

**Review of the Revenue Framework for Local Government
Independent Pricing and Regulatory Tribunal
P O Box Q290
QVB Post Office NSW 1230**

The City of Sydney appreciates the opportunity to make a submission to the Tribunal on this important issue.

The City of Sydney is a major Capital City council and as such it faces a vastly different set of issues and expectations to that of other regional, local metropolitan, urban and rural councils. We cater to a much wider audience than our local residents and business, as we host over 1,000,000 people movements per day through a combination of residents, workers, visitors and tourists.

Our breadth and depth of services and financial commitments are of a different magnitude to other councils, and the funding of these commitments requires an interesting mix of rates, fees and user charges, commercial revenue, minimal grants and contributions and other sources of funding. However we remain subject to the same regulatory framework as other NSW councils leading to rate pegging increases which are insufficient to maintain parity with our increasing costs.

The nature of our business is such that our costs increase at a disproportionate rate to the CPI (both national and Sydney) as our cost structures are more reflective of extremely competitive labour markets, occupancy costs, fuel, construction costs and maintenance rather than a bundle of consumer goods. The fact that the Minister has approved rate increases below that of CPI in recent years only serves to exacerbate the cost pressures the City faces in trying to deliver the infrastructure, facilities and services sought by our broad community and stakeholders.

As a Capital City, it should be recognised that Sydney has access to professional financial management resources and is well placed to plan its future financial requirements against its existing financial capacity to determine appropriate taxing, funding, contribution and partnership (public and/or private) models to achieve the goals and aspirations that it outlines to the Sydney community within its 2030 vision, its Strategic and annual Corporate Plans. However despite this capacity, the current regulatory framework lacks any flexibility, and therefore Sydney remains subject to the same overriding management and financial controls (e.g. rate capping) as the smallest NSW council.

The presumption that rate pegging drives further efficiency in service delivery is at odds with the City's reality. Having been through recent boundary transfers and amalgamations, the City has already worked to achieve economies of scale. However where revenues are unable to maintain parity with rising costs, the only realistic alternatives are to seek supplementary sources of funds or reduce the quantum and quality of operational services and/or capital improvements delivered to our community. The latter outcomes would fail to satisfy the vast majority of the City ratepayer, community and stakeholder expectations.

Uniform rate pegging of NSW councils is an inappropriate financial control for the City of Sydney.

As the third tier of government in Australia, local government is responsible for delivering local infrastructure, facilities and service delivery that is crucial to the function and sustainability of their local communities. Studies in recent years (including the Allen review), and our own engagement and consultation efforts with our customers, indicate that local government is generally considered to provide good quality value for money outcomes.

However local government suffers from a lack of constitutional recognition which historically has left it vulnerable to changes for political sake (e.g. boundary transfers and amalgamations), an

inability to access a right to growth sources of income (e.g. a specified percentage of GST) or to self determine the amount of rates revenue it needs to fund and deliver an increasing quantity and quality of property and people based services to ratepayers and other stakeholders.

The City supports the notion of constitutional reform to give NSW councils a clear framework of responsibility and formal recognition of their right to raise sufficient income to support and deliver the requisite services, infrastructure and facilities for local communities.

Under the current arrangements, local government remains concerned with the growing financial demands on councils and the impact on their long term financial sustainability. The demands arise from a number of sources including the community who are expressing broader and higher expectations, other levels of government who are cost shifting a variety of their functions down to local government, and from councils themselves where they recognise the increased intervention required to support local communities.

In recent times councils have also expanded their effort and commitment to play a strong advocacy and leadership role for improvement in key state functions that impact the liveability of our cities including transport, economics and the physical and social environment. These planning and liaison efforts are not cost free but they are considered essential to deliver a City that will successfully meet the challenges and needs of existing and future generations.

The City supports the broader role that the Local Government Act 1993 chartered for councils. As the tier of government closest to local business and residential communities, councils are well placed to engage with their constituents, understand their concerns and take these into account when planning future operations. However access to adequate financial resources going forward is critical if this broader role is to remain financially sustainable for councils.

The existing management planning framework provides a useful starting base for corporate planning and reporting, that allows interested parties to consider council's principal activities, objectives, key projects and resource plans (e.g. human, financial, etc) to deliver these desired outcomes. However refinement of these requirements is expected to improve following release of the new Integrated Planning and Reporting Guidelines for local government in NSW.

The City of Sydney is fortunate in that it can access other revenue sources to support its operations. Unlike many councils, the City is not predominantly reliant on the ratepayer to fund its operations, which provides it with a greater degree of autonomy and the ability to fund a broader range of services within the local government area. However given the range and target recipients of some of these City's expanding services (e.g. affordable housing, green energy transformation), the City requires additional financial support from relevant partners including the federal and state governments and corporate entities where appropriate.

However at the same time as the City is acting to significantly improve life in its environs, the State's Government's own financial stress arising from its inability to secure a fair and equitable share of GST revenue from the Federal Government; are impacting council's existing cost bases. An ongoing series of State (IPART) review have (or are being) undertaken to bolster the State's revenue base across the board, for example, proposals to increase public transport fares at the same time as its policies advocate and encourage greater use of public transport.

For councils and the City specifically, this has resulted in significant annual increases in property valuation fees (10%) and State Taxation proposals which are still being reviewed by IPART but consider the introduction of an annual liability for payroll tax (\$7M) and an increase in our contribution to the fire services levy (\$16M) for costs which are currently already collected via the insurance industry's building policies. These proposals, if adopted, will have a significant detrimental impact on the City's ability to continue to fund its current and planned activities.

It therefore concerning that the State in this review is asking council's to consider whether rate pegging has helped to achieve operating efficiencies, if council's applications for special rate variations are really justifiable, whether they have set their user charges at optimal levels, and if councils are delivering the quantity and quality of services sought by their communities. While at the very same time the State themselves are significantly increasing council's costs by increasing the prices of their monopoly services and utilising their legislative and regulatory powers to raise additional taxes and contributions to compensate for the rising cost of their own operations.

To provide a more complete understanding of the complex financial interrelationships between the State and the City, it is also important for IPART to understand some of the key contributions that the City is already making (or planning to deliver) on behalf of the State which could rightfully be considered over and above normal local government expectations. Perhaps these contributions and support should be considered outside of the scope of what should be provided through the contributions of ratepayers and user charges, and instead be compensated directly by the State.

Examples include:-

- Capital upgrade of iconic Crown Reserves (Hyde, Prince Alfred, Belmore Parks, etc) – tens of millions of dollars
- Maintenance of all Crown Reserves – around \$2.6M per annum
- Undergrounding of obtrusive Energy Australia power lines
- Homelessness programs for the entire State (HPIC)
- CCTV programs to support NSW Police to improve security and personal safety
- Contribution to capital upgrade Museum of Contemporary Art - \$1M
- 50% net profit share from Parking Enforcement activities - \$7.5M per annum
- NYE's Eve celebrations
- Sydney Festival
- Chinese New Year
- Tourism Kiosks

Furthermore Sydney provides high quality infrastructure, facilities and services that the State itself also enjoys without the benefit of any rates contribution. The current rating legislation exempts all Crown bodies (State), educational facilities (e.g. universities and schools) and benevolent institutions (e.g. religious and certain not-for-profit bodies) from liability for rates. It does so without allowing any consideration for the owner's capacity to pay, which is clearly an inefficient and inequitable method distributing the tax burden, as it allows significant "free rider" benefits. This argument runs contrary to the current IPART review of State Taxation which will determine whether payroll tax should be applied consistently to achieve an equitable outcome.

Finally the Issues Paper considers the extent to which State authorities, including the Sydney Harbour Foreshore Authority (SHFA) and Redfern Waterloo Authority (RWA), provide services that overlap with local government and how they should be compensated for this service provision. The City's response discusses the different focus of these groups, the services provided and its view as to why they are already adequately compensated through commercial property rental and development assessment fees.

It is important to note SHFA's commercial function and the fact that they generate a financial contribution back to the State, while the City's rates and other revenue sources are all 100% directed to deliver facilities and services to Sydney.

It should be understood that the City understands the importance of its role as a Capital City, does not resile from these responsibilities and clearly values the benefits that these contributions make to the quality of life and sustainable development of Sydney. However increasing revenue constraints and cost pressures from the State place the extent of this ongoing contribution at risk of becoming financially unsustainable.

IPART REVIEW - REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

IPART has identified the following issues as being important to this review and seeks comment on them. The City of Sydney will respond to these issues under the heading of the key issues (highlighted by a border) with the subsidiary issues listed below each respective key issue.

Key Issues

- 1. What is the role of local government and how is it determined?**
- 2. How effective is rate pegging and what are the implications for councils and ratepayers?**
- 3. What are the objectives for a regulatory framework for local government revenues?**
- 4. How does the current regulatory framework for council revenue, or any alternative framework:**
 - Promote the effective and efficient provision of services?**
 - Enhance the financial sustainability of local government?**
 - Meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency?**
 - Enhance the accountability of local government?**
- 5. What role should IPART play in setting local government rates and charges, including charges for non-business activities?**
- 6. Should IPART have a determinative role provided by legislation or should IPART's role be limited to making recommendations, if and when requested by the Minister?**
- 7. To what extent do government authorities - such as SHFA, SOPA, RWA and the GCCs**
 - provide services that duplicate or overlap with those of local government?**
- 8. What are the implications for local government rates where these authorities provide services normally provided by local government?**
- 9. Should a common regulatory framework be introduced for these authorities?**

Key Issue

1. What is the role of local government and how is it determined?

10. Is the Department of Local Government modification of the Australian Classification of Local Governments (ACLG) a suitable framework within which to consider the differences between councils?

The City agrees with this classification as it separately distinguishes Sydney which is appropriate given that it is the capital city of NSW.

11. How does the current regulatory framework impact on the efficiency of rate setting by councils?

Local government rates should generally contribute to the cost of providing appropriate infrastructure, facilities and services for the local business and residential community. While the costs of providing new infrastructure and facilities may be supported by developer contributions, and actual service delivery is generally supplemented by user fees and charges, a council's ability to fulfil its functions is impacted when its overall financial needs are outweighed by the funding that it can access under the current regulatory framework.

While recognising that the legislation already provides council's with the ability to seek the Minister's approval for special variations that will increase rates revenue above their ordinary rate revenue cap, there appears to be a general reluctance for councils to proceed down that path which impacts on the efficient setting of rates. The reluctance may be political or it may stem from the fact that it appears to be admission of inefficiency or mismanagement, however the outcome is that councils may be deterred from efficient rate setting.

From the City's perspective, although we are able to levy rates and waste charges on the majority of the properties within our local government area, there are significant entities that are legislatively exempt from having to contribute including Crown bodies (State), educational facilities and benevolent institutions. These bodies all benefit from the City's provision of facilities and services, and it is therefore hard to argue that the setting of rates is premised on an equitable and efficient basis when these exemptions allow for a narrowing of the tax base and "free rider" benefits to these entities without any measure of their capacity (or incapacity) to contribute to the cost of facilities and service delivery.

The value of rates for these exempt parties equates to around \$23M for the City.

It is interesting to note that the recent IPART Review of State Taxation suggested that it was inefficient to exclude local government from liability from payroll tax, a position that has the potential to cost the City around \$7M per annum, without any suggestion of the State making a compensating contribution to local government rates for the free benefits it enjoys.

The current regulatory framework also allows the State to legislate standard fees for a number of critical council services (e.g. Development Applications processing fees) which often do not fully recover the costs of service delivery. These interventions require significant subsidy by some councils which also detract from efficient rate setting.

12. What is the current role of Local Government and its limits? Where does this role come from? Is it self imposed or is it legislated?

The limits on local government's role, and its activities, are determined and mandated by State Government legislation.

However as noted within pages 17-18 of the Issues Paper, there has been a growing trend towards the provision of human services since the 1960's, and the Local Government Act's charter clearly provides councils with the responsibility for delivering **adequate, equitable and appropriate** services and facilities for the community.

These are broad terms, and to improve the quality and standard of living for the members of its communities, council's have often expanded their historical functions to fill "gaps" left by other tiers of government. At the end of the day it is a "whole of government" responsibility to work together to incrementally improve economical, social and environmental outcomes to produce better and more sustainable communities.

It is well documented that the range of services provided by local government has significantly increased in the last 20-30 years and a blurring of the roles between the State Government and the City has continued to grow over the same period. The broad definition of the charter potentially allows for unlimited growth in local government's role, as there will always be additional opportunities to improve infrastructure, facilities and services, however financial constraints fetter local government's capacity to deliver many of these outcomes.

It must also be recognised that Sydney, as a capital city, is different to much of local government in that it has a much broader audience that enjoy and indeed require a significantly higher level of service delivery to function. We are a global city and our underlying infrastructure and facilities are integral to attracting and retaining international business, we have an underlying commitment to economic development, we need to showcase environmental leadership, our contributions to the arts and culture are significant to both the Australian and State governments, and our provision of many social services extend far beyond the requirements expected by many local communities.

However the City of Sydney's local government area (LGA) includes a growing number of areas that are wholly or partially controlled directly by State Government authorities including the Sydney Harbour Foreshore Authority, Redfern Waterloo Authority, Royal Botanic Gardens, Moore Park Trust, and Centennial Park Trust.

While the authority and responsibilities of each of these areas need to be considered on a case by case basis, there is always the potential for uncoordinated planning controls, overlap of services, and differential facility and service delivery outcomes which would lead to inefficient and inequitable outcomes within the same LGA. Furthermore while these authorities provide some similar services, the authorities are not subject to the same degree of planning, measurement and accountability that the Local Government Act requires of councils.

13. What should be the limits on the role of local government?

The City generally agrees with the Allan Report's views on fiscal federalism where the appropriate tier of government to provide the services should be the one where the benefits fall within its jurisdictional area. However this approach is far more complex in the case of capital cities and regional centres that have a far wider impact than that of more locally based councils.

These situations require careful and agreed long term planning and financial resource allocation to ensure vital services are well managed and not duplicated or provided at inappropriate levels.

The primary factor to consider is which tier of government is best placed to effectively and efficiently deliver the necessary facilities and services to the relevant beneficiaries. The second key element is how will this be effectively and equitably funded to facilitate appropriate and sustainable delivery over time.

The local government management planning model which promotes accountability by requiring engagement and consultation with those that utilise the facilities and/or services and bear the cost has many advantages as does the regular, effective and timely reporting of progress against the original plans. This is in stark contrast to the delivery of State infrastructure (e.g. schools, police stations, etc) which is generally provided to the degree that is determined to be appropriate by the State bureaucracy, without seeking input from the community.

14 What infrastructure and services do councils currently provide?

Most local councils provide an extremely wide range of infrastructure, facilities and services including, but not limited to:-

- infrastructure construction and maintenance;
 - roads
 - footpaths
 - drainage
 - public domain
 - parks
 - pools
- street cleaning
- waste services
- recreational and social services
 - libraries
 - child care
 - ages services
 - activity centres;
- planning and regulatory services;
- traffic management
- economic development
- environmental development
- events
- tourism

The City acknowledges its role as a global capital city and provides for a higher range and standard of infrastructure, facilities and services to serve a broader population than its ratepayers and the local community. It needs to support a massive daily influx of workers, visitors and tourists, and serious inflows of additional people whenever significant events occur.

Examples of the City's additional responsibilities include the provision of homelessness services, support for an ever-expanding CCTV network to assist NSW Police and the delivery and financial assistance in respect of hosting major events (e.g. New Years Eve and Chinese New Year). The City also partners the State and contributes to important cultural events like Sydney Festival.

In addition, the City performs major upgrades and undertakes annual maintenance of many Crown Reserves on behalf of the State Government such as Hyde Park, Prince Alfred Park, Wentworth Park and Belmore Park to maintain their iconic status and value in use to the wider community. Individual upgrades can cost between \$10-20M while the net maintenance cost alone is approximately \$2.6M per annum.

The City is also in the process of overseeing the redevelopment of the Green Square Town Centre, and the delivery of the infrastructure, community facilities and services that will be required to turn this into another civic centre within Sydney.

15. What infrastructure and services should councils be responsible for?

Councils have a clear interest in all infrastructure and services that impact its community, including arterial roads, regional parks, affordable housing or even green power generation that supports the local area, even where they are not necessarily responsible for it in the narrow financial “liability” sense of the word.

As discussed in the answers to the previous questions (12 and 13), local government has a significant role to play in the planning and delivery of all infrastructure, facilities and services that impact its local area and community. While not necessarily responsible for delivery, local government must be a party to the planning and consultation phases to ensure an appropriate and cohesive solution for the members of its community.

In most instances, responsibility for local infrastructure and services will be well understood and accepted, however issues arise where these services, etc, impact a broader community than the immediate local government area and therefore become an item or issue of regional, State or National significance (e.g. affordable housing). Similarly where works impact assets owned by more than one tier of government there are funding issues surrounding the level of contribution funding. An example of the latter situation occurs where the City upgrades a streetscape and also undergrounds the electricity cables at the same time to improve the amenity of the area for the community, but is then obliged to pay for the works that benefits its on assets as well as those owned by Energy Australia (the State).

The City’s recently produced Sustainability Sydney 2030 vision has identified a number of key regional infrastructure challenges to be addressed if we wish to build a City that is sustainable for the future. These challenges are broad in nature and extend across the LGA, including transport initiatives, more environmentally friendly power generation, bicycle lanes, economic development, and improved affordable housing for essential workers. These are good examples of infrastructure that will require partnership funding from the other levels of government and private parties.

16. To what extent is there overlap with other levels of government?

As explained above, in response to question 12, the City of Sydney’s local government area (LGA) includes a growing number of areas that are wholly or partially controlled directly by State Government authorities including the Sydney Harbour Foreshore Authority, Redfern Waterloo Authority, Royal Botanic Gardens, Moore Park Trust, and Centennial Park Trust. While each of these areas need to be considered on a case by case basis, there is the potential with some authorities for uncoordinated planning controls, an overlap of services, and differential facility and service delivery outcomes to occur.

Where overlap occurs, this situation inhibits the City’s efficient, effective and consistent delivery of services which may lead to an inequitable outcome within the same LGA. In fact, from a service delivery aspect, this situation is the very antithesis of the council amalgamations that have previously been promoted to deliver efficiencies to the local ratepayer.

There are also positive overlaps in term of positive policy and funding outcomes. At present there is a great deal of support for the introduction of initiatives from all three tiers of government to help to deliver housing affordability, environmental initiatives and improvements to transport across Sydney. There are also packages of funding to assist with fast tracking the improvement

of key roads. These overlapping interests are beneficial, providing they are coordinated and delivered within a consistent policy framework.

17. To what extent do service levels vary between councils in their scope, value and quality of infrastructure and other assets?

Service levels do and should vary between councils reflecting the residential and business composition of the community, their physical and social environment, population, asset base and economic factors. The differences may also simply reflect a local area's preferred priorities (e.g. improved roads over a pool upgrade) which accord with the ideals and practices of representative government.

A good example of different service levels is the City's graffiti removal service level where graffiti is removed within 24 hours of identification or when building owners consent is obtained. Other councils could not afford to implement this policy, but the service is often praised as making a significantly positive contribution to the amenity of the public domain in the City.

It is this very ability of local councils to cater for local demands that change over time that highlights their need and worth to the community in delivering appropriate public services.

The City would however advocate for improved long term planning and reporting systems. These would be of benefit if they could assist councils to better inform the community as to the state of their infrastructure and assets – preferably compared to either minimum or benchmark standards for a particular type of council (e.g. capital city, metropolitan or rural) – so that any significant shortfall can be clearly understood. This may identify the need for supplementary rates funding, or government grants, and the issue can be addressed.

18. What factors cause differences between councils provision of infrastructure and services to arise?

There are many fundamental differences in local government areas that lead to different infrastructure and service standards and outcomes.

In addition to those already discussed in the previous response, council's financial position is a great determinant of what quantity and quality of works can be undertaken. There is also the question of council size, which can significantly impact economies of scale, and prioritisation reflecting the specific needs of the council in question.

Many of these issues have already been well documented in recent reviews of local government, including the Allen Report.

19. To what extent are ratepayers satisfied that Councils provide services that are appropriate and delivered effectively and to acceptable standards?

The public, and ratepayers, are provided with many opportunities throughout the management planning and reporting cycle to provide its views on the adequacy of council's plans for delivering infrastructure, facilities and service for the year.

All NSW councils are required by legislation to prepare management plans to advise the community of their plans and goals for the coming four years, and the resources they plan to utilise in delivering these outcomes. These plans are exhibited in draft form for at least 28 days to enable the community to comment on their content, and to seek changes if they believe they are necessary. This process is designed to ensure that council satisfies ratepayer's needs.

Council's progress towards these outcomes is reported quarterly, and formally at the end of the year as part of the Annual Reporting requirements. These reports are readily available to the public.

In addition to these legislative requirements, the City also engages regularly with its ratepayers through a variety of community meetings and its annual community satisfaction survey. The overwhelming feedback from these meetings has been very positive in terms of the City's service delivery. The results of the annual survey over the last 3 years have improved with the overall performance increasing from 69% to 72% satisfaction for the last survey period completed in October 2007.

In contrast, during the course of its community meetings, the City often hears that members of the public are disillusioned by the lack of transparency and accountability of the Redfern Waterloo Authority and Sydney Harbour Foreshore Authority. The message appears to be that they do not provide enough information on to the community on how they spend funds that they receive.

Key Issue 2

How effective is rate pegging and what are the implications for councils and ratepayers?

20. What demographic, intergovernmental, economic, social, technical and environmental changes are affecting Councils now and their future revenue requirements?

There are many different factors shaping the future of councils and more specifically, the City of Sydney.

For the City of Sydney, the recent Sustainable Sydney 2030 vision document outlines many of the pressures that will impact the City and its community, including:

- The demands for affordable housing within the area
- Challenges for dealing with the effects of climate change
- Reducing our carbon footprint
- Maintaining a globally competitive economy
- Access to efficient public transport solutions
- Providing for a diverse cultural population, and
- Engaging other stakeholders including the State Government to achieve shared goals

The State Government Metropolitan Strategy released in December 2005 anticipates growth in the Sydney region of 1.1 million people between 2001 and 2031. It proposes 640,000 new homes and 500,000 more jobs within the Sydney region in this timeframe.

The recently released Sydney City Draft Subregional Strategy applies to the City of Sydney local government area and Sydney Harbour. It contains targets of an additional 55,000 dwellings and 58,000 jobs by 2031. The City has reviewed this document and is preparing a detailed response to the Department of Planning by 5 September 2008.

Specifically, growth nodes such as the Green Square area, the ex-Carlton United Brewery site at Chippendale, Barrangaroo and the Everleigh site in Redfern will increase residential and worker numbers within the local government area. The City is still determining the impacts of these developments on our existing resources and future revenue estimates.

Other key impacts on all local government spending will be managing the impacts of climate change, either in costs such as increased fuel and energy pricing, costs of becoming carbon neutral, or physically dealing with changes in weather patterns or rising sea levels.

The recent IPART Review of State Taxation, which proposes removal of council's current exemption from State payroll tax and increasing the contribution from councils for the Fire Services levy, will merely serve to increase the ratepayers existing taxation burden by around 12% with no improvement in service value. This combined with recent significant increases in State land valuation fees, environmental waste levies, election costs and the loss of development assessment revenue for the developments in the Redfern Waterloo Authority and other state significant sites (former CUB site) are recent examples of changes in inter-governmental arrangements that affect council's revenue requirements.

21. What are the implications of the different revenue sources and revenue raising capacities for rate pegging or alternative regulatory frameworks which may be proposed?

Councils revenue bases comprise the four revenue sources as noted being rates, user charges and fees, grants and subsidies, and internally generated sources of funds including commercial businesses, interest income and fines.

Given that the value of rates has already been determined (subject to special variations), the actual distribution of a council's total revenue will largely reflect its need for additional funds, the capacity of users within the community to bear higher user charges and fees, and the area's access to grant funding (reflecting its specific needs or particular social / physical disadvantages) and any other available opportunities.

A council requires the capability to develop commercial businesses to support its operations, and these require initial funding, commercial opportunities and council's willingness to accept additional business and financial risks generally within competitive markets.

The subject of fine revenues is one that is regularly discussed in the media, but focussing solely on the gross contribution to a council's revenue is somewhat misleading as this ignores the underlying purpose of law enforcement (traffic management, environmental management, safety issues, etc) and the substantial costs associated with deriving this revenue. In the City's case, costs incurred include funding the operations and administrative support for over 125 Rangers, the costs of processing the infringements and the fact that the residual net benefit is actually split between the City and the State. This means that the net contribution to the City and the State is closer to \$7M than the \$35M often quoted in the press, though many councils retain the net gain.

The City of Sydney is identified as the category with the lowest percentage of total revenue receiving grants and contributions. This highlights the strength of the other sources of revenue apart from rates and grants which is considered typical of a capital city environment. The comparative size of the non-rates revenues is not related to rate pegging but is a factor of the capacity of the city's businesses to contribute rates, the capital city location and the inherent business and investment opportunities available within the City.

22. What scope is there for councils to make greater use of user charges?

The City's pricing policy requires user charges to reflect whether the provision of services is regulatory, discretionary, reflecting a community service obligation, or delivered in a competitive market environment, and of course the capacity of the user to pay. A holistic consideration of these factors determines whether the goods or services are provided at no cost, at full cost recovery, partial cost recovery, or market rates.

The City is cognisant of the implications of charges on direct users, other providers within the market and the revenue impact on council's finances. These factors are weighed when considering increases as part of the annual budget process. The general trend for the past few years has been to adjust by CPI to keep pace with the existing levels of subsidisation, but individual market fees are benchmarked to ensure relativity and maintain competitiveness.

The City is very aware of low income users, and the benefits of maintaining an inclusive community, and therefore ensures that ample discounts are provided for pensioners and community groups where appropriate to ensure access to facilities and services.

It is unlikely that there is a significant capacity to increase user charges within the City without impacting the community.

A number of charges however are set by statutory bodies (e.g. for processing development applications, other planning and building services, animal registrations) to maintain a consistent and equitable pricing framework across the state. Some of these fees inadequately compensate the City for the cost of service provision (e.g. notification procedures) which can provide an unfair subsidy to commercial customers, and perhaps could be subject to periodic independent review by IPART to maintain a minimum level of cost recovery.

23. To what extent has the control of rates revenue under the rate pegging regime limited overall revenue growth or encouraged greater use of non-rate revenue?

Rate pegging has obviously limited rates revenue growth which is generally the predominant source of council's revenue. Where this level of funding has proven insufficient, council's would obviously have had to undertake reviews of their user charges and other revenues to offset the shortfall. However as explained above, there are natural limits to the increased user charges and fees that can be borne by the local residential and business community.

As a result of these constraints, commercial opportunities may now be examined with increased interest which is considered an appropriate and positive outcome that would allow increased benefits to accrue to the local community.

24. To what extent are local governments' expenditure requirements likely to grow in the future?

The City of Sydney given its early routes has some the oldest infrastructure in Australia, and certain assets that have performed adequately to date are now starting to reach their breaking point (e.g. stormwater). The City is currently undertaking significant steps to implement an asset management system that will identify major areas of concern and allow remediation processes to be introduced to address this situation. The reality is that this will identify additional significant costs.

There also increasing standards being applied to asset management which will have increased cost implications for the City. The City is currently considering storm and floodwater mitigation solutions for the Green Square area with a cost tag ranging from \$2M to \$20M. This is just one example of the cost implications that arise for infrastructure that require a careful cost / benefit analysis, particularly in light of the potential impacts from climate change.

On top of these issues, the responses to questions 12, 13 and 20 outline the City's role as a global city and its commitment to the planning, coordination and/or delivery of appropriate infrastructure, facilities and services for the benefit of the nation, state and local community. The substantial large scale developments that are being proposed for the SHFA, RWA and new Barrangaroo areas, and the services required to support these developments, will also have significant additional cost implications for the City.

The extent of expenditure growth required to support these growing activities will depend on the level of funding that is provided by the Federal and State governments, appropriate partnerships that can be forged with those other tiers of government, and the emerging needs of this City as identified by its residents, businesses and other stakeholders through the City's ongoing effective consultation and engagement.

At a local level, it is important to understand that the relevant costs for councils are not those measured by the National or Sydney CPI as these movements reflect the costs of a consumer basket of goods. Council costs are generally driven by demand for services, labour market forces, occupancy, fuel and construction costs. Other capital cities have recognised this and responded by adjusting their rates, user charges and fees by an independently determined council CPI.

25. What are the implications of this expenditure growth for rate pegging or alternative regulatory frameworks proposed by submitters?

The major implication is that councils will constantly have to assess options to seek rate increases above rate pegging limits, increase fees and user charges or decrease the level or breadth of services provided to the local community.

The appetite to seeking rate increases above the rate pegging amount may be influenced by political factors as elected representatives may fear they will be considered poor financial managers and not endorse a request for an increase to avoid public concern on the issue, regardless of any inherent need to do so. This is heightened as the result of requests for additional rate increases are identified within the media and councils with the most frequent requests are placed under additional scrutiny. This concern may be reduced if a council's long term needs and financial models were to be independently reviewed and determined by IPART.

The City believes however that Option 4 (page 64), which allows for an exemption from rate pegging for those councils that can demonstrate financial accountability and governance, financial sustainability, comparative efficiency and effectiveness indicators (including affordability and availability of local services and facilities) with the ability to achieve these criteria over a 10 year timeframe through an approved and independently audited management plan, would allow this council sufficient scope to deliver the appropriate outcomes in an affordable manner.

This option would however need to be underpinned by a model that provided council's, not yet in this position, with a minimal increase to offset rising cost bases.

Key Issue**3. What are the objectives for a regulatory framework for local government revenues?**

The objectives of any regulatory framework should be based around ensuring that councils have, and can continue to access, sufficient financial resources to enable delivery of their local government responsibilities including an appropriate quantity and standard of infrastructure, facilities and services for the local communities they serve.

The regulatory framework also needs to ensure that these funds are sourced equitably across the community, now and in the future, and it is critical that those with a lesser capacity to pay are not excluded from the benefits that council can bring to the whole of the community. This can be controlled through the requirements of the rating (as it is now) and user charges legislation, but the latter could use some better definition on price setting and social safeguards (e.g. pensioner and family discounts where appropriate).

Council's need to develop 10+ year financial plans that address these needs and clearly set out their operational and capital requirements and their projected sources of funds (rates, user charges, grants and contributions) to deliver these outcomes, but they need to be able to access additional funding to achieve their goals.

The annual management planning process, with some refinement, provides a process that enables council to publicly exhibit their goals and financial plans, and if the local community supports these outcomes and funding methodology (including a proposal to increase rates) then council should be able to implement these plans to deliver what the community wants. The City is hopeful that the new Integrated Plan format when released will substantially address any existing shortfall. The City would also like to see a similarly stringent planning and reporting process applied to the other authorities (SHFA, RWA) that operate with the Sydney LGA.

This is not to dismiss the Department of Local Government's governance role to ensure that councils work hard to effectively deliver these outcomes in the most efficient method possible, and thereby ensure ratepayers are not being asked to fund excessive works, infrastructure or inefficient delivery. The issue of ratepayers paying higher or lower rates than their neighbouring councils for a similar level of service, or same rates for a lower level of service, needs to be constantly reviewed to maintain equity across a broader region.

However the key issues right now are that there are many local communities that are not able to access the standard of infrastructure, facilities and services that they require and there are many that would be prepared to contribute a higher annual rates levy than continue to do without.

26. What is an appropriate level for the net liability ratio and what obstacles prevent local government from making greater use of loan borrowings (debt) as a means of financing priority infrastructure renewal/replacement?

It is not possible to determine a level of net liability ratio that is appropriate for all councils. Like all financial performance ratios, there are strengths and weaknesses apparent in all five of the ratios discussed in the Issues Paper (page 39).

The operating surplus / (deficit) ratio suggests that annual deficits within 10% of a council's operating revenue are sustainable. However continual deficit results may well indicate a council that is unable to make hard management decisions that would balance the budgets or they could merely reflect short term plans to achieve a specific goal. It should be recognised however that in the absence of new debt, council's operating surpluses are used to fund its capital upgrade and new works programs.

The rates coverage ratio attempts to measure a council's dependence on ratepayers to fund its operations. However for councils with significant commercial or enforcement activities, this ratio excludes the positive income effects while including the costs of operations, which is distortive.

It is important to recognise that all ratios are merely indicative and that further research on a case by case basis is required to make a value judgement on the financial performance, strength or sustainability of any particular council.

The net liability ratio attempts to indicate a council's capacity, after clearing its liabilities, to take on more debt to accelerate financing of priority infrastructure backlogs. This ratio is a useful indicator of borrowing and payback capacity, but like many ratios it suffers from focussing at a single point in time, relying on the accuracy of the measurement of its assets and liabilities (adjusted to net present value), and the effect if a council has uneven cashflows from year to year.

The broader issue is that the ratio tends to indicate that where a council can theoretically borrow more funds to tackle infrastructure arrears, then that is the best solution. This ignores a fundamental analysis of the cause of the backlog and whether the cost of the new debt may actually restrict the council's future capacity to maintain its asset base to ensure that the backlog is not merely rolled forward.

The major obstacles to councils increasing debt are therefore financial risk avoidance and the previously discussed political risk that can be associated with councils that increase borrowings (i.e. the stigma of inefficiency and or poor financial administration).

The City would support the Department's annual consideration of a range of annual financial ratios, as primary indicators of a council's financial sustainability, but would prefer that the focus be on developing 10 year financial plans that help council's to identify all of the issues and then assess the range of alternative options available to remedy these arrears. The solution may be increased debt levels, but a broad review of "like" councils (by group and type) may actually suggest a need to reconfigure grants and contributions to address common trends.

27. Are there any other significant factors affecting financial performance of local government?

The Issues Paper (page 44) sets out the main concerns for councils including:-

- minimal revenue growth which is constrained by regulation (e.g. rate pegging)
- increasing community expectations
- cost shifting of responsibilities from other tiers of government
- increasing wages and infrastructure construction and maintenance costs
- cost growth outstripping revenue growth
- changes in demographics (e.g. ageing population)
- changes as a result of climate change and greenhouse emissions, and
- limited access to high quality financial and asset management skills

However there are also serious concerns regarding some of the recent State initiatives that if introduced, and the trend continues, that will significantly impact the current financial performance of councils. The City has already lost significant revenues with the State taking over the development assessment of a number of areas within the City's LGA (e.g. Redfern Waterloo Authority) and certain State specific sites (e.g. former Carlton United Breweries site).

There is also the significant increase in State valuation fees, election costs, planning, environmental and parking space levies, while the recent IPART review into State Taxation also considers whether local government should now be liable to payroll tax (around \$7M per annum) and additional fire services levy. It is difficult for councils to be responsible financial managers while the State holds the reins on its income growth, shifts service responsibility to them (CCTV, security, etc) and increases the cost impact of its taxes and monopoly services.

28. To what extent does rate pegging affect financial sustainability?

Rate pegging can be a useful tool for constraining local government expenditure, and for minimising the impost on ratepayers, by ensuring that the vast majority of councils tailor their expenditure to live within available sources of funds. This limits the opportunity for councils to spend to excess, or to move into areas which are not within the charter for local government.

Rate pegging can however affect financial sustainability if a council has insufficient revenues to meet its financial commitments or to satisfy all of its local communities needs, and if the current regulation deters councils from seeking a special variation to fill this gap. This can result in inferior decision making, deteriorating asset bases, or a reduction in essential local service delivery.

The main issue with rate pegging though is the method for determining the approved annual increase, and the uniform application of this increase to all NSW councils when clearly the cost movements in various city, metropolitan and regional areas would differ markedly.

Key Issue

4. How does the current regulatory framework for council revenue, or any alternative framework:

- Promote the effective and efficient provision of services?
- Enhance the financial sustainability of local government?
- Meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency?
- Enhance the accountability of local government?

29. What are the appropriate measures for efficiency of local government?

It would be nearly impossible to develop a set of performance measures that would compare relevant performance and costs equitably across the range of capital, metropolitan and rural councils.

The current performance measures are a good reference point for this discussion in that they represent a mix of measures, which is important given the breadth and diversity of services performed by local government across NSW, but there has been no adequate base line or minimum standards developed for different types of councils that can be used to guide decision makers.

The Department of Local Government (or Australian Government) could improve this process by setting some guidelines – varied to be appropriate for different areas to focus on their disparate communities and needs as necessary – that would at least drive councils to set their management and financial plans to achieve the requisite standards. Using these as a starting framework could assist councils to have a discussion with their ratepayers as to their plans to meet or exceed these standards, and the associated costs and tradeoffs, which would make the management planning process a more informative and hopefully interactive process going forward.

30. To what extent have councils undertaken efficiency reforms and has this been effective?

The City of Sydney undertook significant financial reforms on realising its perilous financial position back in the early 1990's. It introduced a purchaser / provider split into the organisation and outsourced a number of labour intensive function including waste delivery, property management, parks maintenance, aquatic services, etc. These changes were financially effective, but also introduced significant operational challenges as the organisation changed its focus to financial efficiency.

Major reforms since that time have included a boundary transfer in May 2003 (with around 1/3 of South Sydney and 1/4 of Leichhardt transferred into the City) and a forced council merger in February 2004 (the remaining 2/3 of South Sydney).

This amalgamation has created the opportunity for even greater economies of scale, and for the City to enact policy and improve facilities and service delivery outcome across a much greater local government area. However it has also come with major challenges including the need to cater for services that are half in-sourced and half-outsourced. Structural reform continues but a broader rates base has allowed the City to improve standards for a greater number of people. As difficult as the process can be, further reform with greater local community input needs to be investigated in NSW.

Internally, the City continues to search for continuous improvement in service delivery by undertaking business performance reviews, improving its performance measurement and benchmarking systems, and contributing to knowledge exchange programs with a number of other capital cities.

The City is currently investigating the potential to improve key challenges to its community by (e.g. affordable housing for essential workers) in partnership with the State, and this may prove to be an efficient model that can be replicated in other areas of the State.

31. How does rate pegging and other constraints on councils' revenues affect the efficiency of councils' operations?

Rate pegging and other regulations can limit a council's ability to raise sufficient financial resources to fulfil its plans.

A shortfall in revenue can force a council to make sub-optimal decisions that are not in the best short and/or long term interests of its ratepayers and stakeholders. For instance, a decision may be made to outsource delivery of a particular council service as a cost saving measure and this function may need to be tendered to a low cost provider. Unless properly monitored, this decision may result in a lower level of service or a detrimental impact on the council's assets.

It may also result in council upgrading its assets in a sub optimal manner. Budget constraints could see a council upgrade shorter sections of its roads or footpaths than it would elect to do if sufficient funds were available.

32. If variations under Section 508(2) provide for an escalated base for future rate increases under rate pegging, what benefits do councils gain from making application under the alternative Section 508A?

Rate variations approved under s508A are incremental increases, up to 7 increments, that then represent a permanent increase in a council's ordinary rates base. These are not temporary increases for a period of 7 years as indicated within the Issues Paper. This form of variation may be suitable for a project that is expected to grow over a period of time.

However a council may seek a temporary increase under s508(2), and would do so if the variation were sought to fund a particular project not requiring ongoing funding by council. These variations may be more palatable and justifiable for the Minister to approve in the circumstances.

33. What is the frequency and pattern of individual council requests for special variations to the rate cap?

This information is better sourced directly from the Department of Local Government who would already track and analyse these patterns.

It would also be informative to understand by individual council, and council group:

- the percentage requested
- the dollar value equivalent of the request
- if it was successful, or the lower percentage that was approved
- whether the variation was sought as a permanent or temporary increase
- if temporary, for how many years

34. Are rate pegging special variations becoming the norm rather than the exception with local councils and should alternatives to existing rate pegging practices be considered to provide greater certainty for councils and reduce the need for Government approvals?

This first part of this question should again be answered by the Department, who can track trends, although if newspaper reports are accurate it would seem that less than 15 requests are received per annum.

It is assumed that the Minister only approves special variations that are supported by longer term financial modelling which evidence a funding gap that will prevent the delivery of councils' core services. It would seem that this process would essentially remain the same whether it was prepared for the review of the Minister, IPART or some other independent party. However removing the potential for political considerations and streamlining the process could increase the certainty of the outcome and facilitate improved financial and program planning for the coming year.

It is hoped that the new Integrated Planning process, still to be released, will facilitate a consistent set of planning documents that will standardise the information to be assessed and thereby make the process more transparent.

35. Given the role of special variations and the other revenue sources for local government, does rate pegging effectively constrain the level of rates and total revenues for local government?

Financial policies like rate pegging that are designed to apply to a group of bodies as diverse in location, resources, infrastructure and economic situation as NSW local councils, obviously need to provide exclusions or the ability to cater for exceptional circumstances to prevent undesirable outcomes for disadvantaged communities and to ensure financial sustainability.

The Minister's option to approve special variations merely recognises that the initial rates bases may have been insufficient and/or that unique circumstances may eventuate that require a separate temporary or permanent adjustment.

Rates are generally the most significant proportion of a council's revenue base, and given the apparent reluctance of most council's to seek special variations, then the rate pegging policy does successfully constrain council's total potential revenue. This statement is of course subject to the findings of questions 33 and 34 above.

36. Should councils be able to achieve a permanent increase in revenue by applying for a special variation?

Yes. The legislation specifically allows for a permanent variation to a council's rates base and this may be appropriate given the specific needs and financial circumstances of any particular council.

However it is vital that an independent and professional assessment of these circumstances be undertaken to ensure the necessity and quantum of the variation, and that it will provide the necessary future financial sustainability for that council to achieve appropriate service levels for its community going forward.

37. Does rate pegging increase the affordability and/or availability of local government services, especially for poorer regions and sections of the community?

Rate pegging lowers one of the ongoing costs of property ownership but does not control fees and user charges for other services, whether these are set by council or other statutory authorities (e.g. development application fees).

If rate pegging increases are set too low, a council may be forced to increase its percentage of revenue recovery through increased user charges and fees, which merely redistributes the funding burden, often to the poorer sections of the community who may be greater users of council's full cost or subsidised social services.

The alternative is for council to pare back the level of non-essential but subsidised community services that it provides, as it attempts to balance or manage its budget shortfall.

38. In addition to the Pensioner Rebate Scheme, are there any other specific measures that could be introduced to address any social impact issues arising from the regulation of council revenues?

The greater the increase in rates and/or the increase in user charges, the greater the burden for the disadvantaged sections of our communities, whether they be homeowners or renters as landlords are often tempted to pass on the higher costs to renters.

Councils are required by regulation to discount pensioner's rates, for which they are partially reimbursed by the Federal Government, but the City of Sydney's current revenue policies allow a full 100% rebate for pensioner's rate, domestic waste and stormwater charges. This policy costs the City around \$2M per annum.

In addition, the City applies pensioner discounts to many community and recreational facilities (e.g. gym membership, pool entry, etc), and heavily subsidises a number of other services including meals on wheels, community buses, shopping trips, and a host of other activities to alleviate the social impact issues.

39. Which performance measures should be developed for councils (or groups of councils) to provide information on outcomes, outputs, processes, inputs and cost effectiveness in their service delivery.

As discussed above (question 29), it would be nearly impossible to develop a set of performance measures that would compare relevant efficiency and effectiveness performance measures equitably across the range of capital, metropolitan and rural councils. For instance, it would be irrelevant to compare the operational efficiency and cost effectiveness of the City's Ian Thorpe Aquatic Centre's operations against those a rural swimming pool.

The current Local Government comparative performance measures are a good reference point for this discussion in that they represent a mix of measures, which is important given the breadth and diversity of services performed by local government across NSW, but there has been no adequate base line or minimum standards developed for different types of councils that can be used to guide decision makers.

The Department of Local Government (or Australian Government) could improve this process by setting some minimum guidelines – varied to be appropriate for different areas to focus on their disparate communities and needs as necessary – that would at least drive councils to set their management and financial plans to achieve the requisite standards. Using these as a starting framework could assist councils to have a discussion with their ratepayers as to their plans to meet or exceed these standards, and the associated costs and tradeoffs, which would make the management planning process a more informative and hopefully interactive process going forward.

40 If there are negative unintended effects on financial viability, what modifications or alternative mechanisms would reduce these?

The City understands that a council's financial capacity, which would be enhanced if rate capping did not constrain its revenue, is not considered in determining individual financial assistance grants to councils. As such, rate capping would not distort a council's grant entitlement to offset cost or revenue disabilities within that local area.

41. To what extent does rate pegging enhance or diminish the revenue raising by local government when assessed against the above criteria for taxation options by altering the revenue mix or enhancing/diminishing criteria such as efficiency, equity, simplicity, and accountability.

Rate pegging has the potential to alter the revenue mix between rate and user charges if its constraint forced a council to dramatically increase its direct charges to continue to provide facilities and services.

Rates themselves are efficient to collect, equitable to a degree in that they try and allow for the capacity to pay (although unimproved land value is an imperfect measure of this capacity), simplistic in their calculation and can be easily accounted for on an issue and on a historical basis. Furthermore if council have the capacity to set their rates, they can and should be directly accountable by ratepayers for any shortfall in infrastructure, facilities or services.

User charges are administratively inefficient, may be equitable in their application but need to be structured to ensure that disadvantaged sections of the community are not excluded from participation, which can make them complicated in application and difficult to assess exactly how much revenue they will in fact raise.

42. What alternative regulatory models could be used to regulate rates and charges in NSW?

5 MODELS SUGGESTED BY IPART

- 1. Retain existing rate pegging arrangements but publish process to calculate rate cap.**
- 2. Implement a more disaggregated form of rate pegging which incorporate cost indices relevant to each council.**
- 3. Reduce the scope of rate pegging to cover only local government revenue needed to fund operating expenditure which would exclude capital expenditure from rate pegging.**
- 4. Maintain rate pegging power but promote greater freedom by exempting councils from rate pegging subject to mandatory demonstration of financial accountability, sustainability, efficiency & effectiveness indicators, ability to achieve criteria over 10 year time frame.**
- 5. Institute measures to enhance accountability to the local community & remove mandatory rate pegging.**

The City is supportive of the proposed improvements to the current regulatory framework, however remains cautious until it sees more details.

Option 1 would be more informative than the current model, and the improved transparency of process for approving of rate capping and special variations would enable councils to better understand the general assumptions that underlie the Minister's decisions. It would also assist councils to frame an argument to explain why their own circumstances differ from the norm.

It is difficult however to understand how a single uniform increase could address all of the needs of such a diverse group of councils. It would also be more useful if the rate capping increase and assumptions were published late in the first half of the financial year to allow councils to consider the implications and determine whether they require a special variation to deliver outcomes and remain financially sustainable in putting together their annual management plans.

There is also a need to undertake financial modelling of councils existing financial position and needs to consider whether their current rates base is appropriate in the first instance.

Option 2 would be challenging, but more relevant, and of course the City as the capital city sits in a group on its own.

However support for this option hinges on the specific criteria to be considered, and in truth, it is hard to understand how IPART or any other independent entity could realistically assess multiple criteria for multiple groups (let alone individual councils) and arrive at a reasonable assessment of the increase required.

Option 3 is a bit confusing in that it marries the notions of revenue rate capping and capital expenditure. Any excess of operating revenue over operating expenditure should be used to support a council's capital works program. However the concept of the Department providing additional guidance in financial planning, fee pricing, depreciation policies, etc, is supported provided they are developed with input from councils which will need to be able to work within these frameworks.

Option 4 appears to be a sensible option as it recognises that some councils have adequate professional resources to develop long term operational, capital and financial plans to deliver the outcomes sought by their local community. The community would of course need to be consulted and engaged to ensure that these plans adequately reflect their needs and aspirations, and to provide them with the opportunity to consider and agree on the revenue implications proposed to fund the plans.

The City is currently preparing a Strategic, Corporate and long term financial plan to assist in planning and funding the key actions arising out of the Sustainable Sydney 2030 vision recently adopted by Council.

However the concept of tabling these plans in Parliament is interesting and is worthy of further discussion.

Option 5 will be difficult to implement and the notion that vastly different councils can be reasonably compared requires additional thought.

43 How do the various alternatives rate against the criteria listed above ie, financial accountability and governance, financial sustainability, comparative efficiency and effectiveness indicators including affordability and availability of local services and facilities?

The City is of the view that Option 4 will best satisfy these criteria while allowing the freedom to provide a broad range of infrastructure, facilities and services that are demanded by specific local communities.

Key Issues

5 What role should IPART play in setting local government rates and charges, including charges for non-business activities?

6 Should IPART have a determinative role provided by legislation or should IPART's role be limited to making recommendations, if and when requested by the Minister?

44 What role should IPART play in setting local government rates and charges in future years?

IPART could play a number of roles depending upon the regulatory framework that will be applied in the future.

If Options 1 or 2 were pursued, then IPART could play an analytical role and consider a range of pre-determined factors to recommend a rate cap increase (or increases for different groups) for adoption by council. They should then release these recommendations, supported by transparent workings, with sufficient time for councils to consider their own financial positions and determine whether they should adopt the recommended increase or seek ratepayer support for a higher increase when they publish their draft management and financial plans for exhibition and comment.

If Option 4 were adopted, then IPART could play a role by contributing to the development of models that demonstrate financial accountability and governance, financial sustainability, comparative efficiency and effectiveness. They could also contribute to the audit of council's 10 year management and financial plans, but it may be more administratively efficient and effective (from an end to end perspective) to have this task completed by council's existing auditors. They could then broaden their role to financial and performance auditors at the beginning and end of the financial year.

45 How should IPART's role be implemented (for example, by a legislative amendment giving IPART a determinative role or by a terms of reference from the Minister requiring recommendations from IPART)?

It depends on the preferred approach going forward, but any move to abolish or exempt councils from rate pegging would require legislative change.

If IPART were to recommend rate cap increases, then this could be introduced initially via a Ministerial terms of reference on an interim basis pending legislative change. This decision would need to be carefully monitored to determine whether this solution resolved all of the financial sustainability issues currently facing local government.

Key Issue

7 To what extent do government authorities - such as SHFA, SOPA, RWA and the GCCs - provide services that duplicate or overlap with those of local government?

8 What are the implications for local government rates where these authorities provide services normally provided by local government?

9 Should a common regulatory framework be introduced for these authorities?

46 Whether a common legislative or regulatory framework should be introduced to improve consistency in the levying of charges by authorities (such as SHFA, SOPA, RWA and GCC) that provide services akin to those provided by local government?

The difficulty in introducing a common legislative or regulatory framework for State authorities of this nature is that they are formed to deliver specific and often unique outcomes for each particular area, over very different timeframes. Their charter, forward planning and indeed operational focus, is therefore framed to deliver the State's desired outcomes in these areas.

This is an important consideration because there are significant differences between the underlying purposes of the Sydney Harbour Foreshores Authority (SHFA) and the Redfern Waterloo Authority (RWA), the two areas that particularly concern the City.

SHFA proclaims that its focus is on restoring, managing and promoting heritage buildings and areas, running events, community and education programs, and carrying out capital works and major projects. It is also one of the biggest landholders in Sydney, owning just over 400 hectares, and manages a number of other properties on behalf of other NSW Government agencies. While there is some reference to improving the community and the area, this is of a minor scale compared to local government, as the predominant focus is that of a property or place manager.

SHFA utilises funds from its property management services to provide certain services to its local community, but these are selective services, and often provided in much the same fashion as private landlords do for tenants of their business parks (e.g. park and street maintenance). In fact SHFA has already transferred and is in the process of transferring further ownership of roads and parks (and therefore future maintenance costs) from within its "local area" to the City to minimise its operational costs. It does not provide community development or social services and programs as this is not its focus. Even its promotional activities could be described as business marketing and give it the ability charge higher rents to recoup this promotion.

The Redfern Waterloo Authority has responsibility for revitalising the Redfern-Waterloo area through urban renewal. The Redfern-Waterloo Authority Act 2004, governing its principle functions, takes into consideration social, economic, ecological and other sustainable development, public areas, Aboriginal community needs, social cohesion and community safety. This broader local focus is more aligned to local government, but presumably over a shorter time span while the available properties are developed.

With the exclusion of certain local planning assessments, the RWA does not provide any of the traditional local government services (e.g. waste, cleansing, infrastructure asset maintenance, libraries, community centres, recreation centres, aged care services, etc) and therefore should not seek recurrent revenue to compensate for these costs. In addition, the RWA have received additional funding for assessing the development plans of sites like the former CUB site, which is not even within its area, and which should rightfully have remained with the City.

It is therefore difficult to see why a legislative or regulatory framework should be introduced to facilitate levying of additional charges by these authorities.

47 The best form for this legislative or regulatory framework to take?

The City provides local government services to the resident and business communities of these two areas, and relies on ratepayer's revenue and its other internal sources of funds to provide this infrastructure, facilities and services. There is no discussion in the Issues Paper regarding either area's intention to provide full and complete local government services, so it is difficult to understand the logic of the argument.

The City would argue that supporting the ongoing existence of these anomalous areas, and in fact encouraging the growth of additional areas to cater for individual planning concerns, represents a backwards step in the effective and efficient supply, co-ordination and delivery of local government planning, infrastructure, facilities and services to these areas.

The City's view is that neither a legislative or regulatory framework should be introduced for either of these areas.

48 To the extent that these authorities provide services that overlap with or duplicate those of local government, what benefits and disadvantages arise from the duplication of service provision?

SHFA do provide some localised services that potentially overlap the City in nature (e.g. road, footpath and park maintenance) and they do reimburse the City for street cleaning services provided in their area. Where these services, or indeed planning assessments overlap, there is little benefit as it precludes co-ordinated and cohesive solutions that can reap the benefit of economies of scale.

However SHFA have moved to transfer a number of road and park assets to the City for the past few years to enable it to take this broader view and to ensure that consistent and comprehensive asset management plans can be put into place to deliver quality assets to that community. The transfer of these assets and ongoing responsibility for their maintenance reduces the relative importance of this issue.

There is very little overlap between the City and RWA other than in the development of planning controls and assessment of individual development plans. This is a localised solution which the State believes gives it effective control for a specific purpose, however the City considers this solution to be an anomaly within the middle of its local government area and denies us the ability to assess development plans in light of the impact to and needs of the broader area.

The City is even more disturbed by the State's decision to call in the development application for the former CUB site, and pass the fees for this assessment on to the RWA. The City remains heavily involved in negotiations for this key redevelopment site within the City, which is appropriate, given its long term implications for the Sydney local government area.

49 To the extent that these authorities provide local government services how should the costs of these services be recovered?

SHFA's costs are already recovered through the commercial rentals they achieve for place managing the areas under their control.

The level and quality of services provided by SHFA are a mere subset of those provided by the City for the entire local government area. The services provided are more those provided by a private landlord for common areas, and are those that contribute to the commercial value of these areas. Services such as community development and social services or programs, which do not contribute to the commercial value are not supported by SHFA.

RWA are already compensated for the activities they undertake in this area.

50 Similarities and significant differences (in quantum, scope or standard of service) between SHFA, SOPA, RWA and neighbouring councils in regards to:

- **current regulatory frameworks including governance arrangements, accountability to the local community and the role of the State Government in setting fees and charges and determining revenue levels and/or mix**

The City believes that local government management plans (including the financial plans and proposed rates and fee setting) and the efforts undertaken to ensure they inform, engage and consult with the local community and other stakeholders offer the best opportunity to ensure delivery of appropriate infrastructure, facilities and services. Ongoing reporting of progress at achieving planned outcomes provides the public with the opportunity to question the efforts and success of the Council.

At the City's community meetings, a number of people have commented that they would like these State authorities to be as transparent as the council, and undertake the same degree of engagement and consultation in preparing their annual management plans and when reporting back as to how they have committed their funds and what they have achieved against their plans during the year.

Most of the other issues in this question, including significant differences in service levels, have been previously addressed above.

51 The potential overlap between the Growth Centres Commission's development approval and infrastructure planning processes and those used by Growth Centres Councils.

The City has no comment on this particular issue.

52 The extent to which SHFA, SOPA, RWA and the GCC, respectively, impact upon the costs incurred and revenues generated by the corresponding councils.

SHFA and RWA commercial activities and patronage by visitors, have a minor impact on adjoining council areas in the form of additional traffic and waste. The surrounding councils provide the social and recreational services and infrastructure for residents and workers within the SHFA precincts. Examples include the Ian Thorpe Aquatic Centre, KGV Recreation Centre, Waterloo and Customs House libraries.

However the substantial large scale developments that are being proposed for the SHFA, RWA and new Barrangaroo areas, and the services required to support these developments, will also have significant additional cost implications for the City.

It is hoped that these additional costs will be fully defrayed by the additional rate revenue that the newly developed properties will generate.