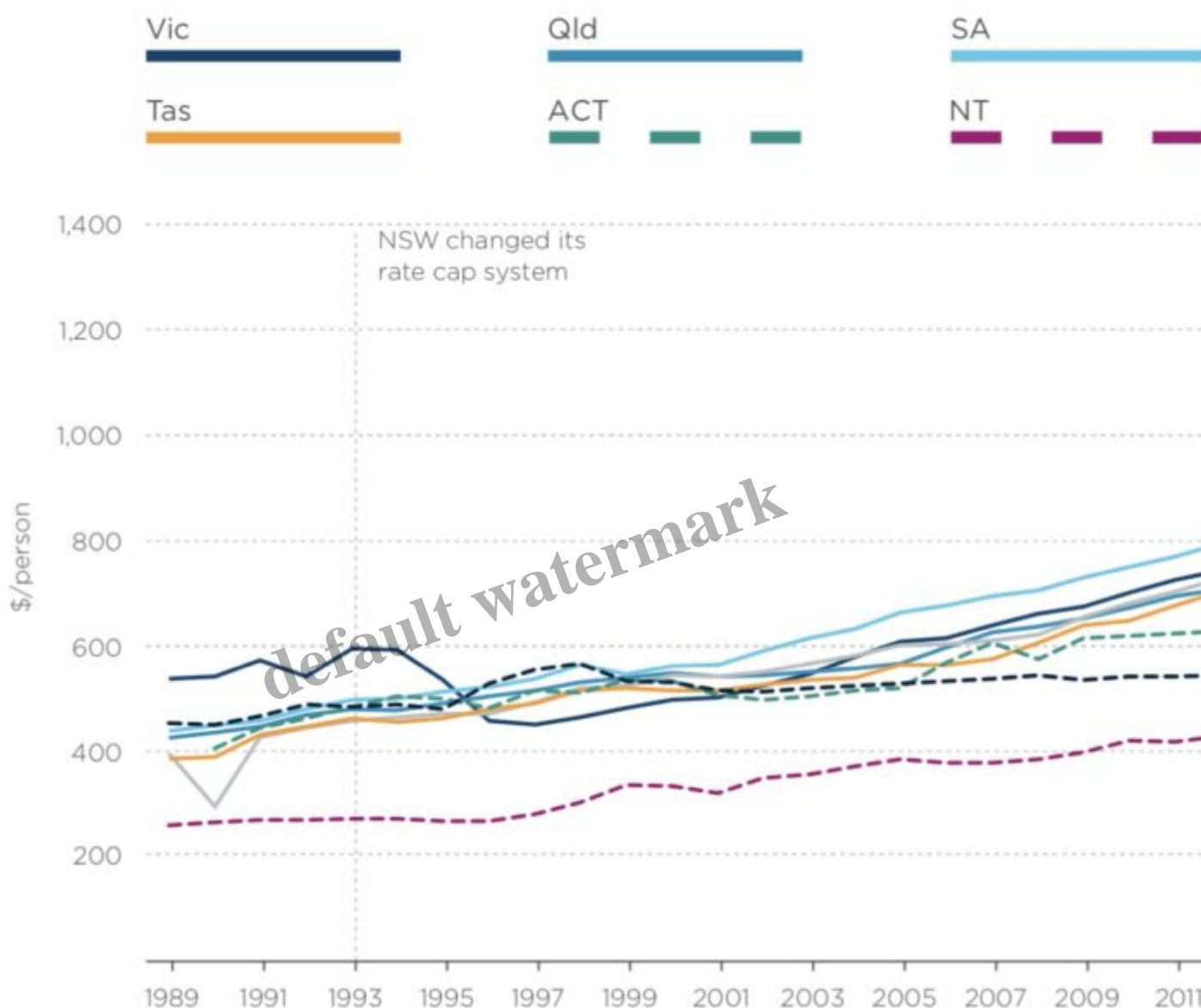
However, any administrative or regulatory function held by government has to be paid for. Unfortunately, 'cost shifting' has moved the responsibility for a huge amount of regulation, infrastructure, planning and service delivery – previously provided by other tiers of government, on to local Councils like ours, and thus to our ratepayers, without the ability to pay for it. A 2018 [LGNSW report](#) concluded this cost NSW Councils (and again, *ratepayers*) over \$6.2 *Billion* of extra costs between 2006 and 2018. Hawkesbury Council [estimated](#) the cost to *us* was \$6.9 Million in one year alone.

So against this backdrop, I was interested when this morning NSW Treasurer Dominic Perrottet [launched](#) the NSW Productivity Commission's '[White Paper](#)' into rebooting the economy. I tuned in for the Treasurer's speech. The report makes for interesting reading, and I'll pick just a couple with relevance to Councils like ours.

One graph in it shows how the 'rate peg' has suppressed local government income since it was introduced in 1993.

default watermark

FIGURE 6.4: RATES REVENUE PER CAPITA BY JURISDICTION<sup>10</sup>



This presents a mixed picture. In my time on Hawkesbury Council, [I have been strong on](#) ensuring Council lives within its means. I opposed the rate rises the dominant ruling block [imposed on the community](#), as well as the changes to the rating formula that concentrated the rating burden unfairly on particular ratepayers.

But it also shows that this government policy has deprived Councils across the state of the ability to grow their revenue to pay for cost-shifted responsibilities in anything like the way Councils have in other states, to keep pace with inflation, population growth, or rising regulatory or infrastructure costs. The White Paper suggests that the rate peg should be abolished, or at least varied to allow Councils to better account for population growth.

#### RECOMMENDATION 6.4

Implement the local government rate peg reform to allow councils' general income to grow with population. If funding from rates revenues continue to be insufficient, councils should hold a plebiscite of ratepayers to test support for abolishing the rate peg.

### *The recommendation from the Productivity Commission's White Paper*

No one wants Councils to overcharge their ratepayers. Equally, most people agree the State government cost shifting to Councils without providing the revenue to pay for it is unfair. Any policies flowing from the White Paper will need to ensure that abolition of the rate cap doesn't act as a green light for Councils to just jack up their rates. I think most people in the Hawkesbury don't think Council is doing the best with what they are already collecting.

The white paper also suggests that Councils should abide by principles of 'competitive neutrality', when it engages in commercial conduct that may disadvantage other local businesses that operate in the same domain. The example it cites is Councils that run Child Care centres. As it happens, there are nine different child care centres operating in Council owned properties around the Hawkesbury, who enjoy a substantial subsidy. [This report](#) presented to Council in October 2018 says it best:

#### **Community Buildings Portfolio – Child Care Centre Tenancy Arrangements.**

Council maintains an extensive portfolio of 200+ community buildings which includes nine long day care child care centres and preschools as listed in [Table 1](#). Council makes these buildings available to child care service providers on a rent-free and exclusive use basis. The nine centres have an insured value of \$11.1M and an average age of 33 years. The annual depreciation cost of these buildings is \$328,393.

The accumulated impact of this day-to-day wear and tear has required regular renewal works to be undertaken to maintain the centres. Over the last ten years Council has expended \$2.1M on renewal works for the nine child care centres. A number of the centres have had major refurbishment and extension works completed during this period, particularly over the last three years.

Under Council's current child care centre tenancy framework, the buildings provided by Council are used by child care services to operate fee-paying services which also attract child care benefit payments from the federal government. All the income generated by the child care service is retained by the service. A conservative estimate of the value of rental income foregone by Council would be in the vicinity of \$260,000 a year.

Over the last three decades Council has not derived any revenue from the child care centres to meet the life-cycle costs of these assets. The combination of annual depreciation costs, Council's renewal expenditures and foregone rent represents a collective 'community service obligation' subsidy of well over \$500,000 a year.

The white paper makes this recommendation on p169:

Better application of competitive neutrality principles, including the public interest test, will also help the community by encouraging government businesses to target subsidised services to those in most need.<sup>47</sup>

Local government competes unfairly with private providers when it offers childcare at below-cost rates. A council that applied competitive neutrality policy properly could target places for discounted childcare to those who could not otherwise afford childcare. This will encourage private businesses to compete in offering childcare to consumers who are not eligible for subsidised council services. That in turn will raise the number of childcare places and ease pressure on parents.

My own view is that the various childcare centres around the district are worth supporting, and the 'subsidy' of facilities run from Council properties (effectively, an opportunity cost to Council in terms of foregone revenue) provides a direct and valued support to the community. I believe Council addressed the issue of centres taking an unfair advantage over their fully commercial competitors when it inked an agreement to ask those providers to contribute to a multi-year 'building renewal fund' to acknowledge the benefit they received from operating from Council properties, amounting to \$1.5M over the life of the agreement.

I am glad that the NSW Government has been so effective in supporting our State economy during the worst economic dislocation for generations. This White Paper is not a policy manifesto, nor is it legislation. It's the start of a conversation, and a very timely one about how to continue economic reform and streamline co-operation between local government and the State.

## Category

1. Uncategorized

## Date Created

May 31, 2021

## Author

councill