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File Ref : S066420-01

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

BY email: Michael\_Seery@ipart.nsw.gov.au

Dear Mr Seery

**Response to IPART Draft Report on  
Revenue Framework for Local Government**

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

The City believes that the current Local Government Act, and the proposed Integrated Planning and Reporting amendments, provide a holistic governance framework that facilitates community engagement to consider activities and service levels against the available financial resources of the council. This consultative approach aligns with democratic principles and provides a superior model to the autonomous policy and price setting framework adopted by some State agencies.

During the course of this IPART review, most councils advocated for the abolition of rate pegging and for the financial autonomy required to resource their individual local needs, but their pleas have been ignored. The recommendations of the draft report, despite the best intent of IPART to provide an independent and transparent financial assessment to improve the basis of local government revenues, simply enshrine the State Government's existing price control levers. The review has made little progress in that NSW councils continue to be subject to a rate pegging regime, the only one of its type in Australia, ensuring an ongoing under-investment in infrastructure.

Unfortunately the Tribunal appears to have formed the view that the existing rates cap system provides a fair and equitable basis to fund council's core operations, and has not recognised the failings of the current model and the deteriorating financial situation that many councils now suffer. While it is true that councils already have legislative access to seek special variations to address the inadequacies of their rates base, it is apparent that applications are often affected by the Minister's unfettered right to veto these applications. This is at a long term cost to the community.

The Tribunal's recommendations have not delivered an improved rating framework to support responsible local governments with the independent financial flexibility they require to be accountable for delivering essential community services and infrastructure in a longer term sustainable manner. The underlying goal should have been to mandate long term financial sustainability.

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IPART's recommendation to calculate and publish a Local Government Cost Index (LGCI), a measure of the average State-wide price increase for a local government "basket of goods", was a positive step towards achieving a reasonable and transparent basis for determining the annual allowable rate increase. This represented a significant improvement on the arbitrary rate increases that are currently approved, however it could be enhanced by including four year forward projections (subject to annual review) and acknowledging that a State-wide average measure may not equitably address cost movements in different regions.

Unfortunately IPART have undermined this positive step by introducing a theoretical productivity adjustment, to be deducted from the LGCI, before an annual rate increase is recommended. This deduction is intended to ensure that local governments continue to achieve service efficiencies, but it will be set for four years and apply to all councils regardless of their financial circumstances, efficiencies they may already have achieved to date, and their potential to further cut costs without impacting the quality and quantity of their infrastructure, facilities and service delivery.

IPART acknowledges the difficulty in determining a relevant productivity adjustment for local government, and have suggested that a reliable proxy may therefore be to simply reference the efficiency dividend that the State Government apply across their own departmental budgets. There doesn't appear to be a strong rationale for this position, other than the need to seek continual improvement, and it ignores the cost cutting that councils have endured as a result of inadequate rate increases. IPART also states that many councils have already achieved efficiencies through the outsourcing of services, and that in recognition of this it may be more appropriate to apply the productivity adjustment just to the labour component of the LGCI. This position requires further clarification.

Any decision to introduce an arbitrary productivity offset to an independently referenced LGCI will merely result in a rate increase that is insufficient to keep step with a council's rising cost base, and ensure the continuation of inadequate revenue escalations. This will further erode a council's ability to fund its operations and will maintain the State Government's overriding control over local government finances, again at the expense of long term sustainability.

The proposed arrangement, Option A, where councils will continue to seek the Minister of Local Government's approval to increase their total level of rate funding above the base rate increase merely restates the current approval process. Councils already have the ability to seek additional special variation increases, that are single year adjustments or multiple year adjustments, and that may escalate over a number of years. These adjustments can be either permanent or temporary, depending on the nature of the issue they are seeking to address. Option A imposes a higher degree of medium to long term planning, including the need for audited asset management plans and demonstrated community support, however it appears to offer little additional benefit to the existing special variations approval process.

The alternative proposal, Option B, is only available to councils that have already demonstrated higher standards of financial management, introduced the required levels of integrated planning, and are able to obtain a very high degree of support from their constitutional communities. This methodology provides councils with the greater financial autonomy sought, subject to a stringent and testing regime that still requires preliminary support from the Minister despite a rigorous community endorsement process that goes beyond requirements of State Government, including the need for a community survey or an election mandate where councillors have expressed views on the rating proposals at the election.

Whilst IPART has been preparing its draft final report, the Department of Local Government has been finalising legislation which will provide higher levels of community consultation regarding the aspirations of the community's needs, in conjunction with council officers developing long term financial and asset plans to accompany ten year community strategic plans. The proposed legislation will enforce all councils to undertake the necessary elements of best practice planning and reporting to determine community aligned strategic directions and operational deployment methods. However IPART's recommendations fail to provide councils with the necessary legislative change to ensure that rates revenue is appropriately adjusted to achieve these community agreed goals.

The City asks IPART to reconsider and prepare a future looking LGCI to aid councils formulating their medium and long term financial plans which are mandatory under the proposed Integrated Planning and Reporting framework. The index could refer to the Reserve Bank of Australia indicative ranges of movements for CPI within its quarterly Statement on Monetary Policy. Councils could use this forward looking LGCI forecast when preparing their future financial plans which would enhance standardised financial modelling across local councils, and facilitate benchmarking to test the financial health of NSW councils generally.

It is interesting to note that IPART's proposed LGCI reflects the practice of New Zealand councils, who utilise a similar philosophy to measure relevant price movements, but yet falls short of their initiative which required councils to increase their rates to balance their revenue requirements against their total financial responsibilities. This mandatory requirement resulted in significant rate increases when first introduced, but it increased the community's awareness of the cost of service provision and demanded longer term financial and planning sustainability.

The City also remains concerned that IPART has proposed a new regulatory framework for statutory authorities which involve the City of Sydney and the Sydney Harbour Foreshore Authority (SHFA). The proposal seeks to enact legislation that would ensure councils and authorities meet to negotiate on services and costs to ensure that state authorities are reimbursed for their provision of local government type services. If agreement is not reached, then it proposes a mandatory dispute resolution process be commenced to resolve the issues of revenue sharing.

A major concern is that the assumptions underlying this need for revenue share again ignore the fact that many years of cost shifting have blurred the lines of service provision between different levels of government. The City for instance undertakes many functions that have traditionally been the responsibility of the State or Federal Government, and ratepayers are not compensated for these costs. Examples include the provision of CCTV services, support for the homeless and the upgrade and maintenance of State owned Crown Reserves. These operations cost millions of dollars each year, and the City's ratepayers do not deserve to be further disadvantaged by the State seeking reimbursement when the tides occasionally run upstream.

While the City recognises the narrow scope afforded to IPART in this issue, the City again strongly urges IPART to recognise the inefficiencies arising from the current number of discrete public authorities that operate within the City of Sydney local government boundaries area. The additional costs that arise from the duplication of these services, and the fact that smaller authorities are unable to realise economies of scale, are ultimately borne by ratepayers and State Government taxpayers.

If serious and positive reform were on the agenda, the City should be responsible for provision of public domain services within its local government area, which would grant it the right to be involved in the asset planning and management of this infrastructure to ensure fit for purpose outcomes and service delivery. SHFA are currently in the process of transferring a number of road and park assets to the City, disposing of key income generating assets and becoming a funded budget entity. This major organisational change of SHFA, provides a rare opportunity to commence a holistic review of the public authorities in the City of Sydney local government area, which could provide a greater level of efficiency and improved synergies for service delivery to the community of Sydney.

As it stands, the City strenuously objects to the current proposal as it should not be required to fund asset management services that it cannot strategically plan or manage. If the ratepayers of Sydney are to reimburse SHAF for services performed on their behalf, then SHFA should be required to undergo similar levels of community engagement, planning and reporting as Councils are required to gauge expected service levels and community desires for those assets against the cost of service provision.

The City disputes the assertion by IPART that it would automatically receive additional rate revenue arising from the sale of State owned land to compensate for the recommendation to revenue share, as there would be no increase in total rate income as a result of this exercise where the existing property is already rated and leased commercially. The City also questions the benefits that are assumed to accrue from increased economic development generally. Under the current proposal, the City of Sydney and its ratepayers would be financially disadvantaged and the proposal should be amended.

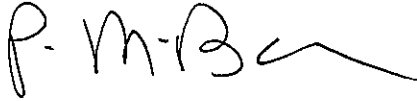
The City supports Auburn City Council in its rejection of the IPART recommendations in respect to payment to Government authorities. Auburn City Council faces the prospect of reducing services arising from payments to Sydney Olympic Park Authority for services in an area where it also does not have any strategic or operational control of services. Auburn City Council report that they have suffered from a reduction on rate revenues arising from the development of the Olympic precinct, incurred additional costs to cater for the maintenance of areas adjoining the precinct and argue that SOPA are not performing the wide range of local government services.

The City does not accept IPART's assertion that the retention of rate capping is required to protect the ratepayer from unreasonable rate increases. This position is inconsistent with the final report of the Review of State Taxation by IPART in 2008 recommend that councils be made liable for payroll tax and that the majority cost of fire services be transferred from insurance companies and onto council rates. This has an estimated annual cost of \$26M to the City of Sydney alone, and all to be borne by the ratepayer. The underlying logic appears to be different in two IPART reviews within twelve months, and questions the status of the proposed additional taxes to be sourced via local government rates.

In summary, democratically elected local councils have clear responsibilities and need to be given the discretion and authority to set rates in line with community expectations for sustainable infrastructure, facilities and services that meet their short, medium and long term needs.

The introduction of the Integrated Planning & Reporting legislation framework, together with auditable long term financial plans, provide an opportunity to embed this financial responsibility with the responsible and democratically elected officials, but they need the autonomy to deliver this result on behalf of the community.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. M. Barone' with a stylized flourish at the end.

**MONICA BARONE**  
Chief Executive Officer