

IPaRT is to investigate and make recommendations on three matters.

ITEM 1: AN APPROPRIATE INTER-GOVERNMENTAL AND REGULATORY FRAMEWORK FOR SETTING RATES AND CHARGES THAT FACILITATE THE EFFECTIVE AND EFFICIENT PROVISION OF LOCAL GOVERNMENT SERVICES

Local government is already over regulated by existing legislative requirements particularly in New South Wales. This degree of regulation has its foundations rooted in a history of control exercised by the State on local government.

Whilst the 1919 Local Government Act served its purpose of providing the framework for local government functions and activities the Act was constraining the legitimate function of modern local government system including but not limited by Rate Pegging Legislation enacted in 1977 to counter increased rates stemming from a centralised system of land valuation.

The 1993 Local Government Act heralded change. It included a "Charter" at Section 8 acknowledging the role of the community and a Council's accountability to that community. The new Act did however continue the overregulation of the past and in particular "Rate Pegging".

Prior to 1977 rate pegging legislation Councils by majority acted professionally. They acted professionally because the accountability for the decisions they took rested with them. If the community did not like the financing decisions of the elected Council the community acted at the ballot box.

Under the provisions of rate pegging the government take a large part of the local accountability away. Where Councils seek to demonstrate a case for increased rates beyond the approved limit these applications often become subjected to political scrutiny at a State level through the review process including the Local State member.

The initial question for IPaRT to consider is there a fundamental need for IPaRT to recommend a role for itself in setting of local government rating and charging regimes.

If the answer is in the affirmative then IPaRT should adopt a transparent approach to a methodology that includes cost indexes relevant to local government.

IPaRT SUBMISSION

This should include a review of the IPaRT Act to remove any concurrence or approval provisions of a Minister of the State who reserves the right, under the present Act to approve or return IPaRT recommendations.

If the answer is in the negative, and it should be, the role of IPaRT is ended.

At no point in any considerations of the matters referred to IPaRT should there be any consideration of reviewing or subjecting charges by any local authority to a regulatory framework.

Charges are a local matter and best reflect the conditions of the local area and its ability to pay. Foremost of these types of charges are the use of sportsgrounds and public facilities such as pools where the traditional cost of use is subsidised by a Councils general revenue pool.

The broader question that has been examined by a number of recent authorities and research institutes is the provision of effective and efficient local services. All reports have concluded that for local government to be effective it needs a revenue stream guaranteed to meet the services being provided in a deregulated environment. Council sees no reason to include details of these reports in its submission to IPaRT as they have already been referenced in the IPaRT discussion paper.

The introduction of the GST and productivity payments to the State has meant major financial gain to the States yet none of this additional income has provided any beneficial impact on the revenue stream to local government from the State even though with productivity payments some of the performance payments by the Federal Government to the State depend on the work of local authorities.

If a fiscal revenue sharing arrangement were to be agreed between the Federal, State and Local authorities addressing the historic fiscal imbalances between the tiers of government the need for ongoing reviews, including the current IPaRT review, could be ceased.

An example of the effectiveness and efficiency of local government is the requirement to produce management plans. Many councils prepared management plans prior to the requirements of the 1993 Act acknowledging the need to explain service and revenue levels to the local community.

The first State Plan was released in 2006. Many of its outcomes are dependent on local government actions or inputs which are unfunded by the State and were included as targets without any consultation with local government.

ITEM 2: A ROLE FOR IPaRT IN SETTING RATES AND CHARGES IN FUTURE YEARS.

As discussed about Council is of the view there is no role for IPaRT in setting future rates and there should never be a role in setting of charges.

Councils should be accountable to their local communities for the level of rates and charges they adopt and for the efficient and effective expenditure of those funds.

IPaRT nor any other authority can not adequately identify and assess the impact of unfunded cost shifting to local government.

ITEM 3: A FRAMEWORK FOR SETTING CHARGES LEVIED BY CERTAIN PUBLIC AUTHORITIES.

Sydney Olympic Park Authority is located within the Municipality of Auburn. Council sought the advice of Daly Research Systems Pty Ltd (DRS) to review the revenue framework of that Authority and Council.

The paper from DRS is attached and forms part of Auburn Council's submission to IPaRT. The paper effectively demonstrates the present and past impact of the establishment of SOP within the Auburn Municipality.

DRS

DALY RESEARCH SYSTEMS PTY LTD

IPART Revenue Framework for Local Government:

Sydney Olympic Park Issues

EXECUTIVE SUMMARY

- IPART is to investigate a framework for setting the charges levied by SOPA to enable it to recover costs for the provision of services that are normally provided by local government.
- The IPART Issues Paper (8.2, p.68-69) provides extracts from the Sydney Olympic Park Authority Act 2001 (SOPA Act) and then, in four short paragraphs, effectively heralds a transfer of rates from properties in SOP from Auburn Council to SOPA. There is no real analysis of why this should take place. This submission demonstrates that from a number of perspectives such a move is counterproductive for SOPA, and against natural justice for Auburn Council. The proposal is a travesty in the sense that SOPA does not, and cannot, effectively provide comprehensive municipal services, and that it is against the economic interests of SOPA to attempt to do so.
- The way in which the matter is framed, in the outline of matters to be reviewed by IPART as announced by Premier Iemma in May 2008, indicates that the transfer will happen, and IPART's role is to determine how it will take place. The SOPA transfer is to be just one of four public authorities (each with different roles and histories) that will take place. It is clear, through a number of references in the Issues Paper, that the principal beneficiary of the changes will be the NSW Department of Planning (DoP). The IPART review is publicised as assisting the Department of Local Government (DLG), but the outcomes would be detrimental to a local government system facing severe financial challenges. The transfers will only aggravate the already difficult challenge facing DLG: the management of a system in which the financial situation deteriorates day-by-day. Local government is a creation of the State Government, and the ultimate responsibility for degeneration of the financial sustainability of the system has to be borne by the State, as well as the ultimate responsibility for addressing the system's problems. Instead, in this instance, one arm of the State system is involved in a grab for cash that will inevitably seriously weaken Auburn Council's already difficult financial condition.

- The State Government in the decade leading up to the Sydney Olympics recognised and understood the losses in rates suffered by Auburn Council. Rather than offer support or compensation, the Government determined that Auburn could suffer an initial loss (between 1993 and 2007) but would be amply recompensed in the longer terms by the increase in rates that would flow to the council as new development took place in post-Olympic days. The DoP proposals break this promise, and leaves Auburn Council in a parlous financial condition as a result. DoP's proposal has the effect of creating a "gated community" within SOP, isolating it from the Auburn social and economic cultures.
- The submission is structured in four sections:

Section 1: The SOPA Act and its implications for Auburn Council

Section 2: Rate Issues

Section 3: Capability of SOPA to Administer Council Functions

Section 4: Impacts on Auburn

- Section 1: The Issues Paper relies on the SOPA Act to justify SOPA's role as a separate community in terms of the provision of municipal services. In fact, SOPA receives recognition under the Local Government Act (the Act) in relation to just four Sections out of the 749 Sections of the Act. S.24, which is the only one of these four Sections relevant to SOPA's claimed council role, does not specify what functions SOPA can assume. Local government has expanded in the past two decades to take on a greatly enlarged set of functional roles. SOPA does not, and never will, engage in the complex sets of functions now managed by councils. Much of the functional expansion of councils has been driven by the imposition of added responsibilities by State Agencies. In a few instances council roles have been diminished by interventions by State Agencies (DoP being a major force in this). SOPA's core functions, as proclaimed in the Master Plan 2030, and in the Metropolitan Strategy, are: (a) the provision and management of sports facilities and education, major events, and the provision of parklands for the metropolitan population, and (b) the development of buildings to accommodate commercial and residential facilities. SOP is seen as a "special centre" by the Metropolitan Strategy with national and international relationships, as well as metropolitan functions. There are other "special places" in parts of Sydney, which have roles connected to the global economy. None of these is disconnected from being part of the council systems in which they are located. SOP, being owned by the government, can force councils to forego rate revenue. Private sector "special" centres have no such powers, and do not need them. Councils provide vital services for such centres and the time-proven rate payments allow councils to put the services in place.

- Section 2: In the early years of the 1990s the State Government began the process of developing the Homebush Bay site for the Olympic Games. This resulted, in the space of two years, in Auburn Council suffering a net loss of \$661,767 in rates. This income was forfeited by land then exempted from rates plus, in one case, the transfer of the former Ford Car plant to Strathfield Council. The rates loss suffered by Auburn Council amounted to \$18.242 million for the period 1993 to 2008/09, and will approach \$20 million in 2010. In 1996 the Olympic Coordinating Authority sought estimates of what the net rate losses to Auburn Council might be from 1993 to 2010. This report underestimated the losses, and overestimated the gains that would be made by additional rates to Auburn Council through post-Olympic developments at SOP. The overestimation of money was \$6.889 million. At the same time as Auburn Council was losing revenue because of the development of SOP, it was expending significant sums of money on roads and other infrastructure associated with SOP prior to and beyond the Olympic Games. The Government decided that no compensation needed to be made to the Auburn Council because, in the longer term, deficits would be made up by its receipt of rate revenue through the development of SOP. The Chairs of the OCA and the OCA Social Impacts Advisory Committee respectively argued in favour of providing support for the Council, but none was forthcoming. Other suggestions that were made included the provision of cheap loans from the NSW Treasury Corporation and/or assistance from DLG through special rate variations. Neither was implemented. There was also a misplaced expectation that property values would rise in Auburn to the point where council revenues would expand. The implicit faith and promise by the Government that long-term rate revenue would amply compensate Auburn Council is now threatened by DoP's move to seize the rate revenue.
- Section 3: The argument put forward by DoP, and apparently accepted by the IPART Issues Paper, is specious. SOPA does not provide SOP with the functional services of a council. An analysis of the small SOPA workforce (109 people, 2008) shows that it is focussed on a range of activities that serve its core functions (sports provision and education, major events, parklands management, and property development). The organisational structure of SOPA is such that the very limited number of areas of responsibility that might be taken to correspond to council functions, have insufficient people in them to effectively perform such functions. On top of this, the same staff is also engaged in activities that could never be interpreted as council functions. The financial state of SOPA is precarious. It relies heavily on State Government subsidies (totalling \$197 million from 2003-2007) but still runs at a substantial loss each year. The cost of engaging staff and purchasing equipment to develop the functional base needed to provide council services would be prohibitive for an organization faced with such financial limitations. Auburn Council already provides a range of services to SOP, and has the experience, skills and machinery to provide SOP with the full range of council services. Rate revenue would cover the cost to Council of such services, and therefore would enable SOPA to receive all the services at no cost to itself.
- Section 4: The local government area of Auburn is one of the most disadvantaged in Sydney. Its SEIFA Index is the second lowest of the 43 councils in the metropolitan area. From 2001-2006 it had the fastest growing population in the west of Sydney, adding to a complex ethnic and social structure with large numbers of refugees. The current three year council Management Plan shows Auburn as having a \$45.2 million backlog in infrastructure and capital works, and a yearly deficit of \$5.5 million on renewal of infrastructure. Auburn is now faced with

an accelerating force which will multiply its deficits problems. The Metropolitan Strategy has assigned Auburn the challenge of producing an extra 500 dwellings per year (through to 2031), when in the five inter-census years, 2001-2006, it produced 761 dwellings in total (in a period when Auburn had the fastest population growth rate in the western region). Auburn Council has adopted a Strategy 2030 plan comprising seven key directions that will advance the scope and quality of its services and will improve the community's wellbeing. In the current management plan six of these directions have budget deficits. Auburn is an area that needs all the assistance that the State Government can give it. Instead, it is reneging on its stance that Auburn Council would be compensated by its lost revenue during the creation of SOP with expanded rate revenue from SOP in future years. The charade of DOP's claim that SOPA acts as a functioning council on the site of SOP is wrong in fact, and the outcomes of the DOP grab for cash are deleterious to Auburn Council and its community, and wrong in principle. The State Government should be rightfully condemned for dismissing the long-held promise to compensate Auburn Council for its losses. The Government's chosen path was reliance on the rate revenue to Auburn Council as the post-Olympic development of SOP took place. The outcome will add even greater hardship to one of Sydney's vulnerable communities.

SECTION 1

The SOPA Act

1.1 Review of IPART Issues Paper

- ❖ There are a number of points in the Issues Paper that have implications for the redirection of rates; currently paid by lessees to Auburn Council, to SOPA. The IPART argument is built around the assertion that SOPA provides its own council functions, and therefore is due to receive rate revenue from properties within SOP. There are a number of points in relation to the SOPA Act, within the IPART argument, that need to be noted in relation to this review:
 - SOPA *may* exercise the functions of a council (Issues Paper 8.2.1). The wording in the SOPA Act is that SOPA “has or may exercise to any necessary extent the function of a council” (19 (1)). The clear intention of the Act is not to supplant the council, but to give SOPA the ability to provide some functions of council if, and when, they might be needed, and where it makes both practical and economic sense.
 - Where development is carried out by SOPA, it may exercise the functions of a council in relation to approvals for plans of subdivisions (Issues Paper 8.2.1).
 - SOPA is responsible for the delivery of municipal services within the parklands that are usually covered by local government
 - Auburn Council will provide waste management for SOP; SOPA will continue to fund its other local government related services
 - SOPA relies on commercial activities to cross-subsidise costs of municipal services
 - There are similarities between the situation of SHFA and SOPA
 - 5 key functions are described for SOPA; only one of these is not wholly a State Government function (8.1.1 Issues Paper)
 - SOPA can engage rangers (currently there are 4 people engaged as rangers)

1.2 Assessing the Relevance of the SOPA Act in Relation to Rating Issues

- ❖ Part 4 Division 1 Principal Functions (of the SOPA Act) states that SOPA may exercise to any necessary extent the functions of a council; it is not in any way obligatory for SOPA to assume such functions. The Local Government role provided by the SOPA Act is limited to just 4 sections of the Local Government Act 1993 (the Act): S.24, S.25, S.26, S.47. Section 24 is concerned with the provision of goods, services and facilities and carrying out of activities. The Act states that a council may provide goods, services and facilities, and carry out activities, appropriate to the current and future within its local community, and of the wider public. S.24, therefore, provides no specific functions that define what local government does. Naturally, it does not define any functions that SOPA might perform in adopting the role of a council. As the Productivity Commission report, *Assessing Local Government Revenue*, (April 2008) states in several parts that there is no clear definition of the roles of Local Government, that its functional spread has enlarged greatly since the 1993 Act was proclaimed, and that the relationship between the roles of councils and State Agencies has become blurred.
- ❖ Effectively, S.24 does not provide SOPA with any particular powers or functions. The evidence (Section 3 of this submission) suggests that SOPA provides almost none of the services generally expected of councils. It cannot be countenanced that SOPA is in any meaningful way a substitute for the services provided by municipal councils. It is misleading in the extreme to suggest that SOPA could claim to receive all rates from SOP on the grounds that it provides municipal services or expends sufficient sums to justify such a diversion of funds.
- ❖ S.25 and S.26 simply state that public land must be classified as either operational or community. S.47 is concerned with leases, licences and other estates in respect of community lands and a range of related issues. There is no real clarity or significance about the four sections of the 1993 Act that can provide SOPA with distinctive powers.
- ❖ Part 3 (Vesting of Lands) of the SOPA Act vests certain roads to Auburn council. Through the history of the development of SOP, and today, Auburn Council has expended significant quantities of money into roads within, or servicing, SOP.
- ❖ The IPART Issues Paper exaggerates the significance of the consent authority role given to SOPA. It pertains only to DAs with a value less than \$5 million.
- ❖ SOPA Act: Functions Generally, Part 4 Division 1 13
The functions spelt out in this Part as primary functions for SOPA, are relevant to SOPA's State and metropolitan Sydney significant roles, and do not apply to Local Government. SOPA's primary functions relate to activities concerned with Sydney metropolitan area, and their significance relates SOP to both national and international roles in specialist fields.

- ❖ Master Plan 2030: Section 1.3 (SOPA Act) states that the key objectives of the Master Plan are to develop an active and vibrant town within the metropolitan area, to make SOP a premier destination for people within and beyond Sydney, creating a public domain, managing the parklands, and looking after the details of planning and design. The Master Plan does not incorporate the notion of SOP as a council. That notion is largely irrelevant to SOP's role.
- ❖ SOPA has created an Infrastructure Contributions Framework (Part 1.10 of the Master Plan) which effectively gives SOPA similar powers to Section 94 contributions afforded councils. Through this, SOPA has already significantly reduced Auburn Council's income.
- ❖ The Master Plan is set around 9 precincts within SOP (not inclusive of the major parklands). Three of the precincts are event areas; three are park areas; and three have mixed residential and commercial areas. The goal is to have 28,500 workers on site by 2030, a large rise on the 16,000 employment base that had been nominated in 2006-2007. As well, 14,000 residents are to be housed in 6,000 dwellings. The Master Plan effectively gives SOPA the role of a developer. This role is significant to SOPA, but it is on a scale rather smaller than other major developments that will take place in metropolitan Sydney over the next two decades. The importance of developing the three nominated precincts is broadly based on economic necessity. Despite substantial financial subsidies from the State Government, SOPA registers substantial budget deficits. SOPA has a prime role as a developer. It must face conflicts of interest if it attempted to act as a council in terms of regulatory and compliance matters, as well as the overseeing and enforcing of plans and development control matters. Whereas councillors are voted into their positions by their communities, the Board of SOPA is put in place by the State. There is no real accountability to the community (either commercial or residential elements of the community), and no established ways of seeking or responding to community wishes and needs. By their very nature councils are designed to act for the public good and exercise neutral decision-making in relation to planning, assessment and approvals actions and policies.
- ❖ There is some confusion in the targets set by the draft Subregional West Central Strategy that affect both Auburn Council and SOPA. Auburn has been assigned an employment target of 12,000, a proportional increase of 27.7%, the highest for any Local Government area in the West Central Subregion. This is to be achieved although Auburn has only 14.7% of the employment lands within the West Central Subregion. SOP, according to its Master Plan, will have a workforce of 28,500 (curiously, a jump of 12,500 above its target of just one year ago), whereas the Central West strategy has targeted 19,900 jobs by 2031. SOPA also makes much of its sport education precinct, which the Central West Strategy describes as part of Knowledge Assets and Key Industries. The Strategy, in nominating SOP as a Strategic Centre, describes SOP as having "magnetic infrastructure" which is based on international sporting facilities, major events, business, and tourism. Clearly, SOP's role is designed to be special, and distinctive amongst the other elements of the Metropolitan Strategy. Equally clearly, these roles dominate SOPA's functions and SOPA's prime responsibility is to exploit these special roles. None of this has anything much to do with Local Government.

SECTION 2

Rate Issues

2.1 Auburn Council's Losses

- ❖ Sydney was chosen in 1992 as the winner of the right to hold the 2000 Olympics. The Homebush Bay site was to accommodate the major activities of the Olympics. In anticipation of Sydney winning the Olympic Games and in reactions when it was actually won, various actions were taken that have had major and long-term impacts on Auburn Council's revenue base.
- ❖ The first impact came from the State authorities organising the transfer of the former Ford factory site from Auburn to Strathfield Council in 1991. This led to an immediate loss of \$160,000 in rates to Auburn Council. The Government (then a Coalition government) awarded the Council \$240,000 in compensation. This one-off payment was paltry in comparison to the total losses that Auburn Council had to face since the compensation could not make up for the years ahead when the \$160,000 (and more) loss effectively repeated itself year-by-year. In the period 1992 to 2008 Auburn Council has lost at least \$2.244 million (including the compensation) as a result of the loss of the Ford factory.
- ❖ In 1993 the then Government proclaimed the old Abattoir site as non-rateable land that was to be incorporated into the Olympic site. Auburn Council had had budgeted for \$741,767 in rates from the Abattoir site in the year that the land was declared non-rateable. In the same year (1993) Auburn council faced a deficit of \$782,020, the bulk of which would have been covered by the rates from the Abattoir site. In the face of such a large deficit, the Council was forced to reduce expenditure immediately by \$518,693. In 1992 rate revenue to Council from the OCA site was \$882, 509.66.
- ❖ In 1993 the rate revenue from the OCA site was \$187,759.73: a drop of 78.7%. By 1996, according to a report commissioned by the OCA, rate income was only \$84,514 (in 1993 dollar terms). Auburn then received no compensation from the OCA for the huge drop in rate income from the OCA site, and was to receive no compensation any time in the future.

- ❖ The scale of the rates loss from the Ford and Abattoir sites from 1993 to 2008-2009 is \$18,242,000, inclusive of rate-pegging increases and subtracting the compensation amount for the Ford site.

2.2 Examination of the Rates Loss over Time

- ❖ In 1996 OCA engaged Ferriers Chartered Accountants to undertake a rates study to assess the net change in rates income which Auburn Council could reasonably expect to occur over the period 1993 to 2010. The Government (which was by then in the hands of the ALP) had indicated that it would not pay Auburn Council an ex-gratia payment. It argued that it would be contrary to legislation and would create a bad precedent. The Ferriers report was constricted to just one site (the former Homebush Abattoir Corporation site). Clearly, this report was to assist OCA in deciding if any compensation should be made to the Council.
- ❖ The report set about examining the reduced rate income of Council alongside expected eventual rate increases as the OCA site was developed over time. Ferriers calculations in relation to Council losses were faulty: the rate figure for the starting date was wrong, and there was no attempt made to include rate increases over time for the abattoir site. Ferriers' estimation of Council losses from 1993 to 2010 was \$12,888,774. If the correct calculations had been made the rates loss from the abattoir site would be \$16.448 million. When the losses from the Ford site are added the overall loss comes to \$19.788 million (1993-2010).
- ❖ Ferriers estimated rates income going to Auburn Council from the OCA site, as new developments were made, through to 2010. The Ferriers Report suggested that the Council could reasonably expect to receive gross incremental rates of approximately \$16.5 million. The report foresaw very small rate income from the OCA site from 1993 to 1999, then a jump of 405% in 2000, and a steady rise through to 2010 with a gain of 59.7% over the present decade. The yearly loss to Council of the rates from the abattoir site was expected to be wiped out by 2007. But, Ferriers' estimations were wrong. In 2008 Auburn Council receives \$696,347 in rates from the SOP area, whereas Ferriers estimate for 2008 was \$1.628 million, 134% greater than the actuality.
- ❖ On the basis of the report's miscalculations the Government concluded that the Council would, in the long run, be better off as a consequence of State Government initiatives at Homebush Bay. The Council could be expected to wear the problems caused by its rate losses over 14 years to obtain an eventual net gain. On this basis the State decided that it would not give the Council any support. Minister Michael Knight wrote (about the time of the report's submission to the OCA) that the government's view was that Auburn was gaining world class sporting and recreation facilities in excess of loss of rates, and this was meant to be a sop in exchange for running persistent losses over a decade and a half. High

standard sports facilities of many kinds have been established at SOP. Its clientele comes from a large catchment, but relatively few from Auburn. The area between Auburn CBD and Lidcombe CBD has a large array of sporting facilities of its own. As well, the ethnic make-up of Auburn's population, its cultural background, and its income challenges make it unlikely to utilise SOP's to a level that other areas do.

2.3 Recognition of Auburn's need for assistance

- ❖ David Richmond, Director General of OCA, (27 May 1997) recognised the impacts that the Olympic site was, and would in the future, have on Auburn Council. He wanted to introduce processes to assist Auburn Council, aiming to develop strategies for managing future impacts of development of the OCA site on Council's long-term interests and revenue base. None of this happened.
- ❖ Ferriers report suggested that the Council could make up for its rate losses either by getting the Minister for Local Government to assist with a rate variation (declined) or for the NSW TCorp to provide the Council with a low interest loan (declined). Ferriers also suggested that Council rates would increase because of the expected rise in land prices in the area surrounding the OCA site. Ferriers did not understand the impact of rate pegging in relation to any property value increases. The Productivity Commission report (p. xxxiii) more broadly argues that with or without rate pegging councils in Australia face impediments to raising rates. The expectation of higher valued properties in Auburn has not happened in the way that Ferriers anticipated. In 1997 Auburn's median house price was 64% of Sydney metropolitan area's median price (home units 54%); by 2007 the housing proportion had risen to 70% (home units to 68%): relatively Auburn has remained a low value district.
- ❖ Effectively the Council was left high and dry. There was, however, an implicit promise that the rate revenue from the site would be guaranteed for the Council, and therefore would balance out the very hefty losses suffered by the Council. The IPART review shows that this promise can be broken. The OCA had given favourable agreement to joining with Auburn Council in a process of Co-operative management and resource sharing (7/10/1998). The DoP design is to break off any suggestion of this.
- ❖ There have been a range of negative effects of the loss of rate revenue for Auburn. The council spent significant expenditure on roadworks that benefitted the OCA/SOPA site, such as \$18 million on major work on Hill Road. The Council has continued to maintain such roads, with the 2008 ongoing rolling works program for Hill Road being \$1.68 million. The loss of income has also had a significant effect on social structures in Auburn, and the capacity of the Council to provide services and facilities for its communities (see Section 4). The Chair of the OCA Social Impacts Advisory Committee (Harry Herbert) argued

IPaRT SUBMISSION

(20/10/1999) for participation of Auburn Council in future management and provision of services to the Olympic precinct, and that Auburn should be treated as a special case.

- ❖ The loss of rate revenue from the early 1990s affected both economic and social aspects of the Council's functions. The State was happy to ignore the income losses, based on the expectation of future rate increases, albeit many years ahead. Those expectations have not been fulfilled. The social impacts have not been recognised.

SECTION 3

Capability of SOPA to Administer Council Functions

3.1 The Financial Problems

- ❖ SOPA is an organisation that faces serious financial challenges. It is probably this situation that has prompted the move for SOPA to receive the rate payments that currently go to Auburn Council. It has little or nothing to do with SOPA's role as a council within SOP, because it has no such role. The SOPA Act may have given SOPA the legal right to assume a limited council role, but that is a far step from actually acting out the role.
- ❖ The Annual Report of SOPA for 2006-2007 (the latest such report) shows that the organisation is acutely dependent on financial contributions from the State Government, and fails to reach half of its operating cash expenses through revenue derived from its operations. In the period 2003 to 2007 SOPA received \$197 million in contributions from the State Government. Despite this massive inflow of funds, SOPA runs at a loss; in 2006-2007 this was \$21.0 million, and has wavered between \$20 million and \$30 million in annual losses over the past five years.
- ❖ In 2006-2007 SOPA's cash flow statement from operating activities was \$78.058 million, but total receipts only reached \$47.8 million. At the same time SOPA raised \$20.01 million from land sales, that amount was then paid to NSW Treasury. The interest of the State in shifting the rates from leased properties within SOP away from the Council to SOPA cannot be considered as anything but a grab for money to help prop up the fragile financial base of SOPA, and marginally reduce the flow of financial contributions from the State.

3.2 State Government Rate Exemptions

- ❖ The Productivity Commission 2008 report points out that rate exemptions provided by councils to other spheres of government are extensive (p. 105). Dollery, Crase and Johnston (2006, P.33) pointed out in the same report "that State Governments are exempt from rates, even for some commercial activities...further limits the revenue-raising powers of local government, and sees local communities subsidise the activities of State Governments".

- ❖ The Productivity Commission in the same report (p.108) states that there is a paucity of data available to assess the net effect of rate exemptions on councils' revenue bases. There are some reciprocal tax benefits between the levels of government, but the outcomes for councils have never been effectively examined. The Productivity Commission's report has suggested that mandated exemptions and concessions cost NSW councils well over \$100 million a year. This is certainly an underestimation (the report states that there is a paucity of data). In rural NSW it is not uncommon for councils to have up to 50%, and beyond, of their land area to be taken up with government land that is exempted from local rates. This includes commercial activities of the State Government. In cities and regional centres it is common for State Offices to take up prime locations in CBD areas, and not pay rates. There is no consideration on the part of State Government to address the rate exemption issues in general, or their commercial operations in particular. Instead, there is continuous pressure on councils because of the threat of one-sided withdrawal of tax benefits (the current pressure to remove payroll tax exemptions from councils is a good example).
- ❖ In the context of the State Government applying its rate exemption rights, Auburn Council has suffered extreme revenue losses. The rate exemptions applied to OCA lands/SOP since the early 1990s, without the council receiving any compensation, and have left Auburn Council with a huge financial loss that is now threatened to be even greater with the rates transfers. The Council was left with the promise of a rebalancing of their losses through increased rate income from SOP as it develops over the next decades. Council is now faced with the prospect of not only losing almost \$20 million in rate revenue between 1993 and 2010, but also losing compensatory balancing rate flows in the future.
- ❖ For a fairly impoverished community such as Auburn's is, there are no easy ways for the council to boost their income to replace the lost revenue that will follow the rate transfers. There is a point of view by some in State Government (and in IPART) that councils ought to be able to replace any rate revenue loss by increasing user charges. This is not easily done. It is generally not feasible to impose user charges on public goods, such as local roads, that make up a great deal of Councils' infrastructure base, and their infrastructure financial deficits. Councils that have substantial business bases can derive increased income through fees and charges. Councils with a relatively poor community base cannot do this. Auburn is one of the poorest areas in Sydney. It has contributed significantly to the SOP development over many years, and continues to do so; effectively subsidising SOPA. Its repayment is to reduce its marginal financial resources into a yet more marginal position.

3.3 Assessing SOPA's Claim to Providing Council Services

- ❖ There is a repeated assertion in the Issues Paper that SOPA carries out the functions of a council, and therefore should receive rates from its leased properties. It is an assertion with a long history. Ferriers in the 1996 report on rates claimed that the OCA provided all the road maintenance and waste services on the Homebush Bay site. This was not so, and it is not true today.

- ❖ SOPA's organisational structure is comprised of four sections: corporate and commercial; marketing sales and communications; sustainability and operations; and business development. The prime focus of SOPA is events management, sport and education, and property development. The total workforce for SOPA in 2008 is just 109 people. Operations and Sustainability is made up of an array of functions (19 in fact) employing 58 people. None of the functions signifies that they have been established to provide council services. At the very most the functional description of around half of the Operations and Sustainability section's workforce would be able to be remotely considered as operating council-type functions. The most clear-cut areas are those that relate to the parklands. Even if some of the functional groups do work in areas that might be considered as being similar to some operations of the council, the numbers involved are tiny. For example: there is one person dealing with facilities and infrastructure, one person in traffic and transport, one person in works and services, two persons in planning, two in capital works, three in building services, three in design. It would be very difficult to claim that any of these people would be wholly dedicated to performing council-like functions, for they also relate to the core role of SOPA: property development.
- ❖ SOPA's primary focus is on events management, property development, and sport/education development. It is these three areas that are vital to SOPA's attempts to move from its present precarious financial position, and to satisfy the vaunted aims of the State Government to establish a viable use pattern for SOP between now and 2030. None of this leaves room for SOPA to actually perform the multiple functions of a council. Its small employment base and its complete lack of representative government means that it cannot address community needs or respond to community demands in the way that councils do.
- ❖ The fact that of the 749 sections of the Act, only four relate to SOPA is of sufficient significance by itself to disabuse the notion of SOPA performing as a council. Of the four Sections of the Act that are referenced in the SOPA Act, only one suggests in any way that SOPA can perform council functions (S.24), and that particular section is unspecific about just what council functions are. The provision of SOPA "to exercise to any necessary extent the functions of a council (within the meaning of the Local government Act 1993)" under S24, S25, S26 and S47 does not in any way constitute SOPA as a Council.
- ❖ In a positive sense this provision might have been introduced to allow SOPA to perform some specialist roles within SOP that fitted in with its very distinctive role within Metropolitan Sydney. A negative interpretation might be that it was an easy way to divert funds (such as rates) away from properly constituted councils to shore up a weak financial base. The signals support the latter assumption.
- ❖ The fact is that SOPA is unable to carry out the functions of a council now, or in the foreseeable future. To be enabled to do so would necessitate a very substantial increase in funds devoted to council-like activities. This is implausible if not impossible, both from the viewpoint of SOPA's current and prospective financial position, and its chances of attracting and supporting the broad range of skills and capital equipment needed. Employee expenses are already a difficult



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area for SOPA. In 2006-2007 SOPA budgeted for a loss of \$18.7 million. The actual loss amounted to \$21 million, largely brought about by a \$4.9 million increase in employee expenses. In simple economic terms, the most cost effective way for SOPA to operate in the field of council functions would be to achieve economies of scale and productivity gains based on skills bases. SOPA cannot achieve these things. Auburn Council can provide them.

SECTION 4

Impacts on Auburn

4.1 AUBURN: Community Needs and Council's Role

- ❖ Auburn Local Government area is one of the most disadvantaged in Sydney. The SEIFA Index, an Australian Bureau of Statistics measure of levels of advantage and disadvantage, ranks Auburn Local Government Area as being the second most disadvantaged council area in metropolitan Sydney with an index of 922.1. Fairfield has the lowest SEIFA Index amongst the Local Government Areas of Sydney with 876.1. The Indexes for Auburn North (847.4) and Auburn itself (874.3) are below those of Fairfield. The highest council SEIFA Index is 1143.3 (Ku-ring-gai). Three quarters of the councils in Sydney have SEIFA Indexes greater than 1000. Auburn has a complex ethnic and social structure (non-English speakers 66% of the population), high unemployment, large households with many young children, diverse national backgrounds, and substantial refugee numbers in recent years. Auburn's population growth rate between 2001 and 2006 was the highest in Western Sydney, and its population is expected to reach 84,000 by 2020.
- ❖ Auburn has long been amongst the less well resourced communities in Sydney. This was so in the early 1990s, and is so today. It has been the most vulnerable place in terms of accommodating to the demands and changes associated with the development of SOP. The State Government has remained either ignorant of Auburn's situation, or uninterested in assisting this fragile community deal with the long period of adjustment that has confronted it. The ignorance of the State Government has been profound. For example, suggestions were made to the Council by various representatives of the State Government to raise its rates over the community, following Auburn's sudden and substantial loss of rates revenue at the start of the development process. The Council did not do that, simply because the community members could not afford to pay more. The State was expecting the people of Auburn to subsidise the building of the Olympic site. As noted earlier in this submission, the immediate impact on the Council was to reduce its expenditure by \$518,693 in 1993. The community was denied facilities by the reduction in rate revenue from the Olympic site. Unfortunately, it has suffered from this as a continuing problem for a decade and a half.

- ❖ The Central West Subregional Strategy has set Auburn a target of adding 11,000 new dwellings by 2031. Between 2001 and 2006 761 new dwellings were built in Auburn (as Auburn's population rate of growth outgrew all other councils in Western Sydney). The Subregional strategy would require an average of 500 dwellings a year to be built to reach the ordained target. Given these factors, it is difficult to conceive that the State Government would wilfully add further to the burdens and challenges of Auburn. Unfortunately it has. From the very substantial, and on-going, loss of rates beginning in the early 1990s, to the current threat of further losses if SOPA were to receive the rate income from the leased properties in its area. The Council has an infrastructure backlog of \$45.2 million, and an annual maintenance and renewal shortfall of \$5.5 million a year as net deficits in its budgets from 2008/09 through to 2010/11. In company with most councils in NSW, Auburn is suffering from the limitations of rate pegging, declining Federal and State government grants support, additional roles and responsibilities, and cost shifting from other levels of government. On top of these general disabilities Auburn has additionally had to wear the impacts of demands from the development of SOP, and now faces the further threat of more substantial financial loss.

4.2 Auburn Council's 2030 Strategy

- ❖ Despite the various challenges the Council is facing, Auburn Council has developed a robust Strategy plan which outlines its directions and management structures through to 2030. There are 7 key directions in the Strategy: an inclusive and culturally engaging Auburn; a connected, safe and accessible Auburn; an environmentally sustainable Auburn; a healthy and active Auburn; a liveable and distinctive Auburn; an innovative and economically thriving Auburn; a well-managed and financially accountable Council.
- ❖ In contrast to many long-term strategy plans, Auburn Council has identified and developed specific processes, actions, outcomes, and cost centres within its Management Plan to drive the elements of each of the key directions to achieve real results. The problem is that every one of the 6 operational directions carries a deficit in its budget through to 2010-11.
- ❖ The posited shift of rates to SOPA can only aggravate and possibly destroy some or all of the Strategic goals. In line with the 2030 Strategy Auburn Council is desirous of forging cooperative partnerships with regional and State bodies. SOPA is one of the most important of these. There are many areas where SOPA and Auburn council have similar interests. These particularly relate to the 49 hectare planning and development of the Carter Street precinct, and the border area of West Homebush Bay. Beyond the need to synchronise these areas, plus Newington, into offering industrial, commercial and residential complementarity with SOP there are other, more mundane impacts. A good example is increasing traffic levels from SOP into Auburn areas. These

will range from increases of 9% to 35% in the immediate future. These increases will add to the current traffic management costs of \$1.56 million for areas near to SOP being met by the Council.

4.3 Auburn Council's Offering to SOPA

- ❖ In response to the review of the SOPA Act, Auburn Council submitted a proposal to assume responsibility for municipal services and on-going maintenance of built civic assets in SOP (Auburn Council, Management Plan, 2008/09 to 2010/11, p. 146).
- ❖ This should be seen as a great benefit to SOPA. SOPA would not have to find the funds to support a municipal structure, providing it with a substantial saving. The rate income from the leased properties within SOP cannot now, or in the foreseeable future, support the establishment of a genuine municipal structure under the SOPA banner. It could only add a substantial burden on a budget base that is already struggling. There would be the related and difficult problems of installing an experienced and skilful staff base to operate these additional functions, and the related costs of machinery and other inputs into capital works programs.
- ❖ If Auburn Council provided the services to SOPA the costs to SOPA would be negligible. The services would be of a high quality, delivered efficiently, and more cheaply (through economies of scale). It would release SOPA from being strapped with a responsibility (that of providing municipal services) that it cannot deliver, and for which the recipients of its attempts can have no input in terms of engaging and assisting SOPA shape strategies and determine priorities.