STRATEGY & POLICY

BANKSTOWN
City of Progress

Submission to
Productivity Commission Issues Paper
Assessing Local Government Revenue Raising Capacity

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Bankstown City Council
66 -72 Rickard Road BANKSTOWN NSW 2200
P.O. Box 8 BANKSTOWN NSW 1885

Principal Contact:
Greg Brown
Group Manager
Strategy and Governance
Phone: 02- 9707 0526 Fax: 02-9707 9895
Mobile: 0411 188 409
greg.brown@bankstown.nsw.gov.au

Alternate Contact:
Sayed Chowdhury
A/Manager Strategy & Policy
Phone: 02-9707 9615 Fax: 02-9707 9070
Mobile: 0421 636 046
Sayed.chowdhury@bankstown.nsw.gov.au

Bankstown City Council Submission to Productivity Commission Issues Paper *Assessing Local Government Revenue Raising Capacity*

Local Government Study
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

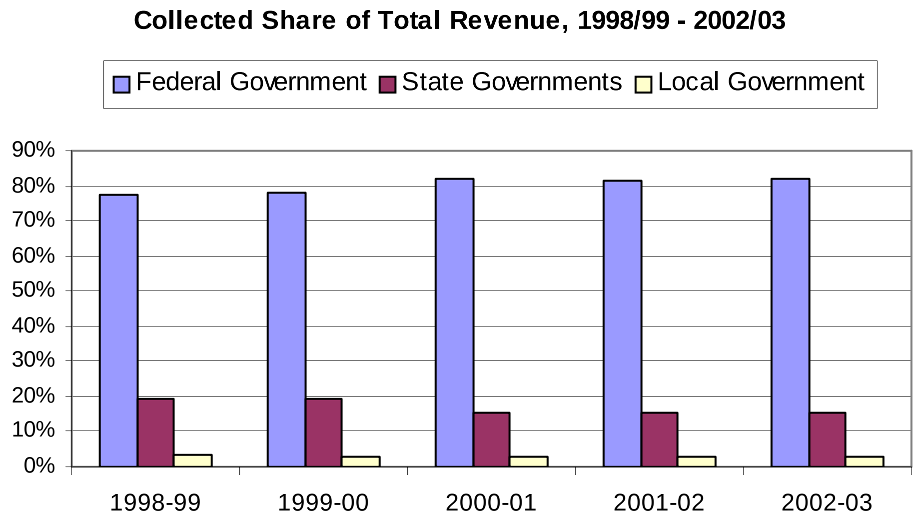
Introduction

Bankstown City Council welcomes the initiation of the Productivity Commission's study into local government revenue raising capacity. Council would to like acknowledge with thanks the opportunity to make a submission to the Issues Paper, *Assessing Local Government Revenue Raising Capacity.*

The financing of local government in Australia is an issue that affects all councils and the communities they serve. Ultimately, if not addressed, it is an issue with potential to affect the other two tiers of government.

Contrary to common perception, local government accounts for only five per cent of the total size of government in Australia.

Because of the way revenue raising capacity is allocated in the Constitution, Australian federal system suffers from a severe vertical fiscal imbalance. Fig. 1 shows the approximate share of the total revenue annually collected by the three tiers of government during 1998/09 - 2002/03, which is around 80% for the Commonwealth, around 17% for the states and an insignificant 3% for the local government.



Data source: ABS Catalogue No. 5506.0 (2004)

ABS data (2006) shows that in 2004/05, local government taxation revenue comprised only 2.9 per cent of total taxation revenue, down from 3.1 per cent in 2001/02. On the other hand, Commonwealth taxation revenue rose 9.3% between 2003/04 and 2004/05. In 2004/05, Commonwealth taxation represented 82.3% of total taxation revenue in Australia.

In many federal systems, various measures have been used to remedy the vertical fiscal imbalance. These include: transferring of expenditure responsibilities between the different tiers of government, reallocating taxation powers, introduction of inter-governmental grants, and institutionalising a fairer revenue-sharing arrangement. Since federation, all of these have been employed in Australia to a varying degree but so far resulted in limited redress for local government. This is mainly because either the measures were inadequate or their mitigating effects were undermined by other policies (eg. cost shifting and constrain on local government revenue raising) practised at the federal and state levels. The situation has been highlighted in the findings of numerous studies and inquiries sponsored by all three levels of government and have been the subject of much debate in recent years. Particularly notable are the findings of the 2003 Fair Share Report (*Hawker Inquiry* into Cost Shifting), ALGA's 2006 National Financial Sustainability Study of Local Government (the *PwC Report*), and LGSA's 2006 Independent Inquiry into Financial Sustainability of NSW Local Government Councils (the *Allan Report*).

The Allan Report particularly uncovered a number of pressing problems relating to financial sustainability of NSW councils that needed urgent attention. It identified a huge $6 billion backlog of infrastructure renewals, which is expected to grow to almost $21 billion within 15 years if the annual renewals gap stays at around $500 million. The report concluded that NSW Local Government needs to find an additional $900 million a year to just overcome its infrastructure crisis. The Inquiry findings suggested that currently twenty per cent of NSW councils are financially unsustainable.

In these circumstances, Bankstown Council considers the Productivity Commission study as a very timely one and expects the study to come up with recommendations to address this crisis.

Councils like Bankstown play an important role in the community, offering a variety of essential local services and managing a large and diverse portfolio of local infrastructure and assets. Bankstown's ability to adequately perform both of these key functions for its community is being increasingly challenged by a number of deficiencies in financial arrangements upon which often it has little control. Council is facing escalating costs, associated mostly with shifted responsibilities, maintenance of ageing infrastructure and assets, and rising community expectation for services, but its ability to raise any additional revenue remains seriously constrained.

This submission outlines the nature of these increasing cost pressures and deficiencies in revenue growth and funding. The submission presents these concerns in the context of the following issues in order to cover the areas included in the Terms of Reference of the Commission’s study:

- the capacity of NSW Councils, including Bankstown, to raise revenue and the factors constraining this capacity;
- the impacts of cost shifting from other levels of government that constantly undermine Local Government's financial sustainability; and
- the adverse impacts of constraints on local government revenue raising on Local Government infrastructure, assets and services.

A number of conclusions, including some recommendations, are made in the final section of the submission. It is hoped that these are of use to the commission’s Study in formulating its forthcoming report.

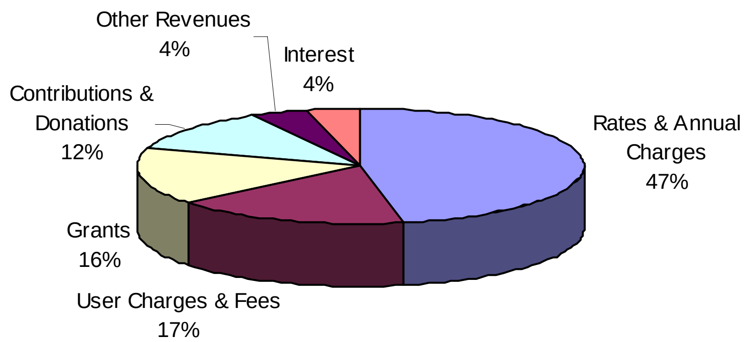
2.0 NSW Local Government Sources of Revenue

The major sources of revenue for NSW Councils consists of rates and annual charges, user charges and fees, grants, contributions and donations, and interest and investment revenue. Fig. 2 shows shares of these revenue sources for a typical year (2003/04). Although this composition widely varies between different categories of council (eg. large and small, rural, urban, and metropolitan etc), to fund their activities, majority of councils depend on the three sources of revenue: rates and annual charges, grants and contributions, and user charges and fees.

The system of rating and charges is based on Section 492 of the Local Government Act 1993 which allows councils to make and levy an ordinary rate each year on all rateable land: residential, business, farm, and mining land. Under the 1993 Act, a substantial amount and categories of land are exempt from ordinary rates. These include land held by the Crown (Commonwealth and State Government) and by religious and charitable bodies.

Under the Act, the Minister for Local Government can limit a council's ordinary and special rates and annual domestic waste charges - known as 'rate pegging'. Rate pegging has been in force in NSW since 1977. However, each year the Minister informs Councils of the maximum percentage by which its annual general income from rates may increase. Thirty years of accumulated impact of this measure has resulted in a severe gap in funding infrastructure maintenance and renewal by NSW councils, posing serious threats to their sustainability.

Fig. 2: NSW Council Revenue 2003/04



Data Source: NSW Department of Local Government (2005)

2.1 Trends in NSW Local Government Revenue

The 2006 Independent Inquiry into the Financial Sustainability of NSW Local Government (the *Allan Inquiry*) found that over the eight years from 1995/96 to 2003/04, the ordinary revenue of NSW Local Government rose by 47.1 per cent compared with 58.8 per cent increase in gross state product (GSP), and 20.9 per cent increase in the consumer price index (CPI) for Sydney.

The Inquiry (2006; p 196) also found that rate revenue and annual charges combined rose more or less in line with total ordinary revenue. But the rate revenue component increased by only 29.2 per cent. User charges and fees increased by 39.4 per cent and total grant income by 30.5 per cent.

The Allan Inquiry observed that, in terms of real changes (i.e. after discounting for inflation as measured by the CPI for Sydney), GSP rose by 3.5 per cent per annum between

1995/96 and 2003/04. On the other hand, by the same measure, the ordinary revenue of local government increased by only 2.5 per cent per annum. The significant fact is, in real terms, rates increased by only 0.8 per cent per annum and grant income increased by 1.0 per cent per annum.

A comparison, undertaken by the Allan Inquiry, of the movement in NSW council rates with those of all states, NSW GSP, Sydney CPI, NSW land taxes and all states' land taxes revealed that the only index that NSW council rates has surpassed is the Sydney CPI. In all other cases, NSW council rates have lagged significantly behind.

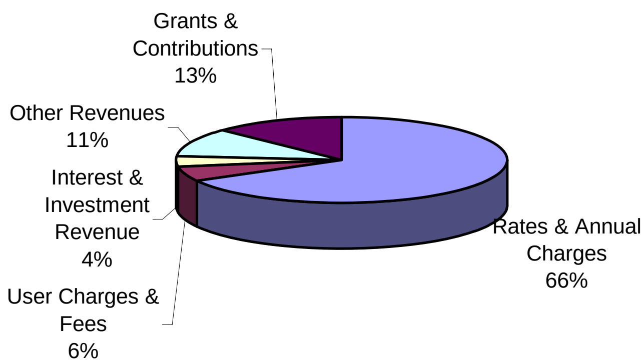
Also, of significant importance is the fact that the growth in NSW councils' rates revenue has lagged behind every other state in Australia over the eight year review period. The *Allan Inquiry* estimated that due to this persisting lag alone NSW Local Government would be over $550 million worse off by 2005/06 than if its revenue growth had kept up with that of the state and Commonwealth since 1995/96.

The Allan Inquiry drew the unavoidable conclusion that, with Local Government revenue growth lagging state economic growth by almost 12 per cent over the eight year period reviewed (1995/96 to 2003/04), unless councils are allowed greater freedom to set their own rates and fees they may have to drastically cut infrastructure maintenance and service provision and opt for a diminished role. Annual charges could offer some scope for increases, but legislation prohibits some of these from being raised above their cost-recovery levels. The restrictions limiting councils' capacity to impose developer contributions affect the one source of council revenue that has grown faster than GSP.

2.2 Bankstown Council Sources of Revenue

Fig. 3 shows Bankstown Council's sources of revenue in a recent year (2004/05). At 66 per cent of total revenue, it shows Bankstown Council's relatively more dependence on its rates and annual charges as a revenue source than many other councils. This is followed by grants and contributions, which accounts for 13 per cent of Council revenue. This stream consists of grants from the other two levels of government for capital and operating purposes, contributions from the NSW Roads and Traffic Authority, and Section 94 (of the EP&A Act 1979) contributions from developers.

Fig 3: Bankstown Council Revenue 2005/06



2.3 Impacts of Rate Pegging

NSW has the lowest per capita council rates of any state or territory in Australia, other than the Northern Territory. As shown in Table 1 below, between 1995/96 and 2003/04, rate increases in NSW were lower than in any other state. This would suggest that rate pegging, in force since 1977, has been a major constraint on revenue raising capacity of NSW councils, causing it to fall behind other states, notwithstanding a relatively strong property market in NSW over this period compared with Australia as a whole (Allan Report, p 207; Brooks 2006).

Table 1: Rate Increases by Jurisdiction, 1995/96 to 2003/04

State or Territory	Per cent Increase
NSW	29.2%
ACT	35.2%
Tasmania	36.3%
South Australia	55.1%
Queensland	55.6%
Western Australia	64.8%
Victoria	66.1%
Gross Domestic Product (GSP)	61.8%

Source: Brookes (2006), adapted from Allan et al. (2006)

The major effect of rate pegging for most councils across New South Wales has been under investment in infrastructure. Extra revenue flowing through to councils from increases allowed under rate pegging are typically barely enough to cover year to year cost increases, as well as the additional financial imposts created by the practice of cost shifting. Accordingly, over the years, many councils have been forced to cut capital expenditure in order to 'balance the books' and defer the replacement of assets.

Bankstown Council is of the opinion that, while the policy of rate pegging might have been appropriate at the time it was first introduced to address poor performance and financial management by local government, many Councils like Bankstown have since proven their ability to manage their affairs and finances in a manner that is accountable, efficient, effective, and responsible. Graham Sansom (2006, p5) from the Centre for Local Government at Sydney's University of Technology (UTS) points out:

> *Local Government in other states, notably Queensland, operates without any such restriction and there is no evidence of massive, unwarranted rate increases.*

The Allan Inquiry commented, "the existing rate pegging system seems to lack fairness insofar as different rating levels in different but comparable councils could not be adjusted since rate pegging was introduced."

It is therefore Bankstown Council's submission that NSW councils should now be provided with greater discretion in setting rates and generating revenue to meet escalating costs associated with asset management and local service delivery generally.

As a Council that typically derives around 65% of its income from rates, the impact of rate pegging on Bankstown is quite pronounced. Other deficiencies in financial arrangements discussed throughout this paper, such as the impact of cost shifting and inadequate Financial Assistance Grant distribution practices, represent relatively minor impacts on Council's overall budgetary position compared to the impact of rate pegging.

Although individual councils may apply to the Minister for special rate variations above the annual rate pegging limit, variations are subject to rigid criteria and are generally time limited. Moreover, the power to approve special variations lies solely with the NSW Minister for Local Government. This power is by and large discretionary, and quite possibly guided by political considerations. Consequently, as concluded by the Allan Inquiry, "<u>there does not appear to be a consistent set of criteria for determining rate pegging and variations thereto</u>."

For example, in 2005, the Minister for Local Government rejected or varied 13 out of 45 applications, contrary to the advice of the Department of Local Government ("Minister shuns council rate advice", *The Sydney Morning Herald*, 23/09/05). Similarly, the rate pegging limit itself is subject to State political agendas, with the limit determined by Cabinet and not necessarily in accordance with Departmental recommendations.

The rate pegging issue is also compounded by the fact that the NSW Government places limits on a number of council fees and charges, such as Development Application fees and some Environmental Protection functions. In addition, as a Council servicing a population with a comparatively lower socio-economic profile, in some instances Council subsidises or discounts a number of fees and charges.

Furthermore, in Bankstown approximately 13,500 pensioner ratepayers qualify for Council's voluntary rate rebate and the State Government's mandatory rate rebate. The maximum mandatory rebate, which is half-funded by the NSW Government, is $250 per annum. Council's additional voluntary rebate is $40 per annum. As an area with a proportionately large and growing old-age pensioner population, Bankstown's rate revenue is further limited by the demands of this rebate scheme.

Rate pegging means that Council struggles to meet growing costs. In addition, rate pegging has seen Council's income growth barely keep up with basic year-to-year cost increases, such as:

- Wages growth imposed through NSW State Industrial Award increases;
- Increases in government levies, such as the Fire Services levy;
- Fluctuations in insurance costs; and
- Basic CPI cost increases.

Table 2 below compares the relative growth in rate revenue for Bankstown City Council with these year-to-year cost increases between the years 2003/04 and 2004/05. The table demonstrates that costs to Council from salaries, insurance and the fire services levy increased by 7.67%, or $2.65 million, while rate income increased by 4.12%, or $2.34 million. It should be noted that the rate income figure is greater than the 3.5% rate pegging limit due to an increase in the number of rateable properties in Bankstown.

Table 2 - Comparison of basic costs and rate income for 2003/04 and 2004/05

	2003/04 ($,000)	**2004/05 ($,000)**	**Increase ($,000)**	**% increase**
Salaries	32,083	33,614	1,531	4.77
Insurance	954	1,917	963	200.94
Fire Services Levy	1,506	1,662	156	10.34
Total	**34,543**	**37,193**	**2,650**	**7.67**
Rate income	**56,626**	**58,961**	**2,335**	**4.12**

Table 3 below compares rate-pegging limits, industrial award salary increases and changes in the CPI for the years 2001/02 through to 2005/06. The table demonstrates that each year, combined increases in the Award and the CPI have been far higher than the rate-pegging limit. It should be noted that rate revenue collected can increase to a figure slightly above the rate pegging limit due to increases in the number of rateable properties, and that increases in salary costs reflect not only award increases, but other fluctuations in the number of people employed by Council and their salaries. Accordingly, both figures fluctuate from year to year.

The imposition of some new responsibilities and costs upon local government is sometimes appropriate and beneficial to the community, with some functions better performed by local government, and other responsibilities resulting in better managed and more accountable councils. In addition, some of the year-to-year cost increases born by councils are not necessarily negative impositions in their own right. For example, Bankstown City Council supports the right of its staff to fair rates of pay and conditions, and recognises the importance of investing in staff. Others, such as CPI-related cost increases, are simply unavoidable.

The essential problem for councils is that they have a limited ability to raise revenue to match these increases. Rate pegging, and other limitations on local government revenue raising, mean that councils like Bankstown face significant challenges in keeping up with costs, whether they be the result of cost shifting by other spheres of government, or through year-to-year cost increases.

Table 3 - Rate-pegging limits, Industrial Award Salary increases and CPI from 2001/02 to 2005/06

	Rate-pegging limit	**Extra rate revenue collected ($,000)**	**Industrial Award salary increase**	**Increases in salary costs ($,000)**	**CPI**
2001/02	2.8%	3,198	3.3%	713	2.9%
2002/03	3.3%	1,784	3.3%	2,257	3.1%
2003/04	3.6%	2,303	3.3%	3,104	3.1%
2004/05	3.5%	2,335	4.0%	1,531	2.4%
2005/06	3.5%	2,842*	3.5%	502*	N/A

* - Budgeted

The result of this is that Bankstown Council's existing revenue streams are largely being used to meet annual operating costs. This means that Bankstown Council is forced to rely on loan borrowings to fund annual capital works programs. Moreover, these loan funds go nowhere near to addressing the significant infrastructure backlog Council is beset with.

2.4 Grants

During last two decades, there has been an ongoing decline in the allocation of grants from all sources (Commonwealth FAGs and SPPs and state grants) to Local Government in Australia. From nearly 0.6 per cent of GDP in the mid 1980s, these had dropped to less than 0.4 per cent in 2004 (Access Economics, 2004). In 2003/04, total FAGs to Australian Local Government represented only 0.18 per cent of GDP. Although Commonwealth FAGs to Local Government appear to have grown faster than the CPI, its growth has been much slower than the state economy (GSP) and have shrunk as a proportion of federal tax revenue (Allan et al. 2006). <u>For example, grants and contributions accounted for 14.23 per cent (or $16,074,000) of Bankstown Council's revenue in 2004/05 but it dropped down to 12.75 per ($14,600,000) in 2005/06.</u>

The roads component of FAG funding is based on an LGA's population and road and bridge length. Accordingly, growing urban fringe Councils receive FAG funding to meet the costs of building and maintaining new lengths of roads to accommodate the needs of new residents. In contrast, established urban councils like Bankstown receive no significant growth in FAGs funding, in spite of the fact that the cost of maintaining assets like roads and bridges increases exponentially as the infrastructure ages.

An important concern is the complexity and related lack of transparency of the allocations of FAGs to Councils recommended by the NSW Local Government Grants Commission

(LGGC). The formula for distributing FAGs to councils is only partially based on their revenue and expenditure disabilities and capital (i.e. infrastructure) disabilities are not considered. Unlike its Commonwealth counterpart, LGGC does not publicly disclose its calculations of disability for each council thus preventing a public assessment LGGC disability measures for all councils.

Another concern is the administrative complexity required of a council when applying for and reporting back on specific purpose grants such as Commonwealth SPPs (Specific Purpose Payments) and similar state grants. The cost of excessive documentation requirements and the cost of reporting processes result in an excessive proportion of grant funding being spent on grant administration than the intended purpose of the grant.

Brookes (2006) found that between 1995/96 and 2003/04 total Commonwealth grants for local roads only slightly exceeded price inflation, but failed to match the growth of the state economy. This is particularly disappointing because local roads dominate Local Government infrastructure and is in urgent need of massive renewal after decades of neglect and under-funding.

Data about the size, composition and trends for NSW State grants to councils are not published as they are in all but one other state. However, data obtained by the Allan Inquiry found that between 1996/97 and 2003/04, net grants rose from $544 million to $739.6 million, an average annual rate of increase of 4.6 per cent.

2.5 Contributions

For many councils in NSW, the major contribution received are developer contributions. Section 94 of the Environmental Planning And Assessment Act (NSW) 1979 and Section 64 of the Local Government Act 1993 authorise councils to levy developers for contributions towards local infrastructure that is required as a consequence of the planned development. Bankstown City Council has concerns relating to the nature of Section 94 Contributions. Although providing some additional income ($0.5 million in 2004/05), Bankstown, like many other established urban councils, has a limited capacity to levy Section 94 Contributions as the City is not experiencing the same rapid population and development growth as some of its neighbours. In addition, councils are limited in their application of section 94 revenue, as a connection between the development being levied and the object of the expenditure needs to be demonstrated. Although recent reforms to the Environmental Planning and Assessment Act do not require councils to establish such a connection when contributions are levied according to a 1% flat rate, based on contributions in 2003/04, Bankstown would receive $1.1 million less by imposing a flat rate levy in lieu of the existing levy structure, making this an unattractive option.

Although development and limited population growth creates some need for additional infrastructure in the City, the overwhelming challenge facing Bankstown is the need to fund the maintenance and/or replacement of ageing infrastructure. Most of this existing infrastructure was developed prior to the advent of developer contributions. Current Section 94 Contribution arrangements do not adequately assist Bankstown in meeting the financial challenge of maintaining appropriate infrastructure for residents.

2.6 User Charges

Section 539 (1) of the Local Government Act 1993 provides guidelines for charges and fees. Although these are not especially restrictive, it requires that the charge is "reasonable". However, the Act does not provide any explanation as to what is reasonable.

User charges are often limited by historical low charges or community service obligation (eg. accessing recreation facilities). Rental incomes from council owned properties is an important revenue source where market rents can be charged but often these are highly subsidised considering community service obligations (eg. community halls, scout halls, senior citizens' centres).

In NSW, the introduction of private certification of development approvals was intended to increase the speed and efficiency of the development process by abolishing the monopoly of council certifiers. This has reduced the income that councils used to receive from this source and as an unintended consequence brought with it a number of problems arising from professional misconduct committed by many private certifiers and eventually requiring councils to clear the mess.

2.7 Fees and Fines

Fees for Local Government administrative services, such as development application processing, building certificates, clean up notices, s603 rate certificates, inter-library loans, FOI disclosures, inspection of premises (eg. food premises, hair salons, body piercing shops), registration of dogs, constitute an important revenue source for councils. Some of these fees (eg. DA processing) are legislatively restricted to cost recovery basis but there is often no guideline how the extent of cost recovery should be determined. The increasing cost of service provision mean that councils are often unable to go for full cost recovery due to potential for community outrage and end up absorbing and subsidising some of the costs.

3.0 Intergovernmental Fiscal, Legal and Administrative Arrangements

Intergovernmental fiscal, legal and administrative arrangements, as they impact on local councils, are overwhelmingly characterised by local government's treatment as a neglected partner in Federation. This characterisation is at the heart of much of the financing problems that local government faces, with councils not being given a reasonable opportunity to have a fair share of taxation revenue in Australia, in spite of the wide-ranging and growing responsibilities borne by the sector.

Accordingly, local government still exists in an environment where local, state and federal relations could benefit from a massive overhaul of systems and cultures. Bankstown City Council is supportive of the recommendations arising from the *Fair Share Report* (the *Hawker Report* on Cost Shifting) and welcomes the 2006 federal parliamentary resolution recognising local government as an integral level of governance in federation. Council is of the view that implementation of the key recommendations of the Report is essential to ensure a long overdue reform of Local Government financing arrangements in Australia.

However, significant reform must go beyond this symbolic gesture and strike at the heart of the problem - local government financing. Issues already discussed in this paper, such as cost shifting and rate pegging need to be addressed. In addition, there needs to be significant reform to Financial Assistance Grants and the sharing of GST revenues and National Competition Policy (NCP) payments.

3.1 Financial Assistance Grants

Bankstown City Council has for many years argued that the system for distributing Financial Assistance Grants (FAGs) is fundamentally unfair to established urban councils like Bankstown. Council is of the view that were the first half of Recommendation 9 and the whole of Recommendation 16 of the *Fair Share Report* acted on, some of these anomalies would be fixed.

The major problem with the current system for distributing FAGs is that they are provided to state governments who then distribute it to local government. Not only is this system grossly inefficient by inserting an additional and unnecessary layer of government into the process, it is also Bankstown Council's view that the distribution methodology utilised by the NSW Local Government Grants Commission (LGGC) does not adequately recognise the unique cost pressures faced by established urban councils like Bankstown, such as the cost of maintaining ageing infrastructure and increasing cultural diversity.

As mentioned in section 5, the NSW Local Government Grants Commission's (LGGC) distribution methodology for the FAGs roads component only provides additional funding to councils for variations in road and bridge length and increases in population, ignoring the exponential costs associated with maintaining ageing roads and bridges. Council currently conducts its own condition rating assessments for infrastructure assets. For the year 2004/05, Council's condition rating assessment revealed that a total of $34 million needs to be spent to bring Bankstown's roads and bridges to a desired standard, an increase of $200,000 from the previous year. Despite this increase, the Local Roads Component of Council's FAG increased by just $22,000, from $1,039,114 to $1,061,420.

Bankstown City Council is also of the view that the FAG funding distribution methodology employed by the NSW LGGC does not adequately recognise issues of demographic change impacting uniquely on established urban councils. While the methodology provides additional funding where the overall population increases, it does not adequately fund other, and often more costly, changes in a Local Government Area's (LGA) demographic make-up.

The biggest demographic challenge facing Bankstown City Council is the ongoing increase in cultural diversity in the area. For example, between the 1996 and 2001 censuses, the City's Australian-born population decreased by 2.8% while its overseas-born population increased by 7.4%. The number of residents who spoke a language other than English at home increased by 11%, and the number of those who spoke only English declined by 3.4%. In addition, according to the Department of Immigration And Citizenship, an additional 4,321 new migrants have settled in Bankstown since the 2001 census was taken.

While the NSW LGGC provides a disability weighting for cultural diversity in the calculation of a council's general purpose FAG, this weighting only recognises the "additional costs of information provision." Properly serving a culturally diverse community demands a great deal more than mere "information provision." As well as providing information to culturally and linguistically diverse groups through such initiatives as the translation of Council material, Council also encounters a range of additional costs in serving the City's CALD community. These include the employment of specialist staff, advertising in ethnic media, the purchasing of library material in different community languages, and the staging of various community harmony events and cultural festivals. As a City with a high migrant population, Bankstown Council hosts a significant number of citizenship ceremonies, representing an unfunded mandate from the Federal Government.

3.2 Sharing of GST revenues

In July 2000, the Federal Government introduced the Goods and Services Tax (GST) as the key part of its *A New Tax System* (ANTS). Amongst other taxation and financing reforms, the ANTS package replaced Financial Assistance Grants and Revenue Replacement Payments to the States with revenue from the GST. Under an agreement reached with the State Premiers in 1999, the Commonwealth Government also proposed that the States assume responsibility for providing FAGs to local government. This might have eventually seen local councils receive some funding from GST revenues. However, under the agreement between the Federal Government and the Australian Democrats to modify the ANTS reforms, the Government agreed to retain responsibility for assisting local government.

Since its introduction, the GST has been a strong source of growth revenue for the states. For example, in 2001-02, GST revenues grew by 7.1%, but FAGs made to local councils grew by only 4.4%. Accordingly, many councils and representative organisations, including the Australian Local Government Association (ALGA), have argued that local government should be funded directly from GST revenues or at least at growth levels commensurate with GST revenue.

However, growth in GST revenue for the NSW State Government does appear to be slowing. According to ALGA's analysis of the 2005-06 Federal Budget, GST revenue for NSW will grow by 0.89% in real terms, whereas Financial Assistance Grants made to NSW councils will grow by 4.6% (Australian Local Government Association, *Federal Budget 2005-06 analysis: a local government perspective,* located at www.alga.asn.au/policy/finance/federalBudgetAnalysis2005/factsheet10/nsw.php).

If an intergovernmental agreement had been reached to distribute a share of GST revenue to local government in lieu of financial assistance grants, councils might actually be in a less favourable position this year than in the past. Whether obtaining a share of taxation revenue would actually be negotiated as a trade-off to other funding means is, however, a matter of conjecture. Further, it is important to note that the potential GST revenue foregone by NSW Councils since 2000 (i.e., owing to policy decisions of the State Government) is significant and could well have had an impact on the long term financial sustainability of local government in this state.

It is Bankstown City Council's view that local government would benefit substantially from being given a share of GST revenue. As mentioned above, GST revenues have been a fast-growing and secure source of revenue for the states at a time when more and more state responsibilities are being shifted onto local government.

It is only fair that local government is better funded to meet these additional cost responsibilities, and a proportion of GST revenue received by the NSW Government would be an ideal way of doing this. However, this funding must not be granted in lieu of Financial Assistance Grants, but rather serve as an additional source of funding from the NSW Government to compensate councils for taking on a range of shifted responsibilities.

3.3 NCP payments

Over the past decade, councils like Bankstown have pursued rigorous reform programs in keeping with the principles and requirements of National Competition Policy.

In spite of this, unlike the Governments of Queensland, Victoria and Western Australia, the NSW Government has not shared NCP payments received from the Federal Government with councils. Accordingly, the National Competition Council has argued "there have been circumstances where particular local governments have incurred significant reform costs without necessarily being able to accrue a proportionate share of the benefits." (National Competition Council, *National Competition Council Submission to the House of Representatives Standing Committee Inquiry into Local Government and Cost Shifting,* House of Representatives Standing Committee on Economics, Finance and Public Administration, Canberra, 2002.)

According to the National Competition Council, NCP payments to the states "recognise that NCP reforms, by increasing growth and industry performance, increase Commonwealth revenues. In this context, the payments are 'dividends' paid by the Commonwealth to the States and Territories in return for their investment in reform." (National Competition Council, 2002).

While the NSW Government is not strictly required to share its competition payments with local councils, it should nonetheless choose to do so. Sharing competition payments would compensate councils that have encountered significant competition reform costs, as well as recognise local government's contribution to the competition reform 'dividend.' In addition, NCP payments should be used as a device to encourage and reward councils like Bankstown who have undertaken further competition reform.

3.4 Conclusions

Local government should no longer be treated as a junior partner in Federation, especially from a financing point of view. This fact is even more pertinent when one considers the extent of cost shifting onto local government and improvements in local government's own accountability, effectiveness and efficiency. Accordingly, there not only needs to be changes to the system of rate pegging, but also reforms to local, state and federal government arrangements to ensure that FAGs are distributed more fairly and that local government is given access to a portion of GST revenue and NCP payments. These reforms would give real effect to the parliamentary resolution recognising local government as an integral level of governance in federation, and ensure that local councils could adequately meet the costs of expanding responsibilities and infrastructure maintenance.

4.0 Impacts of Cost Shifting from other Tiers of Government

The shifting of costs from Federal and State Government has been a major concern for Bankstown City Council in recent years. The practice can take a variety of forms. For example, cost shifting can occur as a result of a direct legislative mandate, either devolving or creating a new responsibility, or through Council having to take on roles and responsibilities due to gaps in State or Federal Government service provision or planning.

There is an argument that some of these new responsibilities are appropriate and have been beneficial to the community. For example, many additional planning and reporting responsibilities have resulted in better accountability and performance in local governance, and in some instances, local government is better placed to perform many of the new service and regulatory responsibilities required of it. Bankstown Council, over the past decade, has implemented its own program of business reform which actually builds upon legislative requirements, thus placing it in a strong position to perform and compete.

The issue is not just one of shifting responsibilities and costs, but whether or not local government is practically able to meet these costs. Accordingly, the issue of cost shifting goes hand-in-hand with rate pegging, and the failure of other levels of government to provide councils with adequate recompense generally for responsibilities devolved and/or demanded by local communities.

Cost shifting, while difficult to quantify in exact dollar terms, has impacted on Bankstown City Council most markedly in the areas of additional reporting and planning requirements, new regulatory and compliance responsibilities, and through the filling of gaps in state and federal government service provision or planning. For the purposes of making a submission to the Allan Inquiry, the total amount of cost shifting (excluding corporate overheads) for Bankstown for 2004/05 was estimated at $7,381,582 or equivalent to 6.97 per cent of its total revenue.

4.1 Additional reporting and planning requirements

There have been various planning and reporting responsibilities placed on local government since the commencement of the NSW Local Government Act 1993. While some of these responsibilities would (and have) evolved in accordance with principles of good business practice, Council has been required to absorb the necessary costs without assistance from State Government. Specific new requirements have included:

- ***Management Plans*** - Council is required to prepare a three-year rolling Management Plan, which clearly establishes strategic priorities and linkages to budgeting processes. This workload equates to the equivalent of one full-time employee per annum;

- ***State of the Environment reporting*** - Council is required to prepare annual reports on the state of the environment in its area, requiring an equivalent additional workload of three months full-time per annum;

- ***Plans of Management for Public Land*** - Council is required to prepare Plans of Management and undertake land classification activities. For Bushland Plans of Management, this has equated to an additional workload of 18-months full time. Much of the preparation of other Plans of Management has been sourced externally as a direct cost to council;

- ***Stormwater Management Plans*** - amounts to an additional workload of three months full-time per annum, although some funding is provided;

- ***Social Planning*** - All councils are required to develop an annual Social Plan in accordance with guidelines issued by the NSW Department of Local Government. Additional workload has been created for Council's Policy and Community Development staff, and Council expends significant amounts of time and resources towards community consultation.

4.2 Regulatory and compliance responsibilities

In recent years, a number of regulatory and compliance-type responsibilities have been either created for or devolved to councils by the state government. These responsibilities have added significant additional burdens to Bankstown City Council, including the need to employ additional staff, re-train existing staff, seek new forms of accreditation, and in some instances, seek additional legal advice. Council's Compliance Unit has had to employ at least five additional staff, including a new position of Compliance Auditor. While some of these new responsibilities have enabled Bankstown Council to recover fines, it is often the case that these penalty amounts do not cover the overall costs of regulating compliance in the first place.

New responsibilities have included:

- ***The Private Certification Provisions*** - private certification has led to more unscrupulous builders and developers undertaking illegal building activities. This has added significantly to the workload of Council's compliance staff, and in some instances, Council has had to seek extensive legal advice and pursue matters through the Land and Environment and Local Courts;

- ***Protection of the Environment Operations Act*** - a range of new environmental enforcement responsibilities have been devolved to local councils, including regulation of 76 new 'scheduled premises' transferred from the EPA;

- ***Public Health Act and Local Government Act*** - various provisions requiring additional workload. Council currently carries out inspections on 201 cooling towers, 143 hairdressing salons, 33 beauty salons, 21 skin penetration premises (i.e., tattooists and body-piercers), and 3 mortuaries;

- ***The Food Act*** - council carries out inspections of 837 food premises and 32 mobile food vans. Council is also responsible for approving food premises, assisting NSW Food Authority in food recalls, providing advice to food business operators on food safety practices, complaint investigation and providing information on safe food handling. Food-related inspection and enforcement is one of the responsibilities of the eleven Environmental Health Officers currently employed by Council;

- ***Disorderly Houses Act*** - regulation of brothels have effectively been transferred to local government. Additional policy and compliance workload created;

- ***Companion Animals Act*** - registration requirements including microchipping, declaration and monitoring of dangerous dogs;

- ***Parking Police functions*** have been transferred to Council - additional workload created, although infringement revenue is payable to Council;

- ***Occupational Health and Safety Act*** - the registration of clothing manufacturers and certification of spray booths is now a local government responsibility. In addition, changes to OH&S standards have created additional costs for Council in terms of its own compliance;

- ***Abandoned vehicles*** - follow up on abandoned vehicles, formerly carried out by NSW Police, now referred to councils;

- ***Contaminated Lands Act & SEPP 55*** - Council has been required to expand and modify its contaminated lands register, prepare contaminated lands map and policy, and consider contamination in DA assessments and section 149 certificates. An additional workload equivalent to one full-time staff member created;

- ***Heritage Act and EPA Act Requirements*** - Responsibilities in relation to Interim Heritage Orders, demolitions and minor alterations to State Listed items have created a considerable additional workload. A new position was created, and the workload for existing staff expanded;

- ***Waste Minimisation and Management Act*** - new responsibilities for Council including preparation of waste management local approvals policy, conduct of a waste audit of all Council's activities, development of a waste transporters monitoring and licensing program, and development of education and waste-audit programs. It is also noteworthy that in 1994, the state government abandoned its recycling rebate scheme and in 2003, suspended hypothecation of Waste Levy proceeds to the Waste Fund.

4.3 Gaps in service provision

There are other roles and responsibilities that Council has taken on because of locally identified gaps in state and federal service provision or because of offers of shared funding arrangements. This has been particularly evident in Council's Community Planning and Development Team, which has grown from a staff of one in 1997 to nine today. While some new positions have been fully funded by the state government, others are partially funded, providing enough of a 'carrot' to entice Council to take on a new role. Newer areas of responsibility include:

- ***Community Projects*** - a Community Projects Officer has been only 30% funded by the state government through the Western Sydney Area Assistance Scheme;

- ***Aged and Disability Services*** - A Community Development Officer, Aged and Disability, has been 50% funded by the state government. Council also fills a number of gaps in service provision for the aged that are growing as a result of the ageing of the population. These include providing grant funding to aged care facilities, older peoples' transportation services, and technological education such as computer courses;

- ***Cultural Development*** - a Cultural Development Coordinator has been up to 50% funded by the state government on a sliding scale and is about to commence the final year of funding at 30%;

- ***Community Safety*** - Council employs a Community Safety Officer. This position was originally funded through the Western Sydney Area Assistance scheme, but has recently become fully funded by Council. Council also undertakes a series of crime prevention activities, including the installation of CCTV cameras, several community safety programs, community safety audits, graffiti abatement programs and supporting Neighbourhood Watch through Council's grants program;

- ***Road Safety*** - a Road Safety Officer has been 50% funded by the Roads and Traffic Authority. Council has also developed a Road Safety Strategy.

4.4 Flow-on effects from broader policy decisions

There are a number of instances where policy decisions made by federal or state governments create additional costs for local government by increasing demand for local services, or by placing strains on existing infrastructure. An example is demand for citizenship ceremonies, which has increased rapidly in recent years due to the expansion in the Federal Government's migrant intake. In spite of its responsibility for the migration program, and administering citizenship, the Federal Government provides no funding to assist Council with this escalating cost.

4.5 Conclusions

Bankstown City Council has taken on a range of new responsibilities in recent years, creating significant additional costs for Council. There have been several new positions created and a considerable amount of work absorbed by Council staff as a result of state and federal legislation, policies, programs and devolved responsibilities. While some new areas have been partially funded, and others have allowed councils to recuperate some funds through penalties and other fees, when combined with rate-pegging, statutory limitations on fees, and other growing costs encountered by Council, there can be no doubt that cost shifting has contributed significantly to ongoing financial challenges for Bankstown City Council.

5.0 The Condition of Local Government Infrastructure

Bankstown City, like many other Sydney Metropolitan 'middle ring' council areas, was shaped and developed during the post-war years. As an established urban area, the City has relatively low levels of overall population growth compared to some of its Western Sydney counterparts, and limited amounts of large-scale development outside of the Bankstown CBD.

Much of the City's infrastructure was originally developed during the post-war expansion period, with ageing and deteriorating assets providing an increasing financial burden for Council. Council's infrastructure costs are mostly associated with asset maintenance and replacement, with limited funds available for new capital works. This compares with the infrastructure needs of other Western Sydney Councils on the 'outer ring' of Sydney, where the challenge lies in building new assets and facilities to accommodate population growth and significant residential development.

The problem for Bankstown is that Financial Assistance Grant (FAG) and Section 94 Development Contribution arrangements are geared towards meeting the costs of developing new infrastructure, rather than costs associated with maintaining existing infrastructure. However, the most pressing issue in the context of investment in infrastructure for Bankstown has been rate pegging, which by limiting Council's main revenue stream, has limited the amount that Council has been able to invest in infrastructure asset replacement and upgrading.

5.1 Conclusions

The result of the constraints discussed above is that Bankstown Council, like many other councils in New South Wales, faces an increasing financial burden in effectively managing its significant asset base. This is despite Council having been recognised for its particularly strong track record in recent years in terms of its financial management and ensuring the long-term sustainability of the City.

Council conducts its own Condition Rating Assessments, which estimate the cost to bring certain infrastructure assets to an *as new* level. According to Bankstown City Council's 2004/05 Annual Financial Report, $81 million would need to be spent to bring the City's $800 million worth of assets up to Council's preferred standard. This includes:

- Roads - $34 million
- Swimming pools - $10 million
- Footpaths - $9 million
- Stormwater drains - $8 million
- Park buildings - $7 million
- Town Hall - $3 million
- Community halls - $2 million
- Car parks - $2 million
- Stormwater pits - $2 million
- Libraries - $1 million
- Civic Tower - $1 million
- Council depots - $600,000
- Investment Properties - $400,000
- Tenant dwellings - $300,000
- Baby health centres - $300,000
- Bridges - $200,000
- Council chambers - $200,000

As can be seen from the above figures, Bankstown's infrastructure presents a significant financial challenge for Council, with a backlog of works effectively embedded by years of rate pegging. Council is currently borrowing $4 million per annum to ensure essential infrastructure works are adequately funded, yet this money is simply helping to address current depreciation, rather than tackling the much larger asset management issue reflected in these figures.

6.0 Conclusions and Recommendations

In 1995, Bankstown City Council began a proactive agenda of organisational reform that saw the Council move well beyond the traditional stereotype of local government as inefficient, unaccountable, and a poor financial manager. A dedicated program of financial rigour has seen Council emerge with a financially well-managed position.

This is despite the growing number of costs being shifted onto Council by other tiers of government. As already mentioned, these have included costs associated with additional reporting and planning requirements, new regulatory and compliance responsibilities, and filling gaps in state and federal government service provision. It is also despite the restraints Bankstown City Council faces in raising revenue.

The system of rate pegging has meant that Council has had to struggle to keep up with year-to-year cost increases such as rises in the CPI, Industrial Award salary increases, escalating insurance costs, and increases in the Fire Services Levy, as well as the extra costs shifted onto it by other tiers of government.

The dedicated program of financial rigour since 1995 has ensured that in order to maintain a strong overall financial position, Council's revenue streams have only been able to meet short-term liabilities and the costs of services and programs. Council has been forced to borrow funds to meet essential and urgent infrastructure asset replacement costs, and has to date been unable to fund the backlog in infrastructure asset replacement and upgrading. As an established urban council, Bankstown has a large number of ageing assets, and maintenance and replacement costs are increasing exponentially from year to year. Council believes it needs to spend approximately $81 million to bring its *as new* standard.

This problem is exacerbated by Financial Assistance Grant and Section 94 Development Contribution arrangements, which do not adequately fund established councils like Bankstown, as Council's infrastructure costs are associated mostly with the maintenance and replacement of existing assets, rather than the building of new infrastructure to meet the demands of a rapidly expanding population.

The financial challenge facing local government is not just an issue for individual councils and the communities they serve. If councils find themselves in a position where they are forced to buckle under the combined financial pressures of cost shifting, asset management, rate pegging and declining federal and state grants, it is ultimately the other two levels of government who will be required to come to the rescue.

Bankstown City Council is therefore of the view that there is a need for a radical overhaul of local government financing arrangements in New South Wales to substantially improve Local Government revenue-raisining capacity, including:

- Addressing revenue-raising restraints brought about as a result of rate pegging and statutory limitations on certain fees. Councils like Bankstown, who have proven their ability to responsibly manage their own financial affairs, should be free to pursue their own revenue raising policies that would allow them to not only cover year to year operating costs, but provide much needed funding for local infrastructure maintenance and renewal;

- Restoring at least part of the reduction in the Commonwealth's Local Government funding as a proportion of GDP in the last two decades. Bankstown Council fully agrees with the recommendation of the *Allan Inquiry* that the Commonwealth Government increase its financial assistance grants (FAGs) to Local Government by 20 per cent ($300 million at 2003/04 values) and then set them at a fixed percentage of GDP (0.22 per cent) or total Commonwealth collected taxes including GST (0.86 per cent) or total income taxes (1.27 per cent).

- The Commonwealth and State Government coming to the rescue of NSW Local Government to overcome its infrastructure crisis. The NSW Local Government needs an extra $900 million a year to fix this. An extra $200 - 300 million a year in general purpose grants, which in future would be fixed as a proportion of these Governments' respective total revenues is an way out from this crisis. Local Government could then be asked to find the balance amount by itself, with say $200 million from cost savings and $400 -500 million from extra revenue.

- Paying FAGs directly to councils and distributing funds in a manner that more appropriately recognises cost pressures faced by established urban councils, such as maintaining ageing infrastructure and managing increasing cultural diversity;

- Giving NSW local councils a share of NCP payments to recognise Local Government's contribution to the overall competition reform dividend; and

- Addressing issues associated with cost shifting, including the possibility of granting local government a share of GST revenues and/or providing councils with access to some other form of growing revenue or taxation base. There should be an agreed process between Local Government and state and Federal Governments to ensure that when a service is devolved or a new accountability or reporting requirement is imposed on councils it is accompanied by adequate and secure funding sources.

Though relatively in an overall strong financial position, Bankstown City Council faces a number of serious financial challenges. The enactment of the reforms mentioned above and discussed at length throughout this Submission would certainly put Council in a stronger position, enable it to continue serving the people of Bankstown, and confidently tackle the growing infrastructure and other service provision challenges facing the City.