

# **Campbelltown City Council**

## **Submission to IPART Inquiry – Revenue Framework for Local Government**

**Date: 29 August 2008**



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## TABLE OF CONTENTS

Executive Summary .....	1
Background – A Guide to Campbelltown City Council’s Submission.....	2
City of Campbelltown – An Overview .....	2
<b>1. REGULATORY FRAMEWORK.....</b>	<b>3</b>
<b>2. FUTURE ROLE OF IPART.....</b>	<b>16</b>
<b>3. OTHER STATE GOVT AGENCIES .....</b>	<b>18</b>

## INTRODUCTION

### Executive Summary

Campbelltown City Council commends the Premier of NSW in directing the Independent Pricing and Regulatory Tribunal of NSW (IPART), to assist the Department of Local Government (DLG), by conducting a review of the regulation of Council rates and charges in NSW. This review provides both IPART and the State Government with a unique opportunity, to ensure that as the third tier of Government in Australia, Councils in NSW will in future be able to financially sustain the level of service required by the communities that they serve.

The key issues IPART is to investigate and make recommendations on are summarised as follows;

1. An appropriate regulatory framework for setting rates and charges;
2. A role for IPART in setting rates and charges in future years; and
3. A framework for setting charges levied by certain public authorities (such as the Growth Centres Commission (GCC)).

Campbelltown City Council, in response to these matters, submits the following:

### **Campbelltown City Council - Recommendations to IPART**

- 1.1 In the development of a regulatory framework for the setting of Local Government rates and charges, including charges for non-business activities, that a flexible rating structure be adopted, which may provide for an upper limit option, for a prescribed timeframe (e.g. 3 - 5 years).
- 1.2 That any revised regulatory framework acknowledges the integration/overlap between the three (3) tiers of Government in Australia, and between the different Government agencies within each tier.
- 1.3 That a 'Tri-Partisan' Government Oversight Committee is convened, representing each level of Government, to monitor a revised regulatory framework for setting rates and charges. This may be formed under the auspice of councils of Australian Government.
- 2.1 IPART should be empowered via legislation to have a determinative role in setting Local Government rates and charges, including for non-business activities.
- 3.1 That IPART propose either a common legislative or regulatory framework, to ensure the recovery of costs and services toward infrastructure otherwise not provided for under the Growth Centre Commission's 'Special Infrastructure Contribution – Practice Note', that is met from Council's general revenue.

Campbelltown City Council acknowledges the role of IPART in conducting this important review into the Revenue Framework for Local Government. Council commends this submission to IPART as part of this review.



## **Background – A Guide to Campbelltown City Council's Submission**

It is noted that the range of matters that IPART is to reference in this review, is both extensive and comprehensive. In all, IPART has identified some fifty-two (52) separate issues that make up the review, to which it seeks comment.

To assist IPART in the evaluation of the following submission, Campbelltown City Council (Council) has structured a response into the following sections;

1. Regulatory Framework;
2. Future Role of IPART;
3. Other State Government Agencies.

Each of these sections is specifically tailored to align with the matters upon which IPART is to investigate and ultimately make recommendations.

Within each of the relevant sections of Council's submission, Council has nominated specific 'Issues' listed in the IPART 'Terms of Reference', and expanded in detail by way of response. Each of Council's responses subsequently support the recommendation for the corresponding section, providing IPART with clear advice as to an appropriate framework for setting rates and charges, and a recommended role for IPART in setting those rates and charges in future years.

### **City of Campbelltown – An Overview**

The City of Campbelltown is a significant Regional City ideally placed for future growth. Situated fifty-three (53) kilometres from the Sydney CBD it covers an area of three hundred and twelve (312) square kilometres, extending from Glenfield in the north to Menangle Park in the south. From a base of 34,000 people in 1971, the City has grown to around 150,000 residents in 2008.

The rapid development of the City dramatically increased the need for a wide variety of basic services. These services covered the whole spectrum of welfare, health, cultural and recreational facilities. The City also faced unique problems in the areas of drainage and transportation.

Campbelltown City is home to a major regional hospital, university, two TAFE campuses and a large regional shopping centre (Macarthur Square). The opening of the M5 East extension and M7 Western Sydney Orbital road corridors further enhanced the City's strategic proximity to Sydney, Canberra, Wollongong, the Southern Highlands and south coast beaches. The strategic position to a number of major transport corridors facilitates economic interaction with these and other commercial centres (including Melbourne), broadening Campbelltown's employment base and developing a \$4 billion per annum economy.

The Campbelltown City population is maturing and will require strategic planning to ensure that future needs are met in terms of facilities, employment and recreational opportunities. In response to these issues Council has developed a strategic vision document, 'Campbelltown 2025 – Looking Forward', which will provide a blueprint for future planning and development in order to achieve economic, cultural, environmental and social sustainability.

Campbelltown City Council has taken a leading role in planning and provision of services to meet the regional needs of South Western Sydney in conjunction with a local role in providing services to the Campbelltown Local Government Area.



## 1. REGULATORY FRAMEWORK

### Introduction

IPART is to investigate and make recommendations on an appropriate inter-governmental and regulatory framework for setting rates and charges, which facilitates the effective and efficient provision of Local Government services.

With reference to the 'IPART – Revenue Framework for Local Government' paper, the following Issues are addressed in this section of Council's submission:

- Issue 1 through to Issue 4.
- Issue 10 through to Issue 43.

While not each of these Issues is addressed in this submission, Council provides a response to the following items for IPART's consideration.

#### ***What is the role of Local Government and how is it determined?***

Local Government throughout Australia and particularly in NSW has developed strongly in the latter part of the 20<sup>th</sup>, and into the 21<sup>st</sup> Centuries. These functions have expanded enormously to embrace now routine activities such as local and regional planning, environmental health, pollution control, natural resource management, community services (including health services) and economic development.

Fundamental changes have been made to the way Councils do business; internal restructuring, strategic and corporate planning, financial management, benchmarking and performance indicators and the application of competition principles have all impacted on the industry over the past fifteen (15) years.

The role of Local Government is in essence determined by the various pieces of legislation to which it must adhere. The *Local Government Act* introduced in 1993, provides a framework to manage ongoing change and improvement. However, it needs to be complemented by a shared vision; committed to primarily by Local and State Governments, but also involving the support of Commonwealth Government, on how Local Government should continue to develop. This 'tri-partisan' governmental approach is central to ensuring the achievement of community goals, and the development and implementation of financial and other intergovernmental arrangements to bring about desired outcomes.

The *Local Government Act 1993* listed other legislation under which Councils have functions, including:

- *Community Land Development Act.*
- *Conveyancing Act.*
- *Environmental Planning and Assessment Act.*
- *Fire Brigades Act.*
- *Public Water Supplies Act.*
- *Food Act.*
- *Impounding Act.*
- *Library Act.*
- *Public Health Act.*
- *Recreation Vehicles Act.*
- *Roads Act.*

- *State Emergency Services Act.*
- *Strata Schemes Act.*
- *Swimming Pools Act.*

Since 1993 there have been some important additions to this list, notably the *Waste Minimisation and Management Act*, the *Protection of the Environment Operations Act*, the *Rural Fires Act* and the *Companion Animals Act*. At the same time, further or more complex responsibilities have been included in existing legislation, such as the *Environmental Planning and Assessment Act* and the *Local Government Act*.

The corporate planning and reporting requirements of the *Local Government Act 1993* were in themselves a very significant extra function for many Councils, including for example the requirement to prepare 'State of Environment' reports. In addition there is the requirement for Councils to prepare Social Plans, and to incorporate special provisions relating to ecologically sustainable development, and access and equity, into Council's Management Plans.

It is clear that NSW State agencies will continue to respond to pressures on their own resources, and to demands for action on key issues of concern to the community, by devolving responsibilities to Local Government. The key issue for Councils is whether this trend will proceed on an ad hoc basis or through a coordinated, consultative process. In particular, there is a pressing need to address the cost implications for Councils when functions are transferred without corresponding financial support or revenue mechanisms.

### Summary

The role of Local Government is determined through a combination of (various pieces of) legislation, community expectation, as well as individual Council priorities. What is also important is the 'relevance' of Local Government, which is expanded upon throughout this submission. The review undertaken by IPART is an opportunity to ensure that a regulatory framework is put into place for a funding system that supports Local Government in the future, by effectively accounting for instances of cost-shifting from State and Federal Governments.

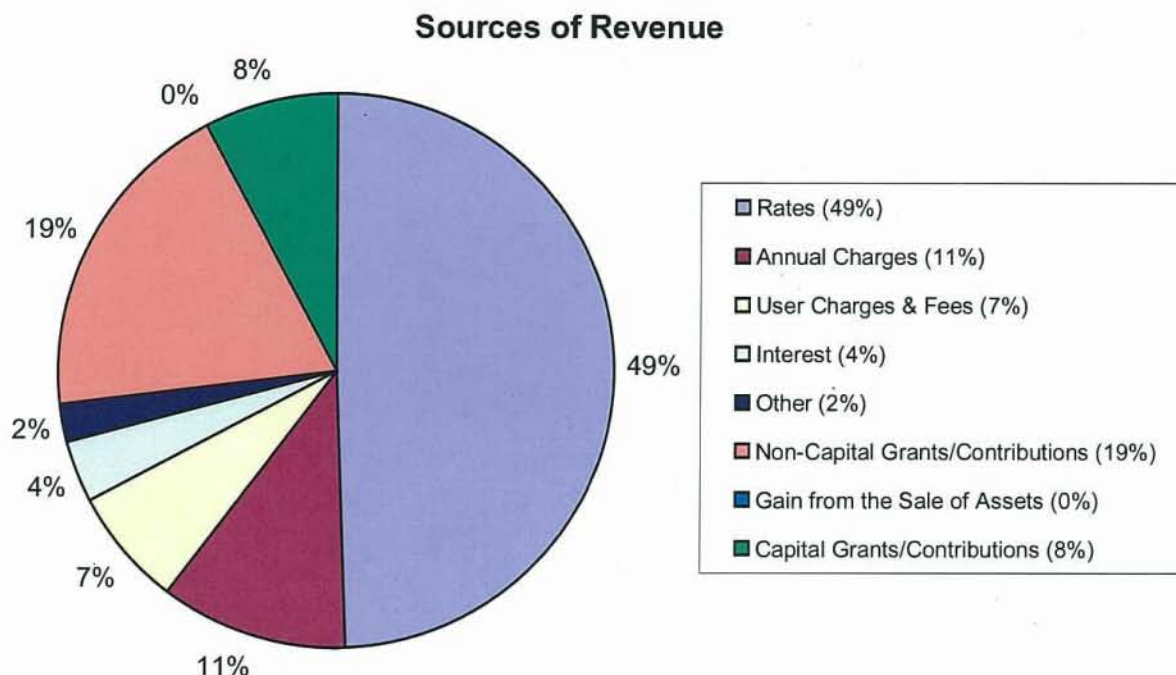
### **How does the current regulatory framework impact on the efficiency of rate setting by Councils?**

Local Government finances are under increasing stress. Local Government's capacity to deliver services and to develop and maintain infrastructure are under genuine threat. This has occurred through the combined result of restricted revenue raising capability, increasing responsibilities and rising community expectations.

Rating is the only taxation measure available to Local Government and accounts for just under 50% of Campbelltown City Council's revenue (excluding annual charges), as depicted in the following graph;



**Figure 1 – Campbelltown City Council: Sources of Revenue (2006/2007)**



This narrow taxation base places a severe restriction on Council's capacity to raise revenue generally. Further, the rating base varies significantly between Local Government areas, an aspect only partially addressed by the 'Horizontal Fiscal Equalisation' principles of the Local Government grants process. Unlike the Commonwealth and State Governments, Local Government does not have the flexibility to structure a taxation strategy across a suite of taxation tools. The situation is further exacerbated by the rate pegging system in NSW.

The restricted taxation base has led to a growing reliance by Councils generally on user fees and charges, however this recourse is reaching limitations. User charges are the third largest source of revenue for Campbelltown City Council, and represents approximately 27% of Local Government operating expenditure in NSW. Through the application of user fees and charges, Local Government already achieves a much higher cost recovery ratio than other spheres of Government. On a national basis, the cost recovery ratio for Local Government is 36.8% compared to ratios of 4.3% for the Commonwealth and 12.2% for the States.

This cost recovery ratio partly reflects the type of services provided by Local Government. However, it also suggests that Local Government is already maximising utilisation of user fees and charges, and that there may be limits to the extent that Local Government can increase cost recovery efforts. As depicted in 'Appendix 1' to this submission, there exist certain statutory fees that have not changed in value, over the past eighteen (18) years.

Apart from general community resistance to ever increasing user fees and charges, there are important equity and governance considerations. Many Council services by their very nature cannot be provided on a cost recovery basis. Furthermore, the opportunity to raise revenue in this way varies significantly between Councils. For example, parking meters are a viable option restricted to high density commercial and tourist areas. They are not an option in centres where ongoing commercial sustainability is under threat, such as older and declining 'strip shopping centres'.



Grants are the third major source of revenue for Local Government (although the second major source for Campbelltown City Council), with Commonwealth Financial Assistance Grants representing 7.9% of total operating revenue for Campbelltown City Council.

Grants to Local Government have continued to decline as a share of Gross Domestic Product (GDP) over the past 20 years and currently represent approximately 0.22% of GDP or 0.86% of all taxes inclusive of GST (Allan Report). Financial Assistance Grants are currently only being maintained in real terms per capita with no foreseeable prospect to increase. It remains that the Commonwealth Government will advocate that State Governments meet the additional needs of Local Government, particularly considering the revised Commonwealth/State funding arrangements since the introduction of the *New Tax System 2000* (GST).

State Government grants to Councils in NSW have fallen significantly over the past two decades. Until 1982 the State Government distributed some \$15 million per annum to Councils in general purpose grants, through the 'Local Government Assistance Fund'. However this was terminated by the State Government on the grounds that the Federal Government had accepted responsibility for general purpose assistance.

The level of special purpose grants has declined, notably in key areas such as roads, water supply and sewerage. Also of concern is that arrangements for pensioner rebates have not been reviewed since 1989, despite the growing costs to Councils accruing from an ageing population. Furthermore, unlike counterparts in Queensland and Victoria, the NSW State Government has not passed on to Councils a share of the National Competition Policy payments it receives from the Commonwealth, even though Local Government reforms are an integral part of the justification for these payments.

The cost of compulsory pensioner rate concessions is placing an ever-increasing strain on Local Government finances, and is threatening the level and range of services that Councils are able to provide. While the level of the compulsory concession has remained unchanged since 1989, an ageing population has ensured that the cost has escalated substantially, rising from \$41 million in 1992-93 to over \$75 million in 2000-2001. The cost to larger Councils such as Campbelltown is typically in the range of \$1-\$2 million per annum.

Pensioner rate concessions are in essence a form of welfare payment, and given the limited tax base of Local Government, it can be argued that such schemes are more appropriately (fully) funded by the Commonwealth Government.

### Summary

The current regulatory framework constrains Council's revenue, thus limiting the capacity of Local Government to provide a wider range of services. Council commends to IPART that retention of the regulatory framework in the current form, will result in a diminishing level of service to local communities.

There exists an opportunity for IPART to address the issue, by developing a regulatory framework that is flexible in structure to support the emerging role of Local Government, and enabling rates to be based on a sustainable methodology that accurately reflects prevailing financial conditions. As an option to either supplement the existing methodology, or as a functional alternative, Council respectfully proposes that IPART consider a rating structure that provides an "upper limit" option for Councils to take up, for a prescribed timeframe. This proposal is expanded upon further under section '3. Future Role of IPART' of this submission.



***To what extent is there overlap with other levels of Government?***

Local Government in NSW can demonstrate that there have been improvements in Council management, functions and structures in recent years. Nonetheless, as part of the public sector, Local Government cannot escape the changes in performance and accountability being demanded at state, national and even international levels.

If Local Government is to not just maintain, but to increase relevance in the political, economic and social development of NSW, Councils must work together to recognise the need for improving their performance, to identify the means by which this can be achieved and to take the initiative themselves. The critical issue here is to ensure that Councils collectively, are providing services and facilities that are relevant to users and provided in a cost effective manner.

The expanded range and increased complexity of the tasks required of Local Government means that Councils need to have greater technical expertise to adequately perform to expectation. There may also be the opportunity to generate savings through economies of scale and greater utilisation of plant and equipment.

Through resource sharing on a regional basis, Councils can improve the efficiency, effectiveness and quality of services and functions. Importantly, they provide the opportunity for Councils to maintain but also to improve service delivery to their communities, in response to increasing external pressure resulting from other levels of Government, and to increasing regulatory, compliance and reporting requirements imposed upon them.

***Example: Resource Sharing – Campbelltown and other local Councils***

Working collaboratively on the environmentally significant issue of Waste Management, in conjunction with the Councils of Camden, Wollondilly and Wingecarribee, Campbelltown City Council recently participated in a \$150 million dollar contract for the construction of a new regional waste management facility. Council is pioneering the shift from landfill to resource recovery with the use of technology solutions that treat waste as a valued resource, diverting waste away from landfill and produce outputs such as compost and green electricity.

As demonstrated by this example, resource sharing can be implemented in a number of ways, including:

- Resource sharing through service agreements where Councils as a group agree to allocate functions between themselves – one Council conducts a function on behalf of the group;
- Resource sharing through a joint enterprise, where Councils form a joint business to achieve economies of scale across a functional area of core business (as in the waste management facility); and
- Mergers, where Councils join together voluntarily.

Joint ventures demonstrated through the waste management project highlight the successes that can be achieved by Local Government when it has access to appropriate resources. Such efficiencies and economies of scale as demonstrated through this project support an argument for more financially capable Local Government authorities, which can effectively deliver large scale and coordinated infrastructure outcomes.



Collaboration between different Local Government authorities provides scope for achieving a rationalisation of roles and responsibilities between the levels of Government, better use of resources and better quality outcomes for local communities. Currently there is no consistent basis for determining whether Local Government or a State agency best carries out a particular function. Nor is there an adequate policy framework to ensure productive working relationships between Councils and State agencies, where functions are shared. Coordination is also lacking amongst State agencies, in implementing efficient and effective service delivery at the local and regional level. From a Local Government and community perspective, the results can sometimes be highly unsatisfactory.

Many recent discussions of the future of Local Government focus on the concept of “subsidiarity”. This has been given particular emphasis in Europe, where it is a key element in both the political underpinning of the European Union and the reintroduction of democracy to Eastern Europe.

Subsidiarity is defined in the European Charter of Local Self Government in the following terms:

*“Public responsibilities shall generally be exercised, in preference, by those authorities that are closest to the citizen. Allocation of the task to another authority should weigh up the extent and nature of the task and the requirements of efficiency and economy”.*

This paradigm highlights a critical point. Subsidiarity is about achieving the most appropriate distribution of functions amongst different spheres of Government. It is a principle that invokes a partnership approach to intergovernmental relations, and can only be applied effectively in a context of mutual respect. Negotiation must be a central element.

In a situation of overlapping roles and responsibilities amongst Governments, such as exists in Australia, it is necessary to consider not only the effectiveness of Local Government itself but also the inter-relationships between activities and those of other agencies operating at a local level. Those inter-relationships need to be managed in a way which is responsive to the particular circumstances and needs of different communities, and which will secure the best possible outcomes between different Governments or agencies for the communities' best interests. The principle of subsidiarity needs to be applied within the broader intergovernmental framework.

Such concerns underpinned the concept of ‘Integrated Local Area Planning’ (ILAP) that promoted the potential for rationalisation of some Local, State and Commonwealth Government functions. ILAP identified problems in service delivery associated with poorly defined, and overlapping responsibilities; complex and fragmented administrations; ineffective intergovernmental consultation; and hence the failure to appropriately address the particular and varying needs of different local communities.

Similar ideas can be seen at work in Tasmania, in the form of the negotiation of State-Local Government partnership agreements. These involve joint identification by teams of State agency and Council officials, of key issues in a local area requiring cooperative action, and then formal agreement amongst the parties concerned on the action to be taken to address priority tasks. Similarly, Campbelltown City Council has entered a one-off agreement with a NSW State Government agency, for the preparation of a strategic Masterplan for the Glenfield Business Centre, which incorporates growth identified in the Sydney Metropolitan Strategy, as well as referencing construction of a new train line and station upgrade.

The stated purpose of these agreements is to facilitate the role of Local Government in a strategic way, which will in turn drive their local economies and communities. They are seen as an opportunity to examine service delivery arrangements and jointly identify measures to improve their design and delivery.



## Summary

The extent of overlap between Local Government and other levels of Government can vary from one Council to the next, as much as it can from one service or function to the next. IPART's review into establishing a regulatory framework for setting rates, and user fees and charges, should take into account a methodology that acknowledges such differences in order to enable Councils with a greater exposure to service provision, in lieu of other levels of Government, to retain access to adequate sources of funding.

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

Of particular concern to Local Government are the growing financial pressures on Councils resulting from a combination of factors, including;

- Expanded responsibilities without adequate corresponding access to increased revenues – an issue of unfunded mandates;
- Increased and additional State Government charges on Councils;
- Restrictions on Council revenue raising.

As highlighted in the Allan Report into the Financial Sustainability into NSW Local Government, a number of approaches were addressed in what level of responsibility Local Governments should facilitate within their communities. It is recommended that the maximalist approach where councils foster the welfare of the whole community.

Within this constrained financial environment Local Government has had to cope with new and increased responsibilities. The Commonwealth Grants Commission has also acknowledged this fact in the review of the *Local Government Financial Assistance Act*. The Australian Bureau of Statistics 'Government Finance Statistics' data supports this conclusion, clearly demonstrating a shift in the composition (and by inference), an expansion in the range of services provided by Local Government over the past twenty-five (25) years.

In that time there has been growth in the expenditure on human services, with increases in education, welfare and public safety services. There has also been an increase in the relative importance of recreational and cultural facilities, as well as housing and community amenities. While not highlighted as a separate category in the 'Government Finance Statistics', it is also clear that Local Government activities in the areas of planning and the environment have expanded substantially, particularly in recent years. Expenditure on roads remains as a major category and continues to grow in real terms, but expectedly has declined as a proportion of overall expenditure.

The growth in responsibilities has largely resulted from:

- Devolution – new responsibilities imposed on Council by other spheres of Government;
- "Raising the Bar" – where increased standards or complexity of service provision are imposed by other spheres of Government or the community;
- Cost Shifting – where Local Government agrees to provide a service on behalf of another sphere of Government, but funding is subsequently reduced or withdrawn, with Local Government having to maintain the service due to community expectations; or where another sphere of Government ceases to provide a service and Local Government is obliged to intervene on behalf of the interests of the local community;
- Increasing community expectations.



Despite being subject to severe financial constraints over the past twenty-five (25) years, Local Government has met these increasing responsibilities via a sustained increase in productivity. Few of the additional responsibilities conferred upon Local Government over the past few decades have been matched by adequate, and ongoing funding or new sources of revenue.

An example of this is the requirements of the *Local Government Act 1993*. The requirement under the Act to prepare Management Plans, Social Plans and State of the Environment Reports impose a considerable financial burden and divert resources away from other community priorities. Furthermore, it is largely anticipated that the DLG are soon to overhaul this system (in establishing the need for Community Strategic Plans), establishing a further cost impost on NSW Councils. Similarly the *Protection of the Environment Operations Act* has greatly expanded Councils' roles in environmental regulation. In the area of stormwater management, Council is now required under the direction of the Environmental Protection Authority (a division of the State Government Department of Environment and Climate Change) to prepare Management Plans, at a significant cost to Council.

Environmental planning, as well as development and building controls are another case in point. Again, these are now accepted as essential Local Government activities, but over the years have become demanding of Council resources. This has been compounded further via recent changes to the *Environmental Planning & Assessment Act 1979*. As a result of recent Planning Reforms introduced by the State Government, future establishment of 'Planning Assessment Committees' and 'Joint Regional Planning Panels' have instantly created a yet to be determined financial impost on Council, further duplicating service provision of Local Government. Council's ability to charge application fees and levy developer contributions has been constrained by the State Government at the same time as the complexities of the planning and approvals system have compounded. Private certification of building approvals continues to threaten a significant reduction in Council revenues. Moreover, Councils are now expected to play a much greater role in strategic planning with virtually no financial assistance.

Council's role in maintaining and engaging community well-being and quality of life is another area of responsibility that has been placed upon Local Government. The World Health Organisation defines a healthy city as one that is:

*"Continually creating and improving those physical and social environments and expanding those community resources, which enable people to mutually support each other in performing all the functions of life and in developing to their maximum potential".*

A healthy city is one that creates and improves these social, cultural, economic and physical environments. It is important to understand the dynamic system in which individuals exist, as addressing the range of interrelated factors requires a range of integrated responses to improve the quality of life for all individuals. This interrelationship of factors means that the "local community... is a dynamic system in which social, cultural, economic and environmental dimensions of community life are inextricably linked".

Councils are often encouraged to enter new areas of activity by State and Commonwealth agencies through the provision of short-term financial assistance or one-off capital grants. This has been particularly evident in the field of community development and some specific community services, such as children's services and aged care.

The effects of an ageing population will have significant impacts upon Local Government, both through retirement migration and as a result of increased demand for services. Under existing provisions, an older population will challenge the capacity for Councils to generate increased revenue in order to meet demand for services and associated infrastructure.



This will occur as revenue sources are effectively quarantined through pensioner concessions, as well as a reduction in user charges in conjunction with static or decreasing financial assistance grants, and other Local Government specific funding.

Notwithstanding this phenomenon, in responding positively to community wishes, Councils have accepted such grants and allocated matching expenditure only to find themselves locked into ongoing commitments, with funding support eventually withdrawn or substantially reduced. For example, Campbelltown City Council currently provides services to the community on the behalf of the State Government through the 'Community Options Programme'. This Programme has experienced rapid growth in recent years and provides much needed and cost effective services to the community. However, the 'Community Options Programme' has no tenure of funding, which precludes long term planning, and exposes Council to considerable financial risk should funding be reduced or withdrawn in favour of an alternate approach.

When funding is denied by Federal and State Governments, community representations are made to Local Government to fund the shortfall. This has occurred in relation to education and transport. In particular, community expectation is shifted to Local Government in areas where Council has no funding streams. The consequences of central agencies promoting expanded functions for Councils in this way should be considered in the broader policy context of Local Government finances.

Local Government is increasingly required to pay substantial charges to State agencies to meet the cost of services provided to communities. These have been increasing at rates above inflation and the rate-pegging limit imposed on Councils. In some cases, the charges subsidise the agency's operating costs, which would otherwise be a State Government responsibility. For example, the levies for landfill disposal of garbage collected under the *Waste Minimisation and Management Act* have increased by nearly 50% in recent years, and now amount to some \$60 million per annum. More than half is allocated to State Treasury as general revenue, rather than being allocated for waste management and recycling.

In 2006 Campbelltown City Council sought approval from the Minister for Local Government to increase the rating base by 2.13%, to fulfil a one third funding gap enabling the construction of access ramps (to the Hume Highway) at Ingleburn (a significant industrial employment precinct in South-West Sydney). This funding has a limited life of five (5) years, however it represents funds sourced at a local level for an asset of state or national significance (i.e. accessing a national highway). Had Council not intervened in this matter, the Federal Government would have otherwise withdrawn the offer of two thirds funding, thereby preventing the project from proceeding.

Further examples of cost shifting include;

- The NSW Fire Brigades levy is now approaching \$50 million per annum.
- The recent introduction of load based licensing for sewerage operations will cost Councils in NSW an extra \$3.7 million per annum once fully implemented.
- The recent IPART draft report into the NSW Tax System in particular recommended an increased contribution from Local Government toward the NSW Fire Levy, as well as the abolition of the exemption from Payroll Tax.

Examples such as these impact heavily on Council's capacity to allocate funds for other purposes, including other priorities of State and Commonwealth Governments.



Campbelltown City Council together with the NSW Local Government Association have argued that the current system of rate pegging is inefficient and inappropriate, as it deprives Councils of the ability to respond to the needs of their respective communities, and the increasing demands being placed on Local Government by other spheres of Government. If rate pegging were to be maintained, then amendments would need to be made that would improve the operation of rate pegging in terms of Council performance, financial capacity to meet obligations and their ability to satisfy community needs.

Under the current system of rate pegging, there is evidence that the approved percentage increase frequently fails to match CPI increases. Local Government salary increases in the last year were between 4% and 5%. It should be noted that wages and salaries comprise a substantial amount of Local Government operating costs (approximately 30% for Campbelltown City Council).

Like many other developed urban areas, Campbelltown is going through a period where a large number of assets (primarily roads, drainage and other major physical infrastructure) are reaching an age and/or condition that requires significant investment in upgrading or renewal. Funding substantial repairs or replacement of these ageing assets is becoming a major issue for Councils while also trying to manage long-term sustainability and financial performance. Campbelltown City Council is an industry leader in the field of asset management, as identified by the Minister for Local Government in a recent press release with a best practise approach that includes;

- Asset information under one system;
- Complete condition assessment and review process;
- Prioritise funding over all asset categories;
- Location and condition based assets reporting;
- Minimises resources for support, training and implementation; and
- Integration with financial systems.

Rate pegging in NSW has forced Councils to utilise Financial Assistance Grants as a means to "prop-up" operational expenditure, which also tends to mask the adequacy of Councils' rating revenue base and coverage in managing core services and asset replacement programs.

### **Summary**

Further to the issues outlined above, Campbelltown City Council acknowledges the difficulty for IPART in ensuring through a revised regulatory framework that all demographic, intergovernmental, economic, social, technical and environmental changes that affect Council's revenue are addressed. Dealing with this issue holistically would extend somewhat beyond the scope of IPART's review.

However, Council commends to IPART the opportunity in reviewing the inter-governmental and regulatory framework for setting rates, to consider the concept of a 'tri-partisan' governmental oversight committee, representing each level of Government, in determining appropriate future revenues for Local Government.

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

As part of Council's responsible approach to rating, Campbelltown City Council has developed the 'Campbelltown City Council - Long Term Financial Plan'. The Plan's objective is to develop a financial projection that forecasts the financial performance and position of Council for the next ten (10) years.

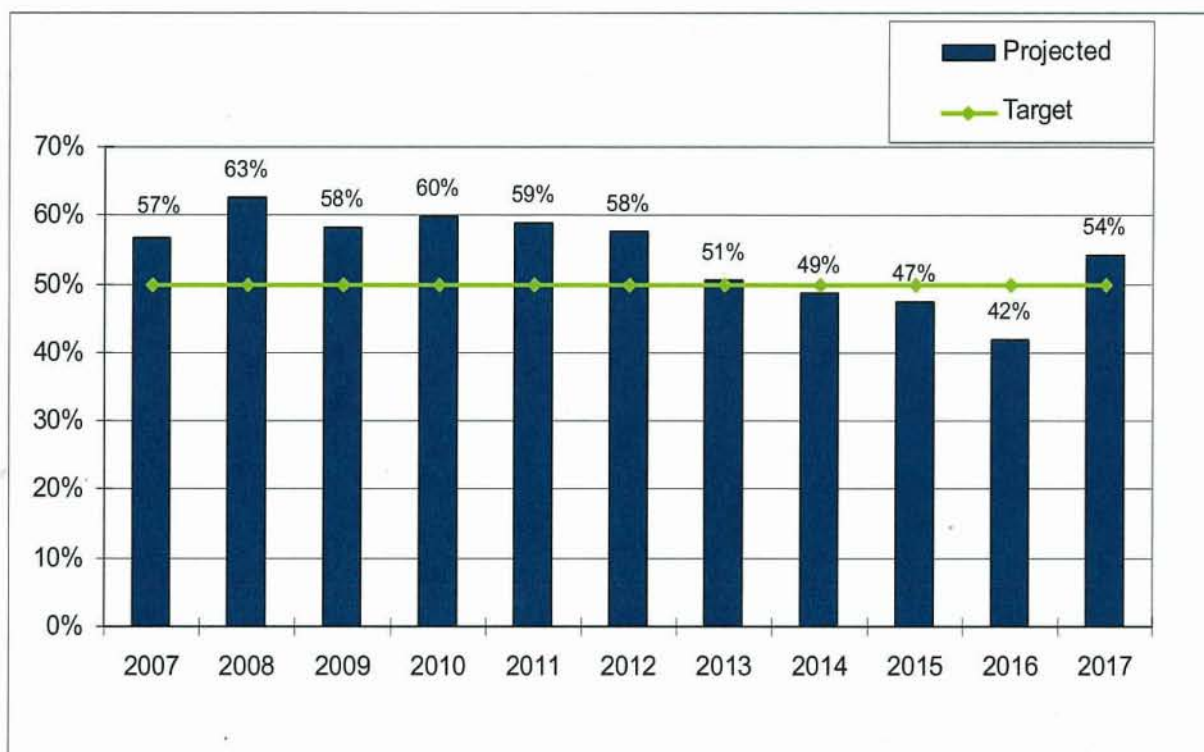


The scope of the Plan is more comprehensive than that of Council's annual budget, and endeavours to account for both current and future factors impacting on the delivery of Council services. Further benefits include;

- The ability of Council to assess the financial sustainability of service levels;
- Enables Council to measure financial risk of future strategic directions; and
- Allows scenario testing of different policies and service levels.

**Example: The future of rates revenue and Campbelltown City Council**

**Figure 2 – Campbelltown City Council Long Term Financial Plan: Rate Coverage Ratio**



As depicted in Figure 2, given the historical trends of rate pegging projected into the future (assumed 3.6% per year) and Council's commitment toward responsible fiscal management, the percentage of rate revenue to total revenue streams is projected to remain static over the next five (5) years, and falls thereafter. Despite Council's pro-active approach to financial planning, this image clearly depicts the challenge confronting Campbelltown (in the short to medium term) in achieving targets.

Notwithstanding the challenges ahead, the medium term improvements are largely due to Council's own initiatives in consolidating long-term financial security, by means of a variety of strategies, including;

- Minto re-development - \$12m/ 8 years.
- Bus Shelter advertising - \$16m/ 20 years.

## Summary

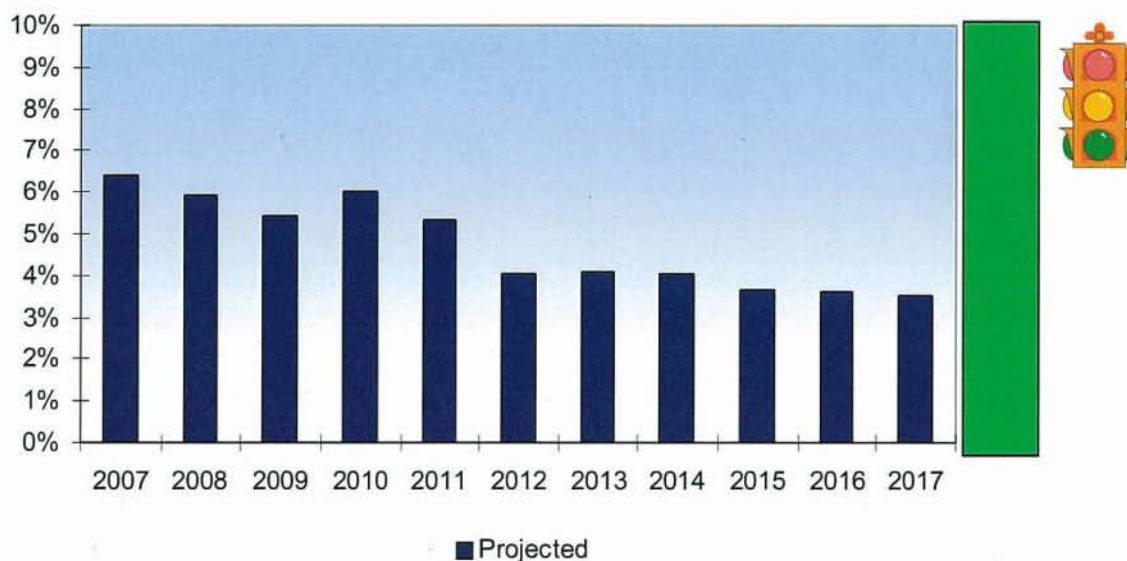
The extent to which rate-pegging has limited overall growth is clearly articulated in 'Figure 2 – Campbelltown City Council Long Term Financial Plan: Rate Coverage Ratio'. In the interests of responsible financial management, through their own initiative Campbelltown City Council has invested in a range of non-rate revenue strategies. While the continuation of similar initiatives throughout Local Government should be encouraged, Council recommends that IPART consider a rating structure that provides an upper limit option for Councils to take up, for a prescribed timeframe. Council's proposal is expanded upon further in this submission, under section '3. Future Role of IPART'.

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

Under the auspices of the LGMA, Local Government Finance Professionals have developed the 'Sustainable Local Government Health Check' system, which measures financial key performance indicators in a simple yet effective way. The sustainable Local Government Health Check was developed in conjunction with the 'CPA Australia Local Government Auditors Association' and the 'Local Government Shires Association'.

Campbelltown City Council has engaged this methodology, incorporating it as part of the 'Campbelltown City Council - Long Term Financial Plan'. Furthermore, Council has formed an 'Innovation and Performance Sub-Committee' with terms of reference designed to continually improve the sustainable health check indicators, and to strengthen Council's financial stability to ensure its long term sustainability.

### ***Example: The future of Debt Service - Campbelltown City Council***



**Figure 3 – Campbelltown City Council Long Term Financial Plan: Debt Service Ratio**

As depicted in Figure 3, Council has projected the 'Debt Service Ratio' to be below 10% for the next ten (10) years (as indicated by the green spectrum), as part of the 'Sustainable Local Government Health Check', which is considered a responsible level.



Campbelltown City Council has had a long-term strategy of maintaining the Debt Service Ratio between 5% to 10%. This strategy is consistent with the 'Sustainable Financial Health Check' for metropolitan Councils that are incurring minimal growth. The Debt Service Ratio has been subject to criticism within the Allen Report and recent publications from FiscalStar. There have been a number of media releases within the Sydney press documenting the concern of the Debt Service levels that have been the subject of criticism within these reports.

The Debt Service level adopted by a Council is a matter of policy for that Council, and is subject to extensive modelling within each Council's long-term financial plan. These policies and strategies are not taken into account when the data was collected for the publications highlighted above.

**Are there any other significant factors affecting financial performance of Local Government?**

The *Local Government (Financial Assistance) Act 1995* is the principal mechanism through which the Commonwealth attempts to achieve objectives for Local Government. These objectives include the promotion of fiscal equity and performance improvement in Local Government and the facilitation of Local Government's contribution to national economic, social and environmental performance.

The central theme underpinning the provision of financial assistance grants to Local Government has been improving the equity of grant outcomes to Councils. That is, as far as practicable, bringing all Councils in a State or Territory up to the same fiscal level. The other requirement of the Act; that all Councils receive at least a minimum grant, conflicts directly with this equity objective. This requires the State and Territory Grants Commissions to achieve a balance between the equity principle and the certainty of funding to all Local Councils through a minimum grant.

The review of the Act undertaken by the Commonwealth Grants Commission in 2001 has highlighted a number of areas of major concern for Local Government generally. The anomalies that have existed for the past twenty-five (25) years in the methodology for the distribution of Federal Assistance Grants need to be addressed as a matter of urgency. The present formula of 30% of distribution of Federal Assistance Grants based on population is inequitable as it does not recognise efficiency, self-sustainability and does not follow the philosophy of effective income tax redistribution.

Campbelltown City Council respectfully commends to IPART the following recommendation for consideration as part of this review;

**Recommendation:**

- In the development of a regulatory framework for the setting of Local Government rates and charges, including charges for non-business activities, that a flexible rating structure be adopted, which may provide for an upper limit option for a prescribed timeframe;
- That any revised regulatory framework acknowledges the integration/overlap between the three (3) tiers of Government in Australia, and between the different Government agencies within each tier;
- That a 'Tri-Partisan' Government Oversight Committee is convened, representing each level of Government, to monitor a revised regulatory framework for setting rates and charges.



## 2. FUTURE ROLE OF IPART

### Introduction

IPART is to investigate and make recommendations on their role in setting rates and charges in future years.

With reference to the 'IPART – Revenue Framework for Local Government' paper, the following Issues are addressed in this section of Council's submission:

- Issues 5 & 6.
- Issues 44 & 45.

While not each of these Issues is addressed in this submission, Council provides a response to the following items for IPART's consideration.

***What role should IPART play in setting Local Government rates and charges, including charges for non-business activities?***

Campbelltown City Council is of the firm view that IPART has an integral future role to play in setting Local Government rates and charges, including charges for non-business activities. As the independent economic regulator for NSW, IPART is ideally placed to ensure that the setting of such revenues are determined in the context of the economic and constitutional environment in which Local Government operates.

In this regard, it is Council's recommendation that legislative change be invoked (including to the *Local Government Act 1993*) to empower IPART with the responsibility for the determination of Local Government rates and charges, as well as charges for non-business activities.

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

Further to Council's recommendation as to IPART's future role in the setting of Local Government rates and charges, it is the firm view of Council that IPART have a determinative role provided by legislation. This is crucial to the effectiveness of any future determination made by IPART in setting of rates and charges.

Currently, the methodology of determining rate pegging limits, via the 'Local Government Rate Determination Model' (as developed by the Local Government and Shires Association of NSW), is influenced by discretionary intervention on the part of the Minister for Local Government.

The 'Rate Determination Model' provides a methodology linked to actual past increases in Council costs, to provide an index with which general rate increases can be capped. In the application of the Model in calculating the appropriate annual adjustment required to set local Government rates, the Minister has the capacity to disregard the calculation and artificially determine the rate cap. In this regard, for IPART's future involvement in the setting of local Government rates and charges to hold any significance of purpose, it must be supported by the necessary legislation.

As an option to either supplement the 'Rate Determination Model', or as a functional alternative, it is respectfully proposed that IPART consider a rating structure that provides for an upper limit option for Councils to take up, for a prescribed timeframe.

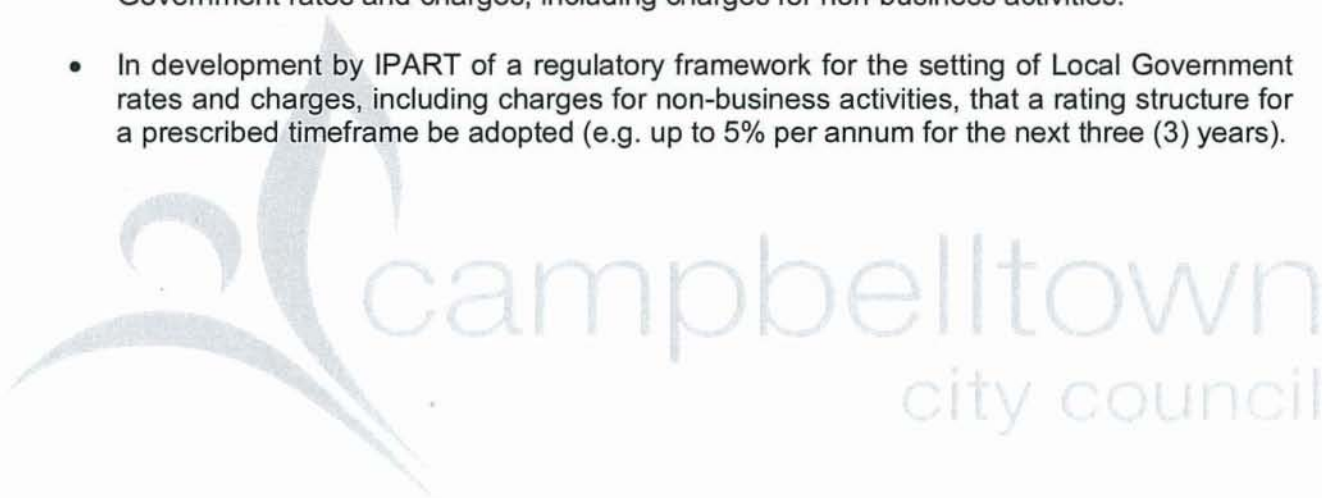


For example, this may entail an option available for Councils to have an 'up to 5%' rate cap option, for the next three (3) years. While similar to Section 508A of the *Local Government Act 1993*, the concept is unique in that it applies to all NSW Councils, but remains an option as to the extent to which each Council takes up a portion of the 5% cap. In an age of Strategic Vision documents, Annual Management Plans and Long Term Financial Plans, such an option would complement the level of responsible fiscal management demonstrated by the majority of Councils, while providing greater certainty as to the capacity of Councils to deliver the services and facilities requested/needed by our communities.

Campbelltown City Council respectfully commends to IPART the following recommendation for consideration as part of the review;

**Recommendation:**

- IPART should be empowered via legislation to have a determinative role in setting Local Government rates and charges, including charges for non-business activities.
- In development by IPART of a regulatory framework for the setting of Local Government rates and charges, including charges for non-business activities, that a rating structure for a prescribed timeframe be adopted (e.g. up to 5% per annum for the next three (3) years).





### 3. OTHER STATE GOVT AGENCIES

#### Introduction

IPART is to investigate and make recommendations for a framework in setting charges levied by certain public authorities, such as the Sydney Harbour Foreshore Authority (SHFA), Redfern Waterloo Authority (RWA), Sydney Olympic Park Authority (SOPA) and the Growth Centres Commission (GCC), to enable these authorities to recover costs for the provision of services that are normally provided by Local Government.

With reference to the 'IPART – Revenue Framework for Local Government' paper, the following Issues are addressed in this section of Council's submission:

- Issue 7 through to Issue 9.
- Issue 46 through to Issue 52.

While not each of these Issues is addressed in this submission, Council provides a response to the following items for IPART's consideration.

**Please Note:** The following public authorities do not operate or have any jurisdictional presence with the Campbelltown City Council Local Government Area;

- SHFA;
- RWA;
- SOPA.

In this regard, Council will not be making any comment as to the future role of these public authorities.

As the GCC has a jurisdictional presence within the Campbelltown City Council Local Government Area, Council provides the following comment in regard to the corresponding 'Issues'.

***To what extent do Government authorities – such as the GCC – provide services that duplicate or overlap with those of Local Government?***

The Growth Centres Commission (GCC) was established by the State Government to ensure that new development (in declared Growth Centre areas) proceeds with infrastructure and services planned, funded and linked to the sequence of land release. Similar to Local Government, while the GCC has authority to design and manage a streamlined planning and development approval process, along with the timely provision of infrastructure promoting high quality new development, it has the planning, development and financial management capabilities of a development corporation. The GCC is responsible for working with infrastructure agencies, industry, local Councils, landowners and the community to implement the plans for the Growth Centres.



The GCC's functions are:

- Preparing plans for the funding and development of regional infrastructure;
- Controlling Precinct Plans for each precinct (or part of a precinct where anomalies exist in the boundaries) within the North West and South West Growth Centres;
- Recommending to the Minister for Planning new precincts for staged land release;
- Administration - including collection, holding and management - of the new Special Infrastructure Contributions to pay for regional infrastructure;
- Implementing regional infrastructure in consultation with state agencies to support new development; and
- Negotiating with Government, landowners and developers to ensure development is facilitated in a sustainable and timely way.

By establishing the GCC as a new body, the State Government intend to achieve:

- The orderly sequencing of land release in time with the provision of infrastructure;
- The sustainable urban structure and form incorporated in the structure plan;
- The protection of biodiversity, regional open space and water resources;
- Contributions from new development for regional and local infrastructure;
- Contributions from the State budget in recognition of the broader beneficiaries of many projects in the Growth Centres.

Notwithstanding the State Government's objective for timely land release, it is evident that the GCC's mandate both overlaps and (to a lesser extent) duplicates that of Council, with particular reference to land in the declared South-West Growth Centre area. However, it is important to further expand and refine the subtle differences between the two statutory bodies and their parallel/integrated functions, as per the following Issues.

***What are the implications for Local Government rates where these authorities provide services normally provided by Local Government?***

It is noted that the IPART review will not consider the impact of issues affecting Local Government, other than to the extent that they impact on rate pegging. In this regard, many of the funding issues relevant to the duplication/overlap between the GCC and Local Government are not relevant. That being, GCC's capacity via the 'Special Infrastructure Contribution – Practice Note' to collect contributions in the Growth Centres for infrastructure i.e. capital funding, is consistent with Council's capacity under to the *Environmental Planning & Assessment Act 1979* to collect Section 94 contributions (the latter being beyond the scope of IPART's review).

However, there are potentially significant implications on Council's future financial sustainability with regard to supporting future infrastructure from the existing rate base, generated directly as a result of planning strategies invoked by the GCC for the Growth Centres.

***Example: Badgally Road - Growth Centres: Turner Road Precinct***

As part of the first stage release in the South-West Growth Centres, the Turner Road Precinct includes;

- 4,020 new homes for over 12,000 new residents;
- Capacity for 5,000 jobs;
- Nearly 100 hectares (96 hectares) of employment land.



The location (and advanced release) of this precinct relies on the construction of an arterial or 'spine road', linking it to future precincts to the west, and significantly, Campbelltown CBD to the east. Construction of this new section of four-lane arterial road, known as Badgally Road, is funded to the value of \$43m from the GCC's 'Special Infrastructure Contribution – Practice Note'.

However, a significant point to note is that the funding for Badgally Road extends only to an arbitrary line on a plan (i.e. the boundary of the Turner Road Precinct, in the South-West Growth Centres area). It makes no consideration of the fact that a four-lane road will then connect to an existing two-lane road.

The implications for Campbelltown City Council are such that the advanced release of the Turner Road precinct will result in twelve thousand (12,000) plus people moving to/from Campbelltown CBD along the existing two-lane section of Badgally Road. In effect, Council will be compelled to displace the funding strategy, to fast-track an upgrade to Badgally Road (including two additional lanes, multiple intersection upgrades, accommodate an adjoining State School and traversing a National Highway). In spite of the intended integrated approach that is the mandate of the GCC, this issue has otherwise been left to Council to resolve.

Had Council been the planning authority for both of these areas such an issue would be overcome. Notwithstanding, in the context of IPART's review, the implications are such that any regulatory framework applied to the GCC should ensure such anomalies are adequately addressed via an appropriate funding strategy.

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

Despite the additional statutory planning authority layer, in the form of the GCC, it is anticipated that Council will incur much the same level of cost associated with strategic planning and development assessment processes for the Growth Centres new release areas. This is in light of the fact that responsibility will fall once again to Council for individual development assessment, and planning for local infrastructure not addressed by the GCC. Therefore, while it might theoretically be anticipated that some of the services provided by the GCC will result in a cost benefit result for Council, it is most likely that Council will continue to incur a consistent level of expense as a local statutory planning authority.

***Whether a common legislative or regulatory framework be introduced to improve consistency in the levying of charges by authorities (such as GCC) that provide services akin to those provided by Local Government?***

In the context of the terms of reference of the IPART inquiry, the extent to which a common legislative or regulatory framework for the GCC would provide consistency to Council, is not relevant. That being, the GCC currently has the capacity to recoup the costs for operation, administration etc via the 'Special Infrastructure Contribution – Practice Note'. In contrast, as a consequence of recent Planning Reforms by the State Government, Council no longer has the capacity to recoup similar costs incurred (for example, regional infrastructure, or administration costs) other than via the general rate base. Therefore, IPART would need to recommend that Council were empowered with a common legislative framework for this function (similar to the GCC). Alternatively, IPART may seek to recommend a regulatory framework that would enable the GCC to recover costs on behalf of Local Government for the provision of services.

## Summary

Campbelltown City Council acknowledges that IPART is to investigate and make recommendations on a framework for setting charges levied by the GCC, to enable recovery of costs for the provision of services normally provided by Local Government. As noted earlier in Council's submission, the GCC to some extent already have this capacity via the 'Special Infrastructure Contribution – Practice Note', for the provision of capital infrastructure. However, Campbelltown City Council respectfully commends to IPART the following recommendation for consideration as part of this review;

### **Recommendation:**

- That IPART propose a common legislative framework, either via the *Growth Centres (Development Corporations Act) 1974*, or the *Environmental Planning & Assessment Act 1979*, to ensure the recovery of costs and services toward infrastructure otherwise not provided for under the 'Special Infrastructure Contribution – Practice Note', that is met from Council's general revenue; and/or
- That IPART propose a regulatory framework, whereby the GCC recover costs on behalf of Local Government toward the provision of services otherwise provided for by Local Government, to ensure the recovery of costs and services toward infrastructure otherwise not provided for under the 'Special Infrastructure Contribution – Practice Note', that is met from Council's general revenue.



Campbelltown City Council  
Summary of Statutory fee changes

Fee name	Start date	Amount	2008/2009 amount	% change	Yrs	Notes
Plan First fee	01/11/2002	\$5.00	\$5.00	0.00%	6	Council collects Plan first as a percentage of the DA, yet retains \$5 only.
149(2) Certificate	10/03/1989	\$40.00	\$40.00	0.00%	18	No indication that fees are likely to change.
149(5) Certificate	10/03/1989	\$60.00	\$60.00	0.00%	18	
Companion Animals - lifetime	01/07/2002	\$150.00	\$150.00	0.00%	6	Between 80-85% of fees are re-imbursed to councils.
Companion Animals - desexed	01/07/2002	\$40.00	\$40.00	0.00%	6	
Companion Animals - Pensioner	01/07/1998	\$15.00	\$15.00	0.00%	10	
Development Application Fees	01/07/1999	\$110.00	\$110.00	0.00%	9	In November 2002 these fees increases by the 0.64% in Plan First fees.
	01/07/1999	\$170.00	\$170.00	0.00%	9	
	01/07/1999	\$1,000.00	\$1,000.00	0.00%	9	
	01/07/1999	\$1,425.00	\$1,425.00	0.00%	9	
	01/07/1999	\$1,975.00	\$1,975.00	0.00%	9	
	01/07/1999	\$9,475.00	\$9,475.00	0.00%	9	
Rates Pensioner Rebate Concession.	01/01/1989	\$250.00	\$250.00	0.00%	18	No indication that fees are likely to change.

**Appendix 1**