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W.Rogers:FCS

5 September 2008

Review of Revenue Framework for Local Government
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Sir/Madam

Re: Revenue Framework for Local Government – Issues paper

Council welcomes the opportunity to provide this submission in response to the IPART Inquiry on the Revenue Framework for Local Government.

Council considers IPART's Inquiry is both timely and relevant, as improving its future financial sustainability, is one of the greatest challenges confronting NSW Local Government.

It is hoped that the information contained in this submission is of value to IPART's review. Should you require any further information regarding this matter, please contact Council's Director Finance and Corporate Strategy, Mr Bob Macklinshaw on 9839 6516.

Yours faithfully,



RON MOORE
GENERAL MANAGER

EXECUTIVE SUMMARY

Blacktown City Council considers that a comprehensive independent review of the revenue raising framework for Local Government is timely and relevant, and hopes that IPART's Review will lead to many positive outcomes for NSW Local Government.

Council notes that in its draft paper IPART has listed 52 separate issues for which they seek comment. In providing this submission Council has focused on the areas it considers are of greatest concern.

Council's submission addresses the following areas:

1. *A profile of Blacktown City*
2. *The role of Local Government and how it is determined.*
3. *How cost shifting has affected Local Government.*
4. *The impact of rising expectations from local communities.*
5. *The effectiveness of rate pegging and its implications for councils and ratepayers.*
6. *An alternative model to the current system of rate pegging for the determination of annual rate increases.*
7. *Opportunities for councils to increase the revenue received from sources other than rates.*

In making this submission Council would like to highlight that it considers the most important issue which needs to be addressed is the detrimental impact the current system of rate pegging in NSW is having on the long term financial sustainability of NSW Local Government. Council believes that major reform in this area is urgently required, and as such this submission recommends the following:

Preferred Option

- *The abolition of rate pegging with the responsibility for the determination of annual increases in rates transferred to individual councils.*

Alternative Option (1)

- *Should the State Government not endorse the complete abolition of rate pegging, Council would prefer to see the removal of rate pegging with IPART having an advisory role. This would involve IPART providing councils with a recommended rate pegging limit for each year on the proviso that it be set at a minimum level for a minimum of four years. Councils would retain the discretion to increase their rates by a higher amount, if required.*

Alternative Option (2)

- *Should either of the above two options not be endorsed Council would recommend the retention of rate pegging but with the responsibility of its determination transferred to IPART.*
- *As increases in rate pegging have not kept pace with overall cost increases incurred by NSW Local Government, nor the increase in the level of services provided by NSW Local Government, a revised method to determine the annual rate pegging limit is required. The revised method should be determined in consultation with Local Government. Council believes that the annual rate pegging should be set with regard*

for cost increases applicable to typical inputs used by Local Government. This could include items such as the following:

- CPI*
 - Award Wage Movements*
 - Increases in the cost of diesel and petrol*
 - Increases in costs charged by other levels of government, such as the Valuer General's Department, Bush Fire Brigade and Rural Fire Service, etc.*
 - Increases in the costs of utilities such as electricity, water and gas*
 - Increases in the costs of inputs used in road maintenance and construction works (e.g. bitumen, asphalt, road base, concrete, steel)*
 - Increases in the costs of inputs used in the construction and maintenance of buildings (concrete, steel, wood, etc.)*
 - Increases in the costs of inputs used in parks and reserves maintenance (e.g. fuel, fertilisers, water, etc.)*
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- That as NSW Local Government has a major backlog of outstanding infrastructure maintenance and renewal works largely due to inadequate funding as a result of rate pegging, that when determining the annual rate pegging limit IPART seeks to address this issue.*
 - That the annual rate pegging limit be determined on the proviso that it be at least equal to either the applicable annual Award increase for wages or latest CPI index (being whichever is the higher) for a minimum of the next four years.*
 - That IPART be required to advise its recommended rate pegging limit a minimum of six months prior to commencement of the following financial year. Further, in determining the rate pegging limit it must consult extensively with the Local Government industry and provide the industry with ample time to provide input into this process.*

1. PROFILE OF BLACKTOWN CITY COUNCIL

Blacktown is a modern vibrant City of over 47 residential suburbs, and home for almost 300,000 people, making it the largest city by population in NSW. Approximately one in every 70 Australians lives in Blacktown City. It is located 35 km from the Sydney, and features two major CBD centres - Blacktown and Mount Druitt.

Blacktown City is the Growth Centre for the North West Sydney. It is at the centre of the Greater Western Sydney region, a booming area leading New South Wales in the provision of community and recreational services as well as employment and population growth. Blacktown has experienced rapid growth over the past ten years. This rapid growth has presented many challenges, which Council has sought to address through prudent financial management, sound strategic development and an internal focus on providing best value to its customers.

Blacktown City Council is committed to providing its residents with high quality living and working environments, as well as making plans for the future that promote the interests of those who live, work and play in the City. In 2007, Blacktown City was announced as the first Solar City in New South Wales. The Blacktown Solar Cities project will prevent 25,000 tonnes of greenhouse gas emissions from entering the atmosphere each year, equivalent to taking 6,000 cars off Sydney's roads, plus many other great environmental initiatives over the project's eight year life

Council recently launched *Blacktown City 2025 – Delivering the Vision Together*. Council's primary commitment is to achieve our diverse goals through the delivery of tangible projects and programs that will leave a lasting community legacy. *Blacktown City 2025* provides a strategic framework for Blacktown City Council to operate within over the next 15 years and beyond. *Blacktown City 2025* is not just about how Blacktown will look in 2025, it is about Blacktown's people, their ideals, how they live and work, their environment and how we lead as a Council. Managing the diverse issues facing Blacktown will be challenging, but the rewards of a happy, healthy and vibrant City through effective planning and sound management are immeasurable.

2. THE ROLE OF LOCAL GOVERNMENT AND HOW IT IS DETERMINED

The range of services provided by Local Government is extensive. In fact, the range of services provided is considerably broader than that provided by most other similarly sized organisations. The range of services provided by NSW Local Government includes many core services which are provided by all councils. In addition, there are many other services provided which vary with regard to the unique characteristics of each council. These characteristics include a council's size, its location, population demographics and geography.

The magnitude of the important role that Local Government has in addressing the needs and aspirations of local communities cannot be underestimated. In many ways the character and qualities of a local community are influenced by the actions and decisions of local councils. A critical role of Local Government is therefore working with its local community to help it achieve its aspirations and address its various needs. This can be done through many different ways, such as improved recreation facilities, improving access to education, better transport services and meeting raised environmental expectations.

For example, in recent years the population is becoming more cognisant of the importance of preserving the environment so future generations do not suffer. Various studies have shown that an increasing proportion of the population do not believe that enough is being done to adequately protect future generations from damage caused to the environment by past and present generations. In this context communities look to Local Government for guidance and direction in how they in their daily activities can minimise their impact on the environment. This involves many areas such as how to increase the amount of water recycled and how they can reduce the amount of energy used in their homes.

In all communities whether newly developed or existing there are many aspects which can assist in improving social harmony. Communities are increasingly placing more emphasis on improving their wellbeing. Local Government plays an important role in providing community facilities, sporting and recreation facilities and the provision of human services to support residents such as the aged and disabled.

Councils are able to foster stronger community spirit and harmony through facilitating various community festivals and civic events. Communities which have a strong sense of pride and harmony are better placed to address the challenges which they are subjected to and move forward in the future with greater confidence. For example, rural councils which are suffering from one of the worst droughts in post war history look to their local councils for support and assistance. Similarly newly established areas look to their local council to provide many services and facilities as part of developing a sense of identity and community pride.

Councils are expected to provide balanced recreation options that encompass both active and passive recreation facilities to meet the needs of all residents of various age groups. For example, with the increased life expectancy enjoyed by the majority of Australian residents Local Government is required to provide a variety of facilities and services to address the needs of Australia's ageing population.

As the range of services provided by NSW Local Government is extremely broad, a comprehensive list of all services provided would be extremely long. However, in terms of

the core services which are provided by the majority of all NSW councils, the following list offers a summary of the typical areas which NSW Local Government has responsibility for:

- a. Rates collection
- b. Recreation (parks, sport, reserves, pools, libraries)
- c. Refuse (waste collection, recycling, disposal)
- d. Regionalism (economic, tourism and property development)
- e. Regulation (town planning, development approval, environmental control)
- f. Relief (community development, childcare, welfare)
- g. Retail (business units such as kiosks)
- h. Roads (bridges, footpaths, kerbing)

Equally important to the issue of the broad range of services provided by NSW Local Government, is the fact that both the range and extent of these services has expanded quite considerably. There are many reasons why this expansion has occurred. Notably, external factors have had a major impact on the expanding role of Local Government. The most significant of these external factors are decisions made by State and Commonwealth governments. This is discussed in greater detail below.

Decisions made by State and Commonwealth Governments

In Australia Local Government is the only tier of government which does not have formal constitutional status. This lack of constitutional recognition has seen Local Government being described as a 'creature of statute' that is at the mercy of State government legislation. In support of this view there are many examples of changes to State legislation which have affected Local Government.

There are many different areas of legislation, both State and Commonwealth, which have influenced and thereby defined the role of Local Government. In NSW, the *NSW Local Government Act 1993* is the major area of legislation which affects Local Government. This Act defines the role and primary responsibilities of Local Government, as well as establishing boundaries and providing guidelines for it to operate within.

Compared to the previous 1919 Local Government Act, one of the major changes made in the revised 1993 Act was the establishment of enhanced corporate planning and reporting regulations which all councils are required to comply with. These include the requirement that all councils must prepare and publicly exhibit annual management plans which determine the short and long term strategic direction of the council. This requirement has resulted in greater community involvement in the determination of the strategic direction of a council, and also made councils maintain greater levels of accountability to their residents. As a consequence of these changes local communities have developed higher expectations of their councils, in terms of the range of services provided and the quality of these services as well as the council having greater transparency and accountability.

In addition to the *NSW Local Government Act 1993*, there are also many other Acts which have also determined the role of Local Government. Some of these include the following Acts:

- Community Land Development Act
- Companion Animals Act
- Conveyancing Act
- Environmental Planning and Assessment Act
- Fire Brigades Act
- Food Act

- Impounding Act
- Land Acquisition (Just Terms Compensation) Act
- Library Act
- Protection of the Environment Operations Act
- Public Health Act
- Public Water Supplies Act
- Recreation Vehicles Act
- Roads Act
- State Emergency Services Act

All of the abovementioned Acts have influenced the role of Local Government. Many legislative changes have resulted in councils taking on new responsibilities. For example, the introduction of the Companion Animals Act in 1998 resulted in NSW councils being required to introduce increased data collection and reporting standards in relation to Companion Animals. Similarly, amendments to the Food Act have resulted in councils needing to comply with higher standards in relation to the frequency and extent of food premises inspections. Such changes can result in greater cost to Local Government.

Policy decisions made by both State and Commonwealth government can also have a major impact on the role of Local Government. Quite often, these decisions have resulted in the responsibility for the provision of specific services being transferred to Local Government. The reallocation of the responsibility of a specific service to Local Government is often done when there are services which can be more economically and effectively provided by Local Government. For example, in some regional areas of NSW, some councils are responsible for the operation of airports. Another example is the maintenance of state roads which is undertaken by many councils. Specific purpose grant funding from the State government is provided for these works, which can be done efficiently and economically by Local Government.

In many areas, State and Commonwealth governments have decided that councils can assist them in the provision of services they currently provide. For example, the RTA provides many councils with funding for the operation of road safety programs. The RTA provides partial funding of Road Safety Officers who are employed by councils. These staff implement road safety programs which are based on and consistent with RTA guidelines and principles.

Council does not dispute that there are many services which can be best provided by Local Government both in terms of quality and cost. However, what does concern Council is when the responsibility for services are transferred to Local Government without sufficient funding. This major problem is often referred to as Cost Shifting and is discussed in the next section.

3. HOW COST SHIFTING HAS AFFECTED LOCAL GOVERNMENT

There have been many instances where councils initially receive adequate funding from the State or Commonwealth government when it transfers responsibility for a specific service to Local Government. However, in subsequent years this funding is either withdrawn or does not keep pace with cost increases. This issue has been the subject of many reports and Issues Papers.

Council has consistently stated that cost shifting is one of the major issues facing Local Government. The information in the table below includes examples of cost shifting which Council has previously raised in submissions and reports on the issue.

COST SHIFTING
<u>Mandatory Rate Rebate for Pensioners</u> In accordance with legislation councils are required to provide an annual rebate for pensioners of up to \$250. The State government only funds 55% of this rebate, meaning the cost of the remaining 45% is borne entirely by councils. The cost for Blacktown Council for 2007/08 was \$1,361,578. With an ageing population this amount will increase appreciably in future years.
<u>State Government owned properties exempt from Stormwater Management Charge</u> The Local Government Act was amended in 2006 to allow councils to levy a new stormwater management charge. However, the legislation states that all Department of Housing properties are exempt from this charge even though these properties contributed to stormwater management issues. There are currently 7,946 properties owned by the Department of Housing within the Blacktown LGA. Based on the current stormwater charge of \$25 per annum, it is estimated that the annual loss of income to Council is \$198,650.
<u>Public Library Operations</u> Councils do not receive the full amount of library subsidy which they are entitled under S13(4)(a) of the Library Act 1939. For Blacktown City Council the shortfall between State government subsidy and what council would have been eligible for is in the order of \$2.3 million per annum.
<u>Cost of regulating on site sewerage facilities</u> Councils are required to regulate on site sewerage facilities. Although councils receive revenue in providing this service, the fees are regulated by the State government. Due to the scope of works required there is a net cost to council to provide this service. For Blacktown the annual net cost is in the order of \$53,500.
<u>Administration of Companion Animals Act</u> Since the increased compliance standards for councils were introduced as a result of the Companion Animals Act, it is estimated that the annual administration costs to Council to comply with this Act are in the order of \$506,103 per annum.
<u>Functions under the Protection of the Environment Act</u> It is estimated that the regulatory functions required to be undertaken by Council due to the requirements of the Protection of the Environment Act are in the order of \$37,000 per annum.
<u>Cost of functions as a local control authority for noxious weeds</u> Council currently incurs expenses of \$125,000 per annum on account of being a control authority for noxious weeds.
<u>Citizenship Ceremonies</u> Councils do not currently receive funding from the Federal government for the cost of holding citizenship ceremonies. The cost to Council for these ceremonies is in the order of \$85,000 per annum.

<p><u>Administering food safety regulations</u></p> <p>The net cost to Council for administering food safety regulations is currently \$55,000 per annum.</p>
<p><u>Flood Mitigation Program</u></p> <p>Previously the level of funding provided to councils for flood mitigation works used to represent 80% of the costs involved. This level of funding is no longer provided to councils. As a result an additional cost for Blacktown is almost \$200,000 per annum.</p>
<p><u>Road Safety Program</u></p> <p>Many councils operate road safety programs which are partially funded by the RTA, the remaining costs are generally funded by councils. The net cost for Blacktown for its road safety program is currently \$85,000 per annum.</p>
<p><u>Cost of community service programs</u></p> <p>The State government has initiated many community services programs which the responsibility for providing has progressively been transferred to Local Government. Some of these programs were initially fully funded by the State government but this funding was subsequently either been reduced or withdrawn. Many other programs have never received adequate funding at all. The estimated cost to Blacktown city is close to \$120,000 per annum.</p>
<p><u>Waste Levy</u></p> <p>The State government levies council a charge per tonne of waste deposited at land fill sites. The difference between the amount paid by Blacktown Council to the State government and the amount recovered under the waste performance scheme is \$1,850,000 per annum.</p>
<p><u>Cost of September 2008 Election</u></p> <p>Councils previously were responsible for the holding of Local Government Elections. This service has now been transferred to the NSW Electoral Commission with a significant increase in costs. Blacktown City Council has estimated there will be an increase in cost in excess of \$500,000 over the cost of the last election held by Council.</p>
<p><u>Street Lighting Costs</u></p> <p>The cost of street lighting continues to increase. In adopting its 2008/2009 Estimates, Council was required to increase funding for street lighting costs by \$254,000, which represented an increase of 7.4%.</p>
<p><u>Fire Brigade Contribution</u></p> <p>The cost of Council's contribution to the Fire Brigade has increased significantly in recent years. In adopting its 2008/2009 Estimates, Council was required to increase funding for its contribution to the Bush Fire Brigade by \$120,000, which represented an increase of 7.1%.</p>
<p><u>Libraries</u></p> <p>Higher levels of government indirectly acknowledge the importance of libraries by initiating library-focused programs but without providing additional funding to support them. An example is the Premier's Reading Challenge. The burden placed on libraries includes the acquisition of additional copies of listed books and program management. The approximate value of library books held for the Premier's Reading Challenge is \$115,430.</p>
<p><u>Education</u></p> <p>Schools, and school libraries, close in the afternoons and weekends, whereas public libraries stay open. Public libraries provide homework help, professional research assistance, study space (important in areas of urban consolidation), access to computers, access to print and online resources. The cost of subscription to homework help was \$27,000 in 2007. The Department of Education provides no funding for this.</p>

The table below provides further examples of cost shifting. Due to the difficulty of ascertaining the full cost to Council, estimated costs have not been included.

ADDITIONAL EXAMPLES OF COST SHIFTING
<p><u>Social Planning</u> There is an increased demand for councils to update their Social Plans to include proper identification of community needs. Council's Social Plans are used by other agencies to inform them of their work.</p>
<p><u>New Release Area Planning</u> Many NSW councils, such as Blacktown have been earmarked for future development. To do this effectively councils need to undertake community consultation and analysis to identify community needs.</p>
<p><u>Community Facilities</u> There is a growing expectation that councils provide premises from which non-government agencies funded by other levels of government can operate. This is an increasing problem with the tightening of administrative/operational components of grants to such agencies.</p>
<p><u>E- Government</u> As more government services are placed online (saving staff costs for state and federal governments), individual clients utilise public libraries to access these government websites. The burden on libraries includes providing assistance / user education; managing booking systems and printing fees; supervising; and preparing finding aids. For example the RTA driver knowledge test.</p>
<p><u>E-employment</u> There is an increasing trend for employers to require job applications online as this streamlines their own costs. This occurs even for positions where computer literacy is not a requirement. User assistance at public libraries is significant.</p>
<p><u>Distribution of Government information</u> The public library network effectively distributes government information, both print and online for use by the community throughout the State.</p>
<p><u>Development applications for childcare centres</u> These applications are submitted to Council for approval. There is no longer a requirement for the Department of Community Services (DoCS) to have sighted the plans or provide any advice regarding the plans. Applications are now requesting specific information regarding childcare centres from Council officers. Previously DoCS provided this information.</p>
<p><u>Traffic Management OH&S</u> There are OH&S accountabilities, which relate to events such as Traffic Management, particularly road closures where councils are required to use only staff members who are professionally accredited, and policing which is now usually charged.</p>
<p><u>Arts Funding</u> There are increasing signals that both the Australia Council and ArtsNSW will expect in the future that Local Government will fund a greater proportion of costs associated with arts development, particularly in the area of operating major regional arts facilities.</p>
<p><u>Child Care</u> When the Federal Government removed funding for operating costs in 1996 there was a significant reduction in the number of placements in Council's centres resulting in Council operating the centres at a loss. In addition, the Child Care Benefit for long day care and family day care has undergone regular change as well as being complicated and therefore labour intensive to comply with. This has resulted in additional administrative costs to Council. Councils are still expected to provide child care facilities in those areas not adequately serviced by the private sector. Over time the buildings used suffer normal wear and tear resulting in councils needing to fund the cost of maintenance and renewal of infrastructure.</p>

4. THE IMPACT OF INCREASING EXPECTATIONS FROM LOCAL COMMUNITIES.

Over the past century, and particularly after the second World War, Australians have enjoyed a sustained improvement in their living standards. This improvement is evident in general trends such as the attaining of higher education levels, improved medical facilities and care, longer life expectancies and improved housing standards. Consistent with the improved living standards has been an increase in the expectations communities have of their local councils. This increased expectation has also applied to State and Commonwealth governments, but in some ways its effect has been more pronounced on Local Government as this is the tier of government which most people can access and communicate with most freely.

Aquatic and Recreational Facilities

A good example of a service area which has been subject to increased expectations from local communities are swimming pool facilities. In the past, swimming pool facilities provided by councils generally only consisted of outdoor swimming pools which were not heated and had minimal levels of supervision. The amenities and kiosk facilities were usually quite basic.

By comparison, modern swimming facilities provided by councils usually form part of a larger leisure centre which has a range of facilities such as indoor and outdoor pools, indoor courts and gymnasiums. Modern swimming pools are mostly heated, have higher supervision standards and offer customised play areas and special features such as fountains and water slides. The standard of change rooms, kiosks and parking facilities has also improved considerably.

The standard of swimming facilities has improved in response to increased community expectations. Part of the cause of increased community expectation has been a growth in the number of private sector operated swimming pools and recreation facilities. To remain competitive with privately run centres, councils have in addition to improving the standard of their facilities, also had to increase the range of programs and activities they offer. This has resulted in increased costs which are usually subsidised by councils. For example, for the financial year 1997/98 the net subsidy for all of council's leisure centres was \$520,000. A decade later (2006/07), Council constructed two new leisure centres to meet increased community demand resulting from Council's rapidly expanding population. Council's net subsidy for the 2006/07 financial year of its leisure centres was \$3,742,000.

Libraries

Libraries have traditionally been one of the primary community facilities provided by Local Government. Libraries have provided many positive outcomes which have enriched the social fabric of local communities. Over time, the importance of libraries to local communities has increased. The graph on page 12 of this submission compares the cumulative increase in Council's rates income over the ten year period 1997/98 to 2006/07. It shows that whilst rates have increased in cumulative terms by 54%, Council's net expenditure on its library services has increased by 144% over the same period. There are a number of reasons for this trend. Some of the major reasons are listed below:

Bridging Digital Divide

One of the significant issues which confronts many councils, including Blacktown, is assisting its residents to have satisfactory access to computers and the Internet. This

challenge, is sometimes referred to as "*Bridging the Digital Divide*". This challenge is frequently more prevalent in lower socio-economic areas.

For example, school students often need to access computers after school hours so they can complete various aspects of their education. Unfortunately, many families are not always able to provide computers at home for their children. Often their only option is to take their children to their local library so they can use public access libraries. Like many councils, Blacktown offers many public access computers which are extensively used by the general public. Such has been the demand for these public access computers Council has had to recently deploy additional computers to meet the increased public demand.

Other residents also require access to the Internet. For example, many organisations now only accept electronic job applications. For residents who do not own a personal computer with Internet access, the library provides an important service, i.e. allowing these people to complete their job applications.

A place for students to study and meet other students

Many students use Blacktown's various branch libraries to complete their studies after school, university etc. For those students who do not have access to a quiet environment to study at home. For other students, the library can provide a suitable meeting place where they can talk with other students regarding their studies and work on group assignments together.

Provision of learning resources for new residents

As a rapidly expanding city, Blacktown is one of the more culturally diverse areas within Western Sydney. Libraries provide an important role for residents from non-English speaking backgrounds, in developing their language skills, improving their employment opportunities, as well as accessing information to keep in touch with their native countries.

Medical Facilities

Although the provision of medical services is not a traditional core service area of Local Government, many councils have undertaken measures to ensure their residents have improved access to essential medical services. For example, in some rural areas of NSW where access to essential medical services is limited, a number of councils have undertaken measures to improve the availability of medical services for their residents. This has been done through a variety of approaches, such as subsidising the costs of medical services and councils funding the construction of new medical centres which various medical professionals can temporarily operate from.

Environmental Services

Many councils have expanded their environmental management programs in response to raised community awareness of this issue. For example, councils which have major waterways have in recent years implemented new environmental programs to preserve and improve the quality of the waterway. This has included enhanced weed management programs, water filtration techniques and pollution control measures.

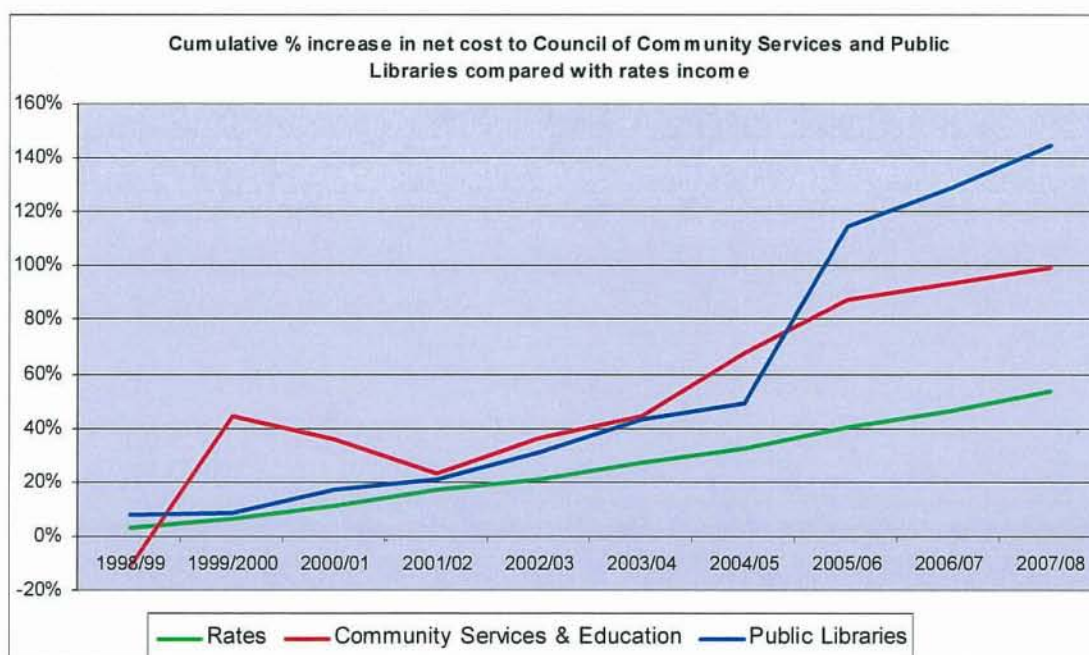
Addressing Specific Community Issues Unique to a Particular Local Government Area

Each Council has unique characteristics in terms of its demographics, which in turn can influence the needs of its community. For example, the population of Blacktown City is currently close to 300,000, the highest of all NSW councils. It is also one of the most culturally diverse and rapidly growing councils in the State. Other key characteristics of Blacktown include a significant proportion of young people with (one in three residents

under the age of 25), the highest proportion of indigenous people within urban Western Sydney and, in some areas, higher than State average levels of unemployment. Unfortunately, in the case of Blacktown, some of these aspects can lead to problems such as anti-social behaviour, violence and crime. These problems can often be reduced through effective community programs and initiatives. Many of these problems sometimes escape the attention of the State and Commonwealth governments and as a result councils are the only area of government which actively addresses such issues.

In response to these challenges Blacktown City Council has progressively expanded the range of community service programs it undertakes. Whilst this has achieved many successful results, Council acknowledges that there is still much work to be done. The expansion of Council's community service programs has resulted in significant increases in the net cost of Council's community service program. The increase in these net costs over time has exceeded the rate of increase in Council's overall revenue. For example, over the ten year period 1997/98 to 2006/07, Council's total rate income increased in cumulative terms by 54%. Over the same period, the net cost of its community service programs increased by 100%. This is shown in the graph at the bottom of this page.

Another statistic which highlights the increased emphasis Council has placed on providing community service programs is the increased proportion of Council's annual operating budget allocated to this purpose. For example, in the 1999/2000 financial year, the net cost of providing Council's community services and facilities programs represented 7.72% of Council's total operating budget. For the current 2008/2009 financial year this proportion had increased to 13.72% of Council's total operating budget. The increase in the net cost to Council highlights both the increased quantum of community services provided by Council as well as a decline, in real terms, of external funding which have not kept pace with rising costs.



5. THE EFFECTIVENESS OF RATE PEGGING AND ITS IMPLICATIONS FOR COUNCILS AND RATEPAYERS

When the State government first introduced rate pegging in the late 1970's it stated that rate pegging would minimise increases in council rates by making NSW councils become more efficient. Successive State governments in NSW have continued to maintain that rate pegging has been successful in achieving this goal. Council does acknowledge that in the early years of rate pegging it was successful in making councils become more efficient. However, in subsequent years, Council considers that rate pegging has increasingly had an adverse affect on the financial sustainability of NSW Local Government.

Since the introduction of rate pegging Blacktown City Council has not, in cumulative terms, exceeded the rate pegging limit set by the NSW State Government. It is understood that only a small proportion of other NSW councils can make the same claim. Through prudent financial management Council has adopted successive operating budgets set within the constraints of rate pegging. A key component has been Council's continued focus on endeavouring to reduce costs by efficiency improvements. For example, over the past decade Council when determining the parameters to prepare its annual operating budgets has decided that all operating expenses, other than employment related costs, cannot be increased over the amount budgeted in the prior year. This discipline has encouraged Council's Business and Service Managers to improve operational efficiencies and generate alternative income sources in order to maintain existing service levels. For the current 2008/2009 budget this discipline yielded efficiency savings in excess of \$1 million.

Like many other councils, Blacktown is currently revising its long term financial plan. This plan incorporates future asset maintenance and renewal costs, which have been calculated from work undertaken on the development of a new asset management strategy. Based on the work so far completed, it has been identified that the continuation in the future of current rate pegging limits would result in Council being unable to satisfactorily maintain its asset infrastructure network. This problem is by no means unique to Blacktown, as it is one of the major challenges facing the entire NSW Local Government industry. There has been considerable research on this topic, which is identified as one of the greatest problems caused by rate pegging. Studies such as the recent FiscalStar review of councils and the Local Government and Shires Association "Independent Inquiry into the Financial Sustainability of NSW Local Government" have all highlighted that NSW councils are not adequately maintaining their infrastructure networks. This is because NSW Local Government does not have the financial capacity to adequately maintain its infrastructure network. As councils cannot allocate sufficient funding to maintain their infrastructure, there is an increasing backlog of outstanding infrastructure maintenance works.

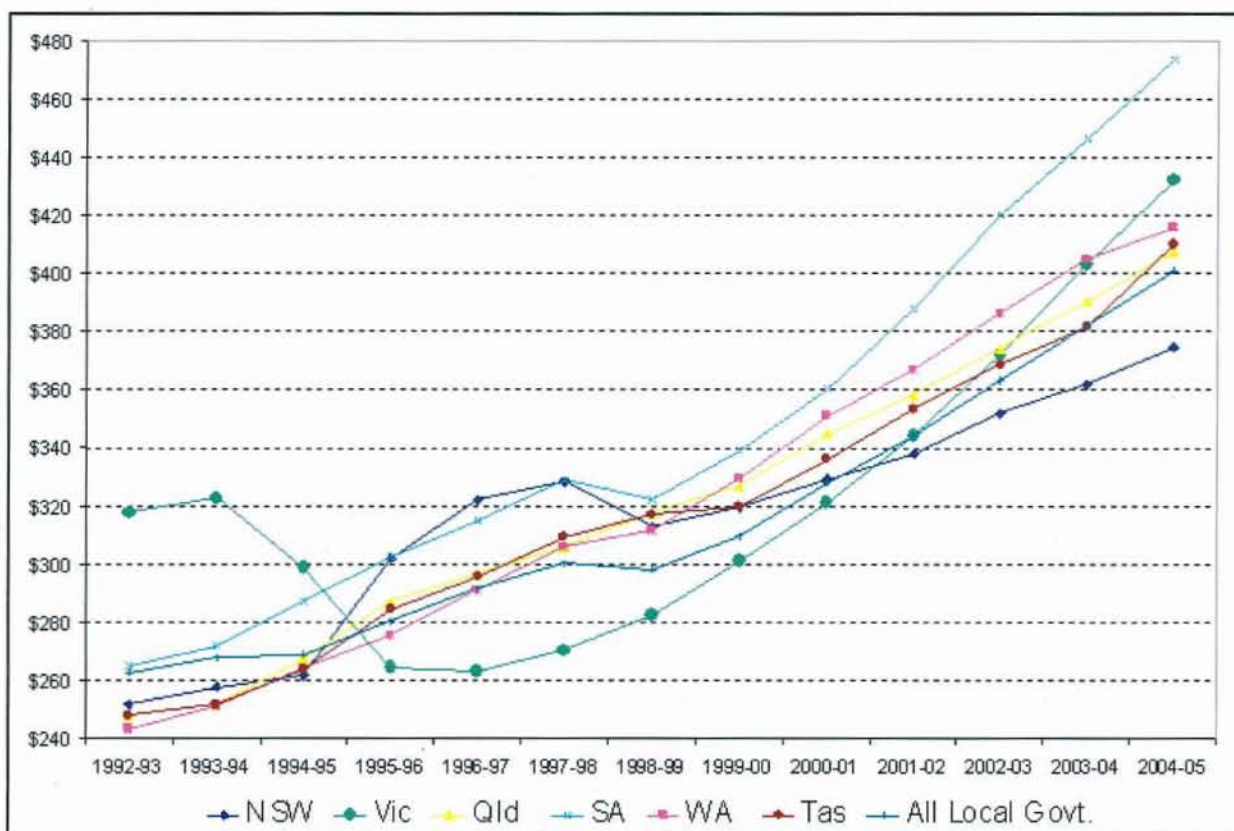
The magnitude of this issue is evident by the increasing number of councils who have sought an increase in their rates to fund infrastructure maintenance works. Yet despite an increase in the number of councils who have sought a rates increase for asset management purposes, the overall condition of NSW Local Government infrastructure is continuing to deteriorate. This was highlighted in the 2006 Local Government and Shires Association "Independent Inquiry into the Financial Sustainability of NSW Local Government" which identified a massive backlog in infrastructure renewals of over \$6 billion. This was projected to grow to almost \$21 billion within 15 years if the annual renewals gap (the difference between the rate at which councils' physical assets are depreciating and the rate at which they are being replaced) does not improve.

In preparing this submission Council researched what rate pegging systems, if any, are in operation in the other States of Australia. This is shown in the table on the following page, which is based on information provided by the LGSA and shows how rates are currently increased by each State.

NSW	Victoria	South Australia	Queensland	Western Australia	Northern Territory	Tasmania
<p>Rate Pegging – permissible increase in general income determined by Minister annually on advice of Dept. of Local Government and Treasury. System also allows for growth in rate base through subdivisions. Water and sewerage and waste charges are not subject to pegging.</p> <p>Special Variations Councils may apply to the Minister for rate increases over the rate pegging limit.</p>	<p>Councils determine rates No State government constraints. Rate capping temporarily introduced in 1990's but withdrawn.</p> <p>Base Rates Councils may apply a municipal charge (or base rate). Limited to 20% of rate.</p>	<p>Councils determine rates No State Government constraints.</p> <p>Differential Rates Councils may apply differential rates.</p>	<p>Councils determine rates No State Government constraints.</p> <p>LGAQ Index The LGAQ calculates and advises a Local Government cost index to guide Councils on rate increases. (Based on CPI and construction cost indices).</p>	<p>Councils determine rates However, the Act limits general income to no more than 110% of budget deficiency and no less than 90% of the budget deficiency.</p>	<p>Councils determine rates No State Government constraints generally. An exception is Jabiru Township, where Council must get approval for rate increases from Jabiru Development Authority.</p>	<p>Council determine rates No State Government constraints.</p> <p>LGAT Is considered producing a Local Government Cost Index to guide Councils on rate increases.</p>
NSW	Victoria	South Australia	Queensland	Western Australia	Northern Territory	Tasmania

<p>Differential Rates Councils may apply differential rates. 4 categories but no limit on sub-categories.</p> <p>Special Rates Councils may apply special rates for specific purposes but must fall within permissible general income limit unless a special variation has been approved.</p> <p>Base Rates Councils may apply base rates and minimum rates. Base rate limited to 50% of total rate.</p>	<p>Differential Rates Councils free to determine criteria based efficiency and equity considerations. Highest differential rate to be no more than four times lowest differential rate.</p> <p>Special Rates Available option for specific purposes and locations.</p>	<p>Base Rates Option available to Councils (fixed rates). Minimum rates are also an option.</p> <p>Tiered Rates Councils may adopt a tiered rating system.</p>	<p>Differential Rates Councils may apply differential rates or general rates.</p> <p>Minimum Rates Councils may apply minimum rates.</p> <p>Special Rates and Charges Available option for specific purposes and locations.</p>	<p>Differential Rates Councils may apply differential rates. Differential rates not to be more than twice the lowest differential rate applied by Council.</p> <p>Base Rates Councils may apply a municipal charge (or base rate). Limited to 20% of rate.</p> <p>Special Rates Available option</p>	<p>Differential rates Councils may apply uniform or differential rates.</p> <p>Base Rates Councils may apply base and minimum rates.</p> <p>Special Rates Available option</p>	<p>Differential Rates Councils may apply differential rates on a wide range of criteria.</p> <p>Base Rates Councils may apply base rates (fixed charge) but limited to 20% of general income.</p> <p>Special Rates and Charges Special (separate) rates and charges are an available option.</p>
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The table on the previous page shows clearly that NSW is the only State where rate pegging is currently in operation. Over the period it has been in operation which is now over thirty years, rate pegging has resulted in NSW councils levying lower rates than other States. This is shown in the graph below, which was provided by the LGSA.



A major problem with rate pegging is that the current method used to determine the annual rate pegging limit has been primarily focused on increases in award wages and general price increases, that is CPI. Given the range of services provided by Local Government there are many costs incurred by Council which have increased by a higher rate than CPI. Some examples are as follows:

- **Fuel Prices**

In recent years increases in fuel prices have been considerably higher than CPI. These increases have caused significant increases in the costs of all services requiring motorised transportation, such as grass cutting, waste services, street cleaning, road resealing and so on. Over the ten year period 1997/98 to 2006/07 Council's annual expenditure on fuel has increased annually by an average of 11.05%. Part of the reason for this increase has been an expansion in Council's vehicle fleet, which has been required to maintain service levels in an expanding city.

- **Road Maintenance and Construction**

For many years the costs of the major inputs used in the construction of new roads and other similar infrastructure like footpaths have increased significantly higher than general CPI. These inputs which have been subject to significant increases include asphalt, road base, steel and concrete.

Council is currently developing a long term asset management strategy. The analysis so far completed has shown that on average costs associated with the construction of new roads have increased by 5% per annum. There have been similar increases in the costs of maintenance of existing roads. Based on current trends these costs are projected to continue to increase by at least 5% per annum in the future. Some types of maintenance such as major reconstruction of existing road sections are projected to increase by as much as 8% per annum in the future.

- **Building Maintenance and Construction**

Consistent with increases in many of the inputs used in the construction and maintenance of roads, there have been large increases in many of the inputs used in the construction of buildings. For example, the cost of constructing buildings is currently increasing at 6% per annum. The cost of completing civic works, such as building new sporting fields is currently increasing close to 8% per annum.

- **Information Technology – Software and Hardware Costs**

The costs to Council of maintaining its computer network have increased considerably over the past decade. This has been a result of a number of factors including the following:

- Increased licence costs for standard operating systems such as Windows
- New software for design and mapping purposes
- Improved security programs to protect from computer viruses and fraud
- Increased e-commerce and e-business costs. Councils like many other businesses, increasingly conduct more operations by Internet.
- Higher costs associated with maintaining Council's website. There has been a rapid expansion in the amount of information maintained on Council's website. This information needs to be regularly reviewed and updated, resulting in increased costs.
- Public access PC's at Libraries. In response to increased demand for computing facilities, Council's Libraries have increased the number of public access PC's offered at its Branch Libraries.

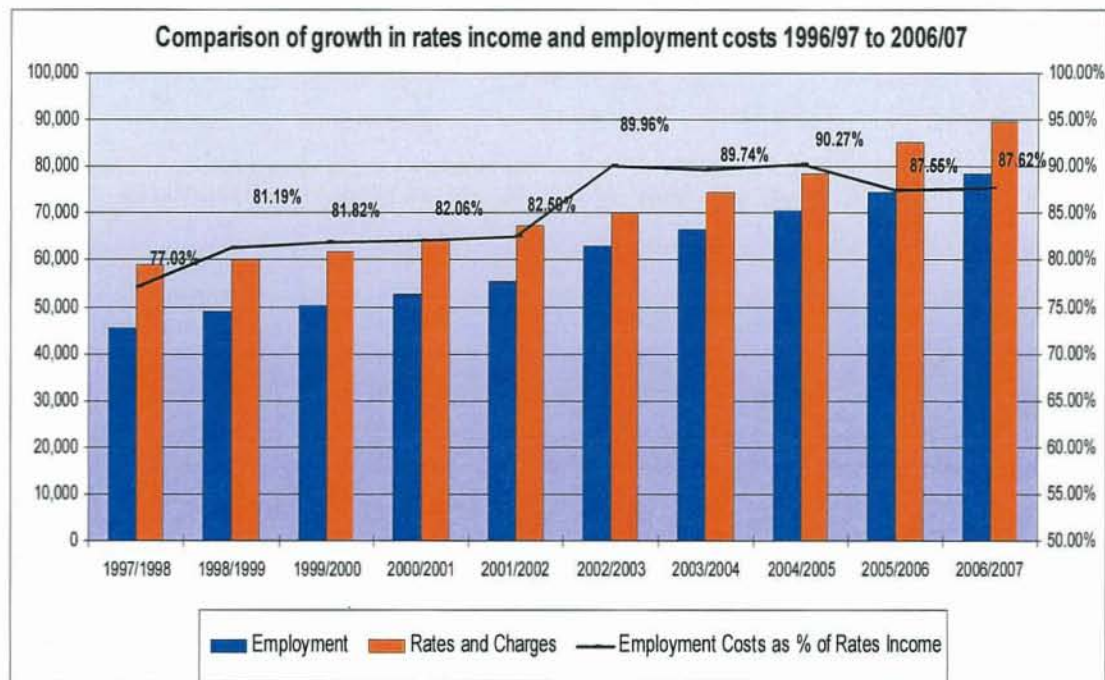
Council's software costs have increased by an average of 23% per annum over the past decade. Council's hardware costs have increased by an average of 17% per annum.

- **Employment Costs**

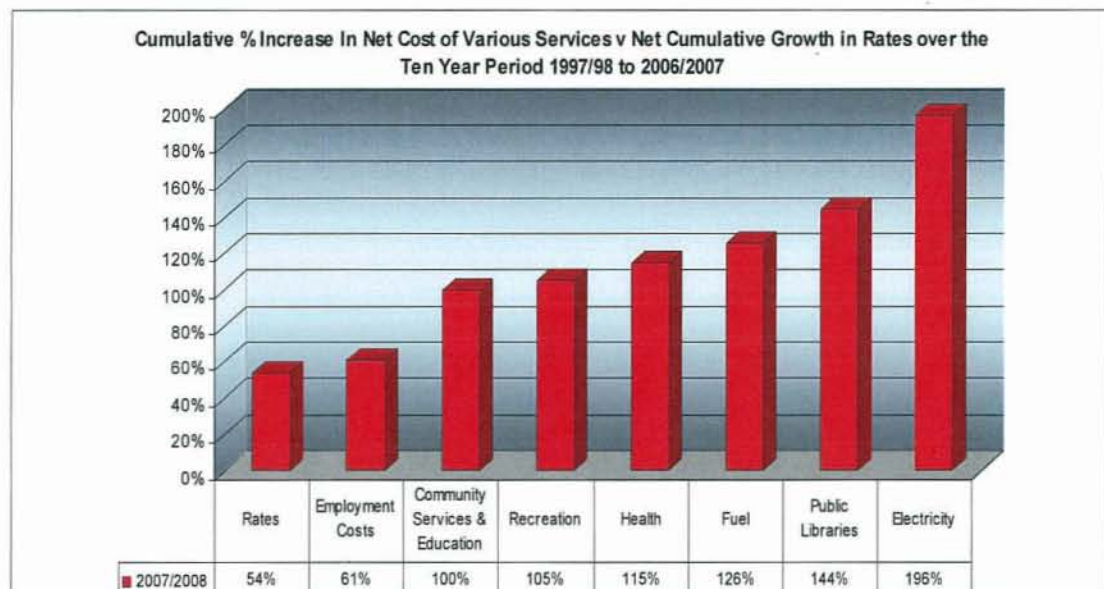
Like many other industries, Local Government is confronted with skills shortages in many professional and para-professional areas. This is a particular challenge for Local Government as it employs a broad range of specialist employees. For example, councils employ professional staff such as Accountants, Engineers,

Town Planners, Health Surveyors, Information Technology Professionals, Librarians, Heritage Officers and Environmental Scientists. The increased shortage of skilled staff has caused Councils to increase the salaries offered to professional and para professional staff in order to both retain and attract good employees. The result is increased employment costs, which exceed increases in rates revenue.

The graph below relates to the increase in Council's employment costs over the ten year period 1997/98 to 2006/07 compared with the actual growth in rates income over the same period. The black line shows the total employment costs as a percentage of the rates income received for each year. It indicates that employment costs have increased as a proportion of total rates from 77.03% in 1997/98 to 87.62% in 2006/07.



The graph below shows the cumulative increases in the cost of a variety of services provided by Council over the ten year period 1997/98 to 2006/07. It can be seen from this graph that the rating income for Blacktown City Council has increased in cumulative terms by 54%. It is noted that this increase is higher than the sum of the applicable rate pegging limits for this period. This is because of the high level of development activity which has occurred in Blacktown during the past decade. As a result of this activity, Council has received additional rate income as a result of new properties becoming rateable. Compared with the increase of 54% in Council's rates income, the graph shows the cost of a variety of services and inputs has increased considerably more. Council's total electricity cost, for example, has increased by 196% over the same period, more than 3.5 times the increase in Council's rates income. The increase in electricity costs is reflective of the number of Council buildings and parks, as well as general increases in electricity charges.



6. AN ALTERNATIVE MODEL TO THE CURRENT SYSTEM OF RATE PEGGING FOR DETERMINING ANNUAL RATE INCREASES

In preparing this submission Council considered each of the five alternative regulatory frameworks proposed by IPART in its Draft Paper. A summary of Council's assessment of the advantages and disadvantages of each option proposed by IPART is provided in Appendix A to this submission.

After much consideration Council considered that none of the five options proposed by IPART fully addressed the major shortcomings of the rate pegging system currently in operation in NSW. As such, rather than endorsing one of the five options proposed by IPART, Council respectfully would instead prefer to suggest the following:

Preferred Option

- *The abolition of rate pegging with the responsibility for the determination of annual increases in rates transferred to individual councils.*

Alternative Option (1)

- *Should the State Government not endorse the complete abolition of rate pegging, Council would prefer to see the removal of rate pegging with IPART having an advisory role. This would involve IPART providing councils with a recommended rate pegging limit for each year on the proviso that it be set at a minimum level for a minimum of four years. Councils would retain the discretion to increase their rates by a higher amount, if required.*

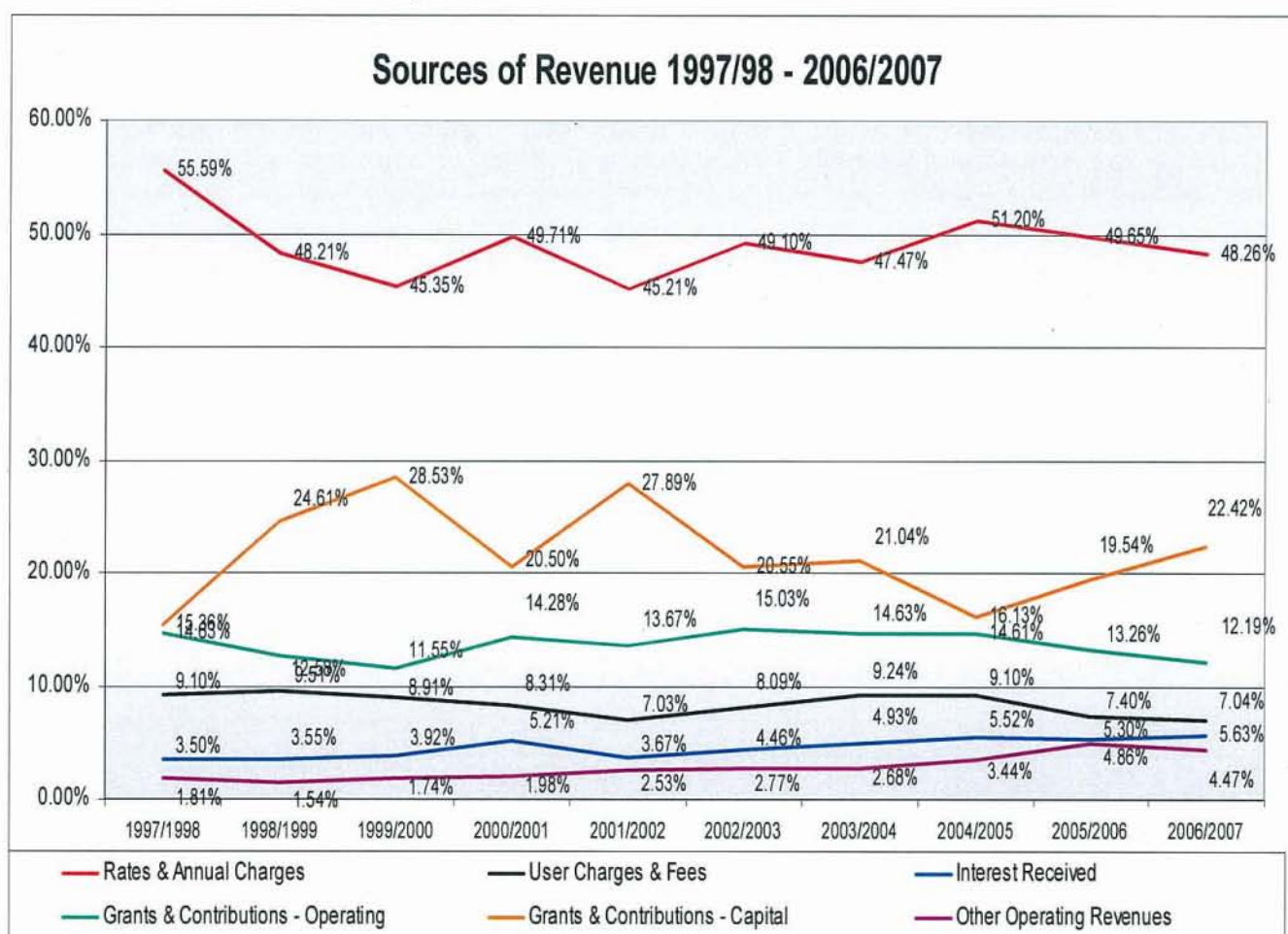
Alternative Option (2)

- *Should either of the above two options not be endorsed Council would recommend the retention of rate pegging but with the responsibility of its determination transferred to IPART.*
- *As increases in rate pegging have not kept pace with overall cost increases incurred by NSW Local Government, nor the increase in the level of services provided by NSW Local Government, a revised method to determine the annual rate pegging limit is required. The revised method should be determined in consultation with Local Government. Council believes that the annual rate pegging should be set with regard for cost increases applicable to typical inputs used by Local Government. This could include items such as the following:*
 - *CPI*
 - *Award Wage Movements*
 - *Increases in the cost of diesel and petrol*
 - *Increases in costs charged by other levels of government, such as the Valuer General's Department, Bush Fire Brigade and Rural Fire Service, etc.*
 - *Increases in the costs of utilities such as electricity, water and gas*
 - *Increases in the costs of inputs used in road maintenance and construction works (e.g. bitumen, asphalt, road base, concrete, steel)*
 - *Increases in the costs of inputs used in the construction and maintenance of buildings (concrete, steel, wood, etc.)*

- *Increases in the costs of inputs used in parks and reserves maintenance (e.g. fuel, fertilisers, water, etc.)*
- *That as NSW Local Government has a major backlog of outstanding infrastructure maintenance and renewal works largely due to inadequate funding as a result of rate pegging, that when determining the annual rate pegging limit IPART seeks to address this issue.*
- *That the annual rate pegging limit be determined on the proviso that it be at least equal to either the applicable annual Award increase for wages or latest CPI index (being whichever is the higher) for a minimum of the next four years.*
- *That IPART be required to advise its recommended rate pegging limit a minimum of six months prior to commencement of the following financial year. Further, in determining the rate pegging limit it must consult extensively with the Local Government industry and provide the industry with ample time to provide input into this process.*

7. WHAT OPPORTUNITIES ARE THERE FOR COUNCILS TO INCREASE THE REVENUE RECEIVED FROM SOURCES OTHER THAN RATES?

In addition to rates councils receive revenue from a variety of other sources. The main areas are grants and contributions, user fees and charges and interest earned on investments. The graph below shows the composition of Council's revenue for the ten year period 1997/98 to 2006/07. This graph shows that over this period the composition of Council's revenue has not changed substantially. The main variations have been a reduction in rates and charges income as a proportion of total income, having reduced from 55.59% in 1997/98 to 48.26% in 2006/07. This has been mainly offset by an increase in capital grants and contributions income. This is reflective of an increase in the amount of Section 94 Developer Contributions Council has received, which is commensurate with the increased development activity which has occurred within Blacktown City Council.



As highlighted in the above graph rates form the major source of revenue for Blacktown City Council. This is consistent with the majority of councils where rates comprise at least half of all revenue received. Over the years there has been extensive deliberations over whether councils should seek to increase its revenue from sources other than rates. Like many councils, Blacktown is faced with this decision when setting its annual revenue pricing policy. Ultimately, the capacity for individual councils to increase the amount of revenue from other sources of revenue

will depend on the relative financial capacity of its residents. Many of the services provided by Local Government address community requirements which are not provided either by other levels of government or the private sector. These include library services, aquatic facilities and other cultural facilities which are heavily subsidised by Local Government. Increasing the fees for such services would make it extremely difficult for many residents to afford and thereby deny them the ability to participate in such activities. It has been previously identified by IPART in its review of State government taxes that council rates are a relatively efficient method of raising revenue. It can be argued therefore that councils when seeking to increase their overall revenue would best achieve this by an increase in rates. In making this decision to increase its revenue councils need to seriously consider the impact on those residents with limited financial capacity. Increasing user fees and charges would adversely affect such residents as they would most likely be unable to afford increased fees for services such as aquatic facilities. Conversely, increasing rates would distribute the burden over the entire community and result in a lesser impact on specific sections of the community. It is therefore argued that councils should be permitted to increase revenue raised by rates.

It is noted that although Commonwealth Financial Assistance Grants (FAGs) to Local Government have grown faster than the consumer price index (CPI), this increase has been considerably lower than the increase in both National GDP and GSP (gross state product or GSP). Further, the total amount of Commonwealth Financial Assistance Grant Funding provided to Local Government has diminished as a proportion of federal tax revenue. In addition to the abovementioned points an analysis of the Financial Assistance Grant received by Council on a per capita basis has decreased in real terms. As such, Council in this submission recommends that it is imperative that the amount of Financial Assistance Grant Funding provided to Local Government needs to increase considerably.

The formula for distributing FAGs between councils is only partially based on their revenue and expenditure disabilities. Further, capital (i.e. infrastructure) disabilities are not considered. Unlike the Commonwealth Grants Commission, the NSW Local Government Grants Commission does not publicly disclose its calculations of disability for each council. Instead, it only discloses its measure of disability of a council to that council itself. This prevents comparisons being made on the LGGC disability measures between different councils.

The fact that FAGs has not kept pace with GSP is significant. It underlines that as the State's economy has grown and as a consequence community expectations have increased, the funding from the FAG, in relative terms has fallen behind. Accordingly, Council would respectfully recommend that urgent consideration be given to substantially increasing the amount of FAG paid to local councils.

In addition to the abovementioned decline, in real terms, of FAG received by Council is the continued decision of the NSW State Government not to pass on National Competition Policy Incentive and Compliance Payments to NSW Local Government. Whilst NSW Local Government has been required for many years to embrace National Competition Policy compliance requirements it has not had the benefit of the additional revenue due had the State Government passed on the National Competition Policy Incentive and Compliance Payments to NSW Local Government.

User Fees and Charges

The other area which Council wishes to comment on in this submission is the level of revenue derived from user fees and charges. As shown in the graph on the previous page the proportion of Council's total revenue received from user fees and charges has remained relatively constant. The challenge that councils are confronted with when determining what level to set for many of its user fees and charges is that many services need to be subsidised by the council, in order to allow services and facilities to remain accessible to all members of the community.

The point which Council would like to highlight in this submission is that there are significant limitations to councils being able to appreciably increase the total revenue it receives from user fees and charges. For example, it is not possible to recover the full cost of operating swimming pool facilities through user fees and charges as the entrance fee would be substantial and unaffordable for many socio-economic groups. Similarly, councils are expected to provide community facilities such as meeting rooms and halls at a subsidised rate so that volunteer and charity groups are able to meet regularly. Councils need to consider when determining annually its fees and charges the financial capacity of its residents and their ability to afford increased fees and charges. These decisions can substantially impact the levels of revenue generated.

8. CONCLUSION

Council trusts that the information contained in this submission is of assistance to IPART in conducting its review of the Local Government Revenue Raising Framework. As discussed previously in this submission Council considers that the greatest issue confronting the long term sustainability of NSW Local Government is the current system of rate pegging and as such it urges IPART gives serious consideration to the alternative model recommended in this report.

APPENDIX A – Assessment of IPART’s proposed options for alternative regulatory frameworks

1. Retain existing rate pegging arrangements but:

- Publish the economic indicators or indices to be used in determining the uniform rates cap to be applied across local government each year.
- Modify the special variations process to ensure that the mandatory criteria required to justify a Section 508 (2) or a Section 508A variation are published and that the process of application and approval is fully transparent and forms part of local government regulatory system.
- Leave all charges unregulated (except s94 charges which are being dealt with separately under amendments to the NSW Planning and Assessment Act).

Advantages

Currently the rate pegging limit is announced without explanation as to how it has been determined. Publishing the indices used in its determination would enhance transparency.

Council supports the determination of all other charges continuing to be unregulated.

Disadvantages

Whilst the publishing of the indices used would need to enhance transparency it would not result in the actual rate pegging limit being increased. As addressed in Council's submission rate pegging has created a significant funding shortfall for local government in addressing core issues such as asset maintenance. As such Council does not support this option as it does not adequately address the shortcomings of the current rate pegging system.

2. Implement a more disaggregated form of rate pegging which incorporates cost indices relevant to each council (or groups of councils). This option would be as for option 1 but either:

- Group councils based on specific criteria and calculate a rate peg specific to each grouping, or
- Calculate a specific cap for each council based on specific criteria (eg cost structures, service dimensions).

Advantages

The current rate pegging limit is the same for all councils. This option acknowledges that there are significant differences in the funding requirements of individual councils and that allowing all councils to increase their rates by the same percentage is not effective.

Disadvantages

This option does not specify how alternative rate pegging limits for different councils could be set. It is feared that the method used to determine rate pegging limits for different councils may still not be broad enough to adequately take into account unique characteristics. As stated in this submission Council's preferred position is the abolition of rate pegging with responsibility for the determination of rate increases to rest with individual councils.

3. **Reduce the scope of rate pegging** to cover only local government revenue needed to fund operating expenditure and thus exclude capital expenditure from rate pegging (noting that operating expenditure should include some expenditure approximating asset depreciation). This option includes:
 - Leaving other fees and charges (except s 94 charges) largely unregulated as is.
 - Providing separate guidelines on operating and capital expenditure planning and pricing. These guidelines could require approaches to operational revenue raising, related expenditure, capital expenditure plans and costings, pricing policies and charges, depreciation policy and proposed funding options including debt financing and public private partnerships. A section on relationship of Section 94 plans to these guidelines could be included.
 - Modifying the special variation arrangements as described in Option 1 above.

Advantages

The primary advantage of this option is that it will allow councils greater ability to fund major capital works, the costs of which are increasing at a higher rate than either inflation or rate pegging.

Disadvantages

The majority of most councils expenditure is on operating purposes and as such this option does not adequately address the funding shortfall experienced by local government. Again as previously noted Council's position is the abolition of rate pegging which is not covered in this option.

4. **Maintain rate pegging power but promote greater freedom** by exempting individual councils from rate pegging subject to a mandatory demonstration of:
 - financial accountability and governance
 - financial sustainability
 - comparative efficiency and effectiveness indicators (including affordability and availability of local services and facilities)

- ability to achieve the above objective criteria over a 10 year time frame through an approved and independently audited management plan. This audited plan could be tabled in Parliament and made publicly available.
- This option may require regulatory changes to current Management Plans prepared under the *Local Government Act 1993* - Chapter 13, Part 2 Management Plans.

Advantages

Council agrees with allowing individual councils the ability to determine rate increases. As such, this option is supported with certain provisos. Primarily the assessment of the abovementioned requirements should be fair and realistic and take into account increased cost pressures on councils resulting from cost shifting, rising community expectation and general cost increases of which council has no control.

Disadvantages

Council is concerned that councils may be unfairly or harshly judged on the abovementioned criteria and thereby lose the entitlement to determine the amount that they increase their annual rates by. It is also concerned with the requirement that councils may need to table their management plan and other documents through State Parliament as this could incur increased costs of compliance and result in higher levels of external involvement.

5. **Institute measures to enhance accountability to the local community and remove mandatory rate pegging.** This option includes compulsory reporting on a comparable basis to enable comparisons between councils. Where councils fail to meet these criteria a default rate cap could apply. While IPART has included this option for discussion, it notes that the Minister for Local Government favours the continuing of rate pegging.

In addition, in assessing Options 1 and 2, IPART will also consider whether councils should also be required to develop a 10 Year Management Plan, as outlined in Option 3 above.

Advantages

Council supports the abolition of rate pegging.

Disadvantages

Council notes the IPART's submission comments that the Minister for Local Government favours the retention of rate pegging. As such, Council is concerned that this option may ultimately be dismissed by the government. Further, IPART have proposed this option with the proviso that councils complete compulsory reporting demonstrate comparisons between individual councils. Having regard for the unique characteristics of each council such comparisons can be misleading and at worst lead to unreliable and incorrect conclusions made. As IPART state that should councils not meet, as yet unspecified, criteria this option is considered unsuitable.