

Penrith City Council

Our Ref: HL 750/9
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9 August 2002

Trevor Rowe
Secretary
House Economics Committee
Parliament House
CANBERRA ACT 2601

House of representatives Standing Committee on
Economics, Finance and Public Administration

Submission No: **232**

Date Received:

Secretary: *Burdell*

Dear Mr Rowe,

**Supplementary Submission – Commonwealth Inquiry
into Local Government and Cost Shifting**

Following Council's consideration of a detailed report on this matter on 5 August 2002 it was decided that a supplementary submission be forwarded to the House of Representatives Standing Committee on Economics, Finance and Public Administration as a follow-up to the initial submission made on 26 July 2002.

Council has provided additional commentary to the initial submission. These comments have been incorporated into the attached final submission along with a new section entitled 'Penrith City Profile'.

Council recommends that the Inquiry give consideration to the matters raised in this supplementary submission when considering the findings of the review.

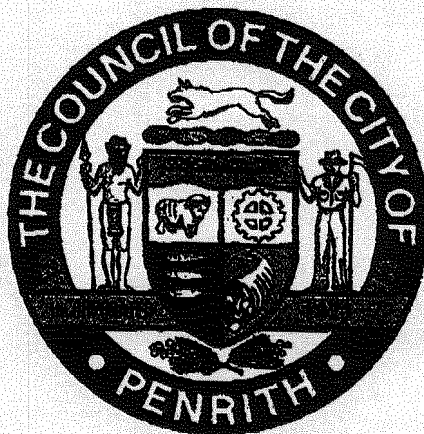
Thank you again for the opportunity to make a submission to the Inquiry.

Yours faithfully

Alan Travers
General Manager

Penrith City Council

**Supplementary Submission
to the**



**Commonwealth Inquiry
into Local Government
and Cost Shifting**

August 2002

Penrith City Council Submission to the Commonwealth Inquiry into Local Government and Cost Shifting

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1.0 Penrith City Profile

Strategically positioned as a regional capital extending beyond the Blue Mountains to the Western Plains, Penrith City has a population of 172,400 but caters for a population in excess of 300,000. Penrith's regional role is important in its development as a vital centre of commerce, education, health and government services, entertainment and cultural activity. This regional role is reflected in the Category 1A designation for Penrith LGA by the NSW Government.

Penrith is a city on the western fringe of the Sydney metropolitan area, in New South Wales, Australia. Penrith is approximately 54 kilometres by road west of Sydney's Central Business District at the foot of the Blue Mountains. Penrith is one of the larger metropolitan local government areas covering an area of 407 square kilometres.

In terms of environment, Penrith is distinguished by its natural setting, the finest in Western Sydney. It contains the Nepean River, a major river system of Sydney and significant bushland, scenic conservation and sensitive ecological areas, rural and historical landscapes.

With a growing population, opportunities for self-sufficiency are also increasing for Penrith.

A diverse industrial base, major commercial centres of Penrith City Centre and St Marys Town Centre, education, medical, recreation and support activities are all already well established and have significant potential for growth.

Other Facts and Figures

- Budget Approx. ~ \$130 million
- Total Area ~ 407 square kms
- Population ~ 172,397 (ABS Census 2001 1st release)
- Rateable Properties ~ 60,985
- Land Value for rateable properties ~ \$7,544 million
- Parks (Area) ~ 412 hectares
- Sporting Fields (Area) ~ 340 hectares
- Community Uses ~ 228 hectares
- Natural Areas ~ 261 hectares
- Road Lengths (Area) ~ 1,117 kms (7.7 million sqm)

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2.0 General Comments about Inquiry and Terms of Reference

2.1 Terms of Reference

Penrith City Council raises three key qualifications regarding the overall Inquiry and its Terms of Reference that, in Council's view, will limit the Inquiry's results:

- As stated in the House of Representatives Committee media release the Inquiry is focussed on cost shifting onto local government by state governments and does not include an assessment of cost shifting by the Commonwealth Government.
- The Inquiry's required cost neutrality for the Commonwealth.
- State determination of the majority of local government functions and responsibilities with funding provided either directly from the states or indirectly from the Commonwealth to states.

In order to allow a fuller inquiry Council recommends that the Inquiry seek a broadening of the terms of reference to include an examination of cost shifting by the Commonwealth Government to local government either directly or indirectly through State government or community needs and expectations. Secondly that the requirement for cost neutrality for the Commonwealth be removed from the Terms of Reference.

2.2 Changing Functions of Local Government

In Council's view, the functions and roles of local government at present are reasonable and relevant and there is no justification for a major overhaul of those functions.

An assessment of the changing role of local government over the last 10 to 20 years has however identified significant change in those functions with 4 main factors influencing that change :

- **Devolved functions from government either as a direct shift of functions and costs from State Government or indirectly from the Commonwealth to the states or the community.**

Some examples include :

- NSW State Government requirements to prepare and implement social plans to identify social needs in areas, how they will be addressed and reporting them through the Management Plan and Annual Report
- NSW State Government requirements to prepare and implement State of the Environment Reports to identify environmental issues and report them through the Management Plan and Annual Report.
- Costs associated with the implementation and administration of the NSW State Government's Companion Animals Act.

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- Costs associated with the implementation and administration of new accountability requirements such as the Privacy and Freedom of Information Acts.
 - Pollution Control – the NSW POEOA Act requires Councils to administer pollution controls without any additional resources.
 - Responsibility for contaminated land registers without adequate funding to cover costs.
 - Noxious weed control – no additional revenue to fund responsibilities under this Act.
 - Arterial road maintenance
- **Flow-on effect or unplanned creep of functions and costs**

Some examples include functions that have developed around local government without adequate funding such as :

- The range of community services that grew out of the NSW State Government's social justice agenda. This includes services initially funded but where resources were not continued or where a need was discovered to accelerate services such as new estate workers or support for identified target groups in areas (aged persons, persons with disabilities, youth, etc)
- Costs associated with the preparation and implementation of new State Government legislation, regulations and policies such as the new development assessment and integrated development legislation, private certification legislation, threatened species legislation, plans of management for open space and catchment management.

➤ ***Changing expectations of the community leading to a broadening of local government functions and services.***

Some examples include:

- Increased community expectations as a result of the development of social plans and State of the Environment Reports identifying needs of local areas.
- Emerging community demands for new services which have no funding arrangements, such as the provision of information technology services through the public library network, community safety and neighbourhood renewal programs, recycling and sustainable development programs, economic development and cultural programs.

➤ ***Implications of 'perception of community need'***

The fact that 'perception of community need' results in there being minimal reduction or attrition of local government's functions and services over time.

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Due to the large and varied number of changes that have occurred to local government's functions and responsibilities over the last 10 to 15 years there is a need for a comprehensive review of those changes and associated costs.

It is therefore recommended that Council request an audit of those functions and services that have originated from the states from State Auditor Generals and that a similar request be made to the Commonwealth Auditor General in the case of functions originating from the Commonwealth Government.

2.3 Link between this Inquiry and the Inquiry into the operation of the Local Government (Financial Assistance) Act

The terms of reference for the current Inquiry require the findings of an earlier review into the operation of the Local Government (Financial Assistance) Act 1995 to be taken into account. That review was undertaken by the Commonwealth Grants Commission and examined the effectiveness and appropriateness of the operation of the Act.

The review recommended some rationalisation and clarity of certain provisions of the Act. For example the extent to which assessment methods used to determine grant allocations recognise the needs of Indigenous people. It also recognised the general expansion of local government functions over the last 15+ years and funding implications for local government.

While Penrith City Council recognises that councils are best placed to accept, from time to time, some functions devolved from state government or to take on additional functions in response to community needs there needs to be clear criteria by which functions or services are accepted by local government, protocols in place to determine the appropriate level of funding required and measures adopted for the long term continuity of that funding.

Related to this there needs to be clarification of functional responsibilities between all three levels of government in Australia and joint recognition and agreement obtained for these functions.

Council requests that the Inquiry to consider these matters.

2.4 Need for State and Commonwealth investment at the regional level

Australia's population growth is occurring largely on the edges of our cities with the phenomenon of Western Sydney also taking place in other states, although to a lesser degree. There is an urgent need for investment by both Commonwealth and State Governments into social and service infrastructure to support sustainable urbanisation on the edges of our cities. That investment should take place at the regional level to overcome past problems of infrastructure and services arriving too late.

The importance of this issue places it on a national level. WSROC Mayors have previously recognised this and called for the Commonwealth to reinvest in Western Sydney.

Council requests that the Inquiry consider this matter.

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3.0 Response to Inquiry's Terms of Reference

Council's responses to the Inquiry's specific Terms of Reference are as follows :

3.1 Local government's current roles and responsibilities

As stated earlier in *section 2.2* there are increasing demands being placed on local government with associated impacts on financial capacity. Due to the large and varied number of changes that have occurred to local government's functions and responsibilities over the last 10 to 15 years Council believes there is a need for a comprehensive review of those changes and associated costs.

Council therefore requests that the Inquiry :

- Seek a review of changes to local government's functions and responsibilities and associated costs over the last 10 to 15 years and that this include an audit by State Auditor Generals of those functions and services that have originated from the states. Secondly, that a similar request be made to the Commonwealth Auditor General in the case of functions originating from the Commonwealth Government. The review should include both direct and indirect functional and cost shifts from State or Commonwealth governments

3.2 Current funding arrangements for local government, including allocation of funding from other levels of government and utilisation of alternative funding sources by local government.

Council considers that there are a number of issues that need to be taken into account or impact upon the level of funding currently allocated to local government to carry out its functional responsibilities. They include :

- The extent of cost shifting that has occurred to local government over the last 10 to 15 years by state and Commonwealth governments and the adequacy of funding arrangements made with local government. For example cost shifting from Commonwealth to state governments and reductions in grants from Commonwealth to state government produce flow-on effects to local government.
- The availability of alternative sources of income at either the local or regional level. For example new revenue source opportunities provided by the GST and National Competition Policy (NCP) dividends, the different treatment of these funding sources between states, the appropriateness of rate-pegging and inclusion of state levies within the rate-pegging limit.
- The extent of limitations presently placed on councils to recover costs from services devolved by state and Commonwealth Governments.
- Difficulties in addressing long-term ageing infrastructure given the current financial framework.
- The availability of alternative options for funding local infrastructure to development contributions. For example opportunity for betterment taxes which tax private gains from public investment in infrastructure, with the proceeds going to local government.

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- The effect of reductions in road funding and proposed changes to road funding arrangements by the Commonwealth Government.
- The link between this Inquiry and the one conducted into the operation of the Grants Commission Act.

Council therefore requests that the Inquiry :

- Seek a review of changes to local government's functions and responsibilities and associated costs over the last 10 to 15 years as previously stated.
- Seek a review of alternative sources of income at either the local or regional level. This should include new revenue source opportunities provided by the GST and NCP dividends, the different treatment of these funding sources between states, the appropriateness of rate-pegging and inclusion of State levies within the rate-pegging limit.
- Seek a review of alternative options for funding local infrastructure.
- Consider other matters identified above.

3.3 The capacity of local government to meet existing obligations and to take on an enhanced role in developing opportunities at a regional level including opportunities for councils to work with other councils and pool funding to achieve regional outcomes.

Earlier discussion in *section 2.4* referred to the importance of investment at the regional level into urbanisation on the edges of the nation's cities.

On this basis Council requests that the Inquiry seek :

- Both Commonwealth and state governments to urgently address the need for investment into social and service infrastructure to support sustainable urbanisation on the edges of our cities. And that this investment should take place at the regional level.
- Recognition that there are distinct regions in urban areas and that these may be the best levels for the provision of some services.
- A consistent basis between local, state and Commonwealth Governments in defining regions.
- Consideration of the potential for funding to regional groupings of councils from Commonwealth and state governments and councils themselves. For example, Regional Development Funds.
- A broadening of the Inquiry's Terms of Reference regarding cost neutrality for the Commonwealth Government to take account of the much greater Commonwealth Government engagement needed in metropolitan regions and the provision of urban infrastructure.

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3.4 Local government expenditure and the impact on local government's financial capacity as a result of changes in the powers, functions and responsibilities between state and local governments.

As previously discussed in this submission there are increasing demands being placed on local government with associated impacts on financial capacity.

Responsibilities between metropolitan and rural local government also differ with metropolitan councils required to provide additional services and functions above the core functions of local government. For example, expanded service delivery associated with the NSW State Government urban consolidation and new release area development policies.

Council considers there is a need for a review of sources of income at both the local or regional level. This should include revenue source opportunities provided by the GST and National Competition Policy (NCP) benefits, the appropriateness of rate-pegging and statutory limitations on fees and charges, application of State levies within the rate-pegging limit.

Council therefore requests that the Inquiry seek :

- Differentiation of the functions and responsibilities between metropolitan and rural local government that takes account of the additional services and functions that metropolitan councils need to provide above the core functions of local government. For example, increasing pressures on service delivery in urban councils associated with state government policies for urban consolidation and new release area development.
- Conversely, consideration to be given to capacity considerations in the determination of functions, their implementation and appropriate resourcing needs at the local government level. For example a large metropolitan council will have different capacity to implement functional change to a small rural shire.
- A review of sources of income at both the local or regional level. This should include revenue source opportunities provided by the GST and NCP benefits, the appropriateness of rate-pegging and statutory limitations on fees and charges, application of state levies within the rate-pegging limit.

3.5 The scope for achieving a rationalisation of roles and responsibilities between the levels of government, better use of resources and better quality services to local communities.

As discussed elsewhere in this submission there is an urgent need for investment to take place at the regional level to support sustainable urbanisation on the edges of our cities. Opportunities need to be explored as to how that can effectively occur. This could include consideration of funding for some services to regional groupings of councils from Commonwealth and state governments and councils themselves. Other opportunities also need to be examined to improve funding for services and service delivery.

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Council requests that the Inquiry seek :

- Clarification of functional responsibilities between all three levels of government in Australia and joint recognition and agreement obtained for these functions. This process to ensure that local government retains its ability to respond to local needs in providing services and functions as well as to wider government responsibilities.
- A review of public revenue allocations to assist in a clearer definitional framework for Commonwealth, state and local responsibilities.
- Greater cooperation between councils, particularly small councils, for the provision of urban services and management.
- A review of services delivered by government agencies to reduce duplication.

3.6 The findings of the Commonwealth Grants Commission Review of the Local Government (Financial Assistance) Act 1995 of June 2001, taking into account the views of interested parties as sought by the Committee.

The principal purpose of this review was to examine the effectiveness and appropriateness of the operation of the Local Government (Financial Assistance) Act 1995 and included recognition of the general expansion of local government functions over the last 15+ years and funding implications for local government.

Council requests that the Inquiry give consideration to the matters raised in this final submission when considering the findings of that review.