



SUBMISSION TO FEDERAL PARLIAMENTARY  
COMMITTEE:

# **Inquiry Into Local Government And Cost Shifting**

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## Table of Contents

<b>EXECUTIVE SUMMARY.....</b>	<b>4</b>
<b>1. INTRODUCTION.....</b>	<b>9</b>
1.1 Introduction .....	9
1.2 Local Government and the Commonwealth .....	10
1.3 Local Government and the States .....	11
1.4 Emphasis on Outcomes .....	12
1.5 Specific Needs of Capital City Councils .....	12
<b>2. CHANGING ROLES AND RESPONSIBILITIES OF LOCAL GOVERNMENT IN THE GLOBALISED AGE .....</b>	<b>15</b>
2.1 Dynamic Role of Local Government.....	15
2.3 Lack of Relationship to National Regional Policy and Federal.....	16
Cities Policy .....	16
2.3 Globalisation .....	17
2.4 Link of Social and Economic: Social Capital .....	17
2.5 Changing Nature of National Economy .....	18
2.6 Urban Infrastructure.....	19
2.6.1 Telecommunications .....	19
2.6.3 Transport Infrastructure.....	20
2.7 Global-Local Paradox .....	21
2.8 Legislative Devolution of Responsibilities .....	22
<b>3. LOCAL GOVERNMENT CAPACITY TO RESPOND.....</b>	<b>23</b>
3.1 Limited Fiscal Autonomy .....	23
3.1.1 Rate Revenue .....	23
3.1.2 Grants and Grants Criteria.....	24
3.1.3 Limited Relationship to Revenue Generated. ....	24
3.2 Service Expansion and Community Leadership.....	25
3.3 Sydney City Council Initiatives .....	26
3.3.1 City of Sydney Homeless Persons Program .....	26
3.3.2 City of Sydney Safe City Program.....	27
3.3.3 City of Sydney Library .....	28
3.4 Functional Competencies .....	28
3.5 Managerial Reforms .....	28
3.6 Financial Efficiencies/Rationalisation .....	29
3.7 Organisational efficiencies.....	30
3.8 Co-operative Reforms in Service Delivery .....	30
3.9 Governmental Reforms .....	31
3.10 Service Expansion .....	31

<b>4</b>	<b>ACHIEVING A BETTER SYSTEM .....</b>	<b>33</b>
4.1	Inter-governmental Co-operation.....	33
4.2	Secure and Growing Revenue Base .....	34
4.3	Allocation of Funds from other Levels of Government. ....	34
4.4	Specific Financial Arrangements .....	35

## EXECUTIVE SUMMARY

The City of Sydney concurs that an effective review of the efficacy and outcomes of inter-governmental financial relations requires a consideration of the respective roles, responsibilities and transfer of funds amongst all levels of government, including Local Government. It also supports an emphasis on outcomes rather than mere input processes.

In particular, it supports the an examination of "*the capacity of local government to take on an enhanced role in developing opportunities at a regional level*" (Reference 3) in relation to "*the scope for achieving a rationalisation of roles and responsibilities between the levels of government*" (Reference 5) to achieve "*better quality services to local communities*" (Reference 5).

### Changing Roles and Responsibilities of Local Government

The City believes that such an examination should consider the changing role of cities, regions and local government in the era of increasing international competition and global interaction through 'globalisation'. In particular, it notes that micro-economic policy reform in the areas of competitive infrastructure and other public sector inputs to industry, tariffs, competition policy, labour market flexibility and international tax competitiveness have set the seed for Australia's economic expansion and transformation. It supports the development of a program of structural reform of tax-sharing arrangements between the three tiers of government in the light of these structural economic changes.

The City of Sydney notes:

1. That taxes levied by local government have declined from 5.0% of all Australian taxation, 30 years ago, to 3.1% in 1999-2000.
2. That this increased vertical fiscal imbalance is likely to be further exacerbated by changes that break the nexus between assistance to the States and Local government, by giving States access to a share of a growth tax such as GST but merely maintains funding in real terms to Local Government
3. That Commonwealth assistance to Local Government in consequence is declining as a proportion of GDP such that local government is not sharing in the benefits of economic growth.
4. That the States, irrespective of the equity of the allocation arrangements, now has access to a 'growth' tax.
5. That the 'national principles' adopted for allocation by the State Grants Commissions with emphasis on per resident capita allocation and fiscal equalisation penalises Councils such as the City of Sydney that serve a community beyond its 30,000 residents. The 'city community' arguably includes also the 250,000 workers, 15,000 businesses, 20-25,000 nightly hotel visitors and 300,000 daily visitors who use the City for a variety of other purposes.

6. That the criteria adopted by the NSW Grants Commission for the allocation of funds ignores the higher use made of local community facilities in areas of intense activity by concentrating on the disadvantage of scarcity and distance.
7. More particularly, that allocation principles should go beyond merely sustaining services at an equal minimum standard but also look at the economic growth and revenue-generating value of infrastructure development, particularly in enhancing Australia's competitiveness at a global level.

Local government's traditional revenue-base, local rates, is subject to encroachment by the State Government Land Tax ( it has been estimated that over 10% of State Land Tax is generated from buildings in the 6.18 sq km City of Sydney) and by rate-pegging by the State Government (often at levels below the increase in State government charges to Local government).

Conversely, Local Government statutory functions and responsibilities, determined by State government legislation have been increasing in recent times.

The City of Sydney agrees that many of these functional responsibility increases, particularly in the areas of community and corporate planning, are necessary to ensure that Councils exercise their current responsibilities prudently and effectively, and should be welcomed.

### **Local Government Capacity to Respond**

As documented in the submission, the City of Sydney has responded with a range of efficiency measures, which, within a decade have turned a significant deficit into a significant surplus.

However, such measures should be seen as a necessary but not sufficient solution to the dilemma facing local government.

This is because little attention has been paid to the changing role of local government and its responsibilities to its citizens in the areas of economic and social policy under the impact of the process of 'globalisation'. In particular, whilst some attention has been made to the deleterious impact on rural and 'regional' centres, little recognition of the critical significance of global-growth centres that can create the additional growth and public-revenue beyond serving the needs of their local community - to the provide the economic surplus or dividend available for the equitable sharing of the benefits for all Australians.

As the world becomes more interconnected and the locus of political and economic power moves inexorably upward in scale, many of the ingredients for economic success at a national level are grounded in highly-differentiated but inter-related local and regional economies.

The imperatives imposed by such globalisation has increased and substantially altered the role of Local government. As the nexus of 'Local-Global' becomes apparent there has been an increased emphasis on place-management and 'whole-of-government' responses.

In particular, the Central Business Districts of the capital cities led by Sydney are now the locus of momentum of national economic growth. With its dominance in the global-growth industries of finance and business services (such as accounting and law) the City of Sydney has experienced annual economic growth at rates of 1-2% above already impressive national averages over the last decade. Its employment has expanded by over 20%. Indicative of the sea-change in the structure of the nation's economy, output from 'Property and Business' services surpassed Manufacturing as the major industry contributor during 2001.

As demonstrated by the City of Sydney, local governments are increasingly required:

- to undertake an enhanced role in ensuring the conditions to sustain successful global expansion through direct provision, marketing and co-ordination of stake-holders and attracting the requisite resource base, particularly skilled labour.
- to undertake an enhanced advocacy role to ensure that urban infrastructure is maintained and, in the increasingly significant area of telecommunications infrastructure, enhanced at 'world-best' levels;
- to develop an urban space that encourages inter-action and liveability;
- to cultivate a culture that enhances inventiveness, entrepreneurial spirit, and, critically, social capital;
- to provide best-practice services to its residents, businesses and visitors to the City, often for a 'community' beyond its immediate boundaries. (as illustrated by the City's Homeless Program and Safe City Program )

The perceived core values of the city, the State and the nation are increasingly being measured globally by the actions/images emanating from the City Centre. For most overseas observers, their perception of Sydney is their perception of Australia and the perception of Sydney stems from the City centre and CBD. The value of our social capital as the outcome of how observers see visitors, the homeless and others treated in our City Centre. The Olympics demonstrated the value of this.

In this regard, the City of Sydney has expanded its role through its innovative City Homeless Persons Program and the Safe City Strategy through partnership arrangements with State and private sector agencies, the installation of Street Safety cameras and, accords with licensed premises and amusement centres. The results have been significant.

In the case of the City of Sydney, economic success has resulted in significant economic growth at a national and regional level as well as significant revenue being generated for both Federal and State governments.

Given the significance of capital cities and urban infrastructure in pursuing global competitiveness, the City of Sydney supports the proposals of the Council of Capital City Lord Mayors and the Property Council of Australia for the convening of an annual Capital Cities Forum which would bring together State Premiers, Chief Ministers and Lord Mayors. This Forum would review the competitive status of the capital cities, discuss the impact of government programs on the ability of the Cities to contribute to national prosperity and establish, in broad terms, central city infrastructure priorities from a national perspective. It may be appropriate to set aside a fixed proportion of GST revenues to be dedicated to such urban infrastructure projects, matched by a commitment of additional Commonwealth funds.

This inquiry represents a significant opportunity to progress the economic reform that has successfully integrated Australia with the international and Asia-Pacific economies through micro-economic reform, competition policy and tax policy.

The submission makes a number of references to the need to approach the inquiry by placing it in the dynamic context of change in the nature of the national economy and the consequent re-appraisal of the most effective role of government.

The best results in place management under globalisation can be achieved by bringing the virtues of localism to the achievement of national economic growth and employment and skill formation. This points the way in which the re-ordering of public responsibilities will require changes to Australia's federal system of government and, in turn, to inter-governmental fiscal relations. A weak and undervalued tier of local governance, with restricted responsibilities and uncertain resources diminishes our effectiveness as a nation.

## **Recommendations**

To that end, the City of Sydney recommends:

1. That, the nexus between State and Local government grants from the Commonwealth be restored;
2. That , Local Government be given direct access to a guaranteed share of a growth tax, whether that be GST and/or Income tax;
3. That , the Commonwealth Grants Commission, or some other appropriate body such as the Commonwealth Department of Finance, in conjunction with the State Treasuries provide an annual spatial allocation of expenditure and revenue generated in local areas across all levels of government;
4. That , the Regional Economic Group of the Reserve Bank be encouraged to expand their activities on local/regional economies to include areas within major urban areas;
5. That, the "National Principles' underlying the distribution of Grant Commission funds be expanded to include consideration of the infrastructure needs to enhance economic growth rather than merely redress current disadvantage;

6. That, the specific formulae utilised by the State Grants Commissions which actively discriminate against a local council such a City of Sydney be amended:
  - (i) General Grants be based on user numbers (at the very least, residents plus workforce), rather than merely resident numbers;
  - (ii) Grants adjusted for assessment numbers pay due recognition to the number of tenancies in each commercial building assessment;
  - (iii) Road Grants be based on traffic flow on roads rather than mere local road length
7. That, a National Capital Cities Policy be developed by the Commonwealth Government, and an annual Capital Cities Forum be convened which would bring together State Premiers, Chief Ministers and Lord Mayors of the Capital Cities to review the competitive status of the capital cities, discuss the impact of government programs on the ability of the Cities to contribute to national prosperity and establish, in broad terms, city infrastructure priorities from a national perspective;
8. That, this National Capital Cities Policy be integrated into a broader transparent Regional Policy, including Regional Economic Policy;
9. That, an appropriate Review be undertaken on mechanisms to ensure a better distribution of the benefits of local-global economic integration in a spatial sense.



# 1. INTRODUCTION

## 1.1 Introduction

The City of Sydney Council welcomes the opportunity to contribute to the Standing Committee on Economics, Finance and Public Administration Inquiry into Local government and Cost Shifting.

Local Government has an important and increasing responsibility in the efficient and effective provision of community services, depending upon local conditions and local needs. Indeed, arguably, the very term 'community' can only be understood at the local level, so that the creation of better communities is the *raison d'être* of Local Government. In consequence, the application of coordinated place-management with Local Government enables both State and Federal Government objectives with respect to the community to be more efficiently met.

The quality of life in Australia depends substantially on the services and opportunities that the community provides from the combined resources of government. It has been argued that in Australia's federal system of government of the four major community services which young people derive their lifestyle opportunities - education, recreation, cultural pursuits and libraries, all but education are provided by local government. In this fashion, the quality of life for many Australians has come to depend as much on where they live as how much they earn. Place matters.

In a general sense, given its limited revenue -raising capacity, to undertake this task Local Government is reliant upon funding from both the Commonwealth Government and State Government, in the form of General Financial Assistance and Specific Purpose Financial Grants.

It is also dependent upon other levels of government for the provision and replenishment of necessary urban infrastructure to remain competitive in an increasingly globalised locality-market for investment.

Conversely as a 'creature of State Government', with its roles and responsibilities outlined by State legislation, local government has found its statutory responsibilities increasing, at the same time as its *de jure* economic and community responsibilities for development are also expanding.

The capacity of local government to fulfil its significant responsibilities and growing role in developing opportunities at a regional and local level depends crucially on the efficacy of both financial arrangements between the levels of government and the integrated co-ordination of functional roles between those levels. This Inquiry provides an opportune time to evaluate the adequacy of those roles and responsibilities as well as the financial capacity of local

government to maximise its contribution to an effort that encompasses all levels of government.

Additionally, and specifically, Capital City Councils such as the City of Sydney have an additional role to play beyond their boundary areas, both economically and in terms of service provision, yet are subject to grant criteria which explicitly ignore this role in determining grants from other levels of government. This places the provision of such services in uncertainty, further exposes such Councils to the vagaries and volatility of urban land markets and reduces the potential for constructive inter-governmental co-operation to maximise potential in the global economy.

## **1.2 Local Government and the Commonwealth**

As part of *A New Tax System* (ANTS), the Commonwealth Government proposed that the States assume responsibility for providing financial assistance grants to Local Government from 1 July 2000. Payments were to be made under the terms of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, which heads of government signed at the 1999 Premiers' Conference. But under the agreement between the Government and the Australian Democrats to modify the goods and services (GST) and implement a package of other proposals, the Government agreed to retain responsibility for assisting local government.

The Commonwealth Government's decision to replace financial assistance grants (FAGS) to the States with revenue from the GST from 1 July 2000 severed the link between growth in assistance to the States and growth in assistance to Local Government established in the then current 1986 Act. The Government therefore introduced the *Local Government (Financial Assistance) Amendment Act 2000*. The main purpose of this Act was to maintain the level of assistance to local government in real per capita terms. Thus, in 2000-01, the increase in general purpose assistance was based on an escalation factor based on population growth and the increase in the consumer price index.

This continued the trend established after the nexus between Grants to Local Government and Commonwealth taxation was broken in 1983. Successive Commonwealth governments have been content to maintain the level of assistance to local government in real per capita terms and so allow assistance to fall relative to GDP. Moreover, the escalation factor has not kept pace with the 'fiscal drag' (whereby income tax revenues increase at a higher rate than inflation as nominal income moves into higher marginal tax brackets) the Commonwealth has enjoyed. As a result, the vertical fiscal imbalance between Commonwealth and Local Government has worsened. Despite the individual income tax cuts delivered in 2000-01 as a result of ANTS. The Commonwealth estimates that individual income tax will grow by nearly 30% from 2000-01 to 2003-04.

It has been estimated by the Australian Local Government Association that if the FAGs and Commonwealth taxation had been maintained from 1983-84 to 1998-99, local government would have received an additional \$6.2 billion (in 97-98 prices) over that time. In the period from 1999-2000 to 2003-04, local government was estimated to lose another \$2.7 billion.

Thirty years ago, all Local Taxes comprised 5.0% of all taxes raised in Australia, and 1.2% of GDP. Now, Local Taxes comprise just over 3% of Taxation Revenue and less than 1% of GDP.

The worsening fiscal imbalance has seen Local Government receive only limited benefits from a growing economy and sharing in the growth in Commonwealth tax revenue that arises. Such a situation is inimical to a position where local government is being asked to accept greater responsibility in both its legislated functions and its enhanced function in 'place-marketing' in an increasingly place-conscious global economy.

Reversal of this situation would require a change to the method of determining the level of assistance. More significantly, it would require a fundamental re-appraisal of the complementary roles and relationships between the three levels of government in determining the best policy outcome for the Australian people.

### **1.3 Local Government and the States**

The *Local Government (Financial Assistance) Act 1995* requires the State Grants Commissions to allocate financial assistance grants and identified road grants among local governments on the basis of agreed national principles. The objective of the principles is to ensure that the Commissions distribute grants on a nationally consistent basis. The main principle, at present, is fiscal equalisation, which seeks to improve the equity of grant outcomes. But it is questionable to what extent equalisation is being achieved. The State Grants Commissions do not use consistent methodologies to determine the intrastate allocation of grants. Moreover, it is questionable whether some of the methodologies meet the objective of fiscal equalisation.

Aside from technical questions relating to the determination of expenditure need and financial capacity, the central question underlying the process must relate to the basic principle of fiscal equalisation as being the sole basis for the distribution of these funds. According to the Local Government National Report prepared by the Commonwealth Department of Local Government, the basic purpose for which financial assistance is provided is 'to improve the capacity of local governing bodies to provide their residents with an equitable level of services'.

This seems to ignore the significance of the changing role of local government in successfully responding, nationally, to the process of globalisation. The principle seems to be based on lifting up to a minimum level of service provision rather than utilising local government to expand national economic

growth and enable standards to rise. Yet paradoxically local government is more reliant on State and Commonwealth agencies for the necessary infrastructure particularly in transport and telecommunications to compete successfully on a global stage.

All government (and private) expenditure has a spatial dimension. Thus, specific purpose and general revenue payments to States from the Commonwealth have a local dimension as well. In consequence, changes to the direct allocation procedures and funding to the States have an indirect impact on Local Government - in both the quanta of funds available and the principles by which grants from the States are made.

#### **1.4 Emphasis on Outcomes**

The City of Sydney concurs with the Terms of Reference that the emphasis of the Inquiry must be on outcomes in terms of better quality services for local communities and the sustainability of such. Increasingly, this also implies economic outcomes.

Such a concern about effective outcomes must recognise the changing role that local government is expected to play at the turn of the new century. Whilst central government may be effective at moving money around, it has not proved good at building communities. Central government solutions to community problems rarely work. Since local government is closest to the communities, it can play a key role in building bridges of understanding between central government (be it State or Commonwealth) and the community.

Allied with this is the need to understand the shifting scale of the 'community of interest' underlying the notion of 'community'.

The City of Sydney, with

- a residential population of 30,000,
- a hotel visitor number approximating 20-25,000 a night,
- a daily workforce of 250,000, and
- a daily visitation of some 300,000 for a variety of reasons including shopping, education, entertainment or the conduct of business;

has a community place-management role, which is far in excess of its residential population size. Hence, allocations based on resident population size can significantly disadvantage Councils such as the City of Sydney, for allocations where the 'community' is more than residents.

#### **1.5 Specific Needs of Capital City Councils**

Over and above the general concerns for Local Government, the City of Sydney would highlight the specific needs of the Capital City Councils and in

particular, those localities that are competing extensively in the global economy. As discussed later in this submission (section 2-3), these Councils have an increasing role in achieving national employment and economic outcomes. Yet the success of such is increasingly dependent upon provision and maintenance of 'state-of-art' infrastructure particularly in transport and telematics (information and communication technology). The provision of this infrastructure often occurs outside of the boundaries of a local Council and is often beyond the revenue capacity of individual Councils. This makes the success of local objectives (and indirectly national priorities) subject to the broader economic and political priorities of State Government bodies.

The current system of allocation of funds between levels of government leads to unnecessary duplication of resources and bureaucratic inefficiencies that reduce the value of the final amount available for either productive investment or re-distribution.

In part, the current cumbersome mechanism whereby the States often act as a 'pass-through' facility (albeit with the expenses necessary to ensure proper accountability of such), stems from the lack of formal recognition of the role of Local Government, in instruments such as the Constitution. There is a need to establish a jurisdiction of Local government which allows a Local government to take autonomous responsibility for the 'good rule and government' of its area. At a bare minimum, improved mechanisms are required to better co-ordinate the necessary infrastructure planning to maximise the potential that such City Councils have in attracting necessary overseas investment and economic growth that provides the 'surplus' to be available to other levels of government for re-distribution in accords with a broadly-conceived National Regional Policy that is more than just non-metropolitan based.

There are already many instances of good and fruitful consultation between State and Local government in NSW on specific issues or across certain portfolios. What seems to be missing is a more whole-of-government approach that:

- Establishes some consistent principles for the optimum allocation of roles and responsibilities between Councils and state agencies;
- Examines existing areas of overlap and duplication, as well as proposals for new or altered functions, against those principles; and,
- Facilitates systematic co-ordination of financial and resourcing implications, so that overall the responsibilities of Local Government remain in balance with its revenue streams and expenditure capacity.

Arrangements for the transparent flow of funds between all levels of government in a federal system should, however, not seek to reproduce processes that give rise to inefficient and inequitable national outcomes.

The Central issues that should underlie the considerations of the Parliamentary Committee are those related to Roles, Responsibilities and Finances to achieve agreed outcomes.

One of the problems of contemporary government is that the great bulk of its resources have been devoted to managing a disparate set of functions and departments, rather than managing 'place'.

All the more so, when the budgetted funds to do so pass through a series of inter-governmental transfers, and all the more so in an international investment environment which is unfamiliar with the myriad number of local authorities in an urban area.

Equity in place management comes from targeting and redistributing resources on the basis of locational needs. Efficiency occurs in the reduction of non-optimal allocations, duplication, and wasteful 'pass-through' mechanisms.

Most importantly, transparent place-based policy recognises 'nodes of growth' that provide the economic surplus or dividend available for equitable sharing of the benefits - that is, a recognition that necessary infrastructure investment in such global-growth areas creates additional growth and public revenue beyond serving the needs of their local community - to the benefit of all Australians.

It is contended that the City of Sydney is the prime example of such a 'Local-Global' growth node. Unfortunately, even the reduced quantum of funds available for distribution by other levels of government is allocated on principles and criteria that do not recognise this enhanced role, nor do they recognise the costs associated with intense as well as sparse development..

Traditionally, local government has acted as a quasi-place manager but with a charter historically restricted to the provision of property-related services and certain limited community services.

## **2. CHANGING ROLES AND RESPONSIBILITIES OF LOCAL GOVERNMENT IN THE GLOBALISED AGE**

### **2.1 Dynamic Role of Local Government**

From the commencement of local government over 150 years ago, there has been a long-term shift in its role contingent upon changes in the political and economic environment in which it has operated. It should be re-called that the City of Sydney, established in 1842, pre-dates responsible state government.

In character, the emphasis of Local government has moved progressively away from direct service provider to regulator and, in more recent times, towards a role best described as facilitator or community manager. This latter shift has occurred both in response to and concomitant with, what has been described as the process of globalisation.

The economic prosperity of the Australian economy and Australia as a whole, including all its regions will depend on the success of globally-oriented cities. The role of the cities in global markets is crucial and the importance of these to the well-being of rural regions needs to be further understood and developed. This is particularly so in relation to capital investment and its impact on national and state revenue streams.

While by no means irrelevant at present, the ability of national governments to influence jobs and investment outcomes by differentiating tax regimes, monetary policy and aggregate spending is diminishing.

The disciplines imposed by the mobility of capital and by world capital markets are, in effect, forcing a homogenisation of macro-economic settings across nations.

Where nations and states will be able to differentiate themselves in the quest for investment is in skills, quality of local governance, efficiency of infrastructure, environmental sustainability and livability. In large part, these factors are location/place specific and any latent advantage associated with them can be accentuated through astute urban management. The appropriate urban environment can enhance even more nebulous goals of innovation and creativity.

In a post-industrial society, this role is already substantially widening and is likely to widen still further.

Local government's future will remain in place or spatial management, but increasingly the management of skills, business capability and social capital. The best results in place management can be achieved by bringing the virtues of localism to the achievement of national economic growth and employment and skill formation.

This points to the way in which the re-ordering of public responsibilities will require changes to Australia's federal system of government. A weak and undervalued tier of local governance, with restricted responsibilities and uncertain resources diminishes our effectiveness as a nation.

### **2.3 Lack of Relationship to National Regional Policy and Federal Cities Policy**

The corollary of the above is that the internationalisation of the economy has changed forever our understanding of public sector planning and the achievement of national goals.

Governments, State and Federal, can no longer plan patterns of urban and regional settlement and service delivery against predictable movements in investment and employment. The age-old demand for 'better planning' in itself can no longer narrow the gap between location and economic and social opportunities. Far greater forces are now shaping our cities, regions and lifestyles.

In his seminal 1991 book, *The Work of Nations*, former US Labour Secretary, Robert Reich, predicted how:

*"We are living through a transformation that will rearrange the politics and economics of the coming century. There will be no national products or technologies, no national corporations, no national industries. There will be no national economies, at least as we have come to understand that concept. All that will remain rooted within national boundaries are the people who comprise a nation. Each nation's primary assets will be its citizens' skills and insights."*

This passage neatly makes the point and exposes the tension: economic activity has become global yet the key to competitive economic success, the formation of skills and capability, remains essentially local.

There is a danger in addressing the processes necessary for effective policy-formulation in Australia to become pre-occupied with details of mechanisms and ignore the objectives of efficient and equitable outcomes. The capacity to achieve these outcomes depends on the context in which economic growth is being re-cast.

The importance of Australia's capital cities in shaping Australia's present and future international competitiveness should not be underestimated.

This requires a new sense of partnership between the States and Local Government and in turn between Local Government and the national objectives of economic and employment policy.



## 2.3 Globalisation

Globalisation means many things to many people. Essentially however it boils down to increasing interdependence of national and urban cultures and economies, particularly through the services sector. Reduction in trade tariffs and the breakdown of traditional barriers to capital flow reinforce this interdependence.

The increasing mobility of capital is underscored by:

- transnational corporations which are able to separate their functional units of operation and locate them in separate cities, regions or nations, and;
- The emergence of the immensely rapid technological change in the storage and transmission of information/data through computers and telecommunications.
- There have always been 'world' cities. What has changed is the nature of their interaction and the structure of the world economy in which such cities operate.

In the information economy, those cities whose economic life is based on the exchange of information, both face-to-face and electronically, will be strengthened by a global market for financial and business services through communication, technology, and innovation. Three forces are central to this globalisation process: world economic change, corporate restructuring and technological innovation.

These are strong centralising forces which reinforce the primacy of key centres – New York, London, Tokyo, Paris, and Sydney, Melbourne and the other State capital cities – at the same time as challenging the very nature and role of government.

Far from the 'death of cities' as argued by some, the elimination of distance by technology has brought about a 'resurrection of place', as a significant growth factor.

The challenges for cities and regions within increasingly open nation-states, now revolve around the imperative of competitiveness in this brave new economic world, subject to the power of global finance and capital. These challenges include the need to attract both capital and a skilled workforce while maintaining levels of flexibility and innovation.

## 2.4 Link of Social and Economic: Social Capital

This imperative takes on another dimension when, collectively as citizens, we aim also to provide secure employment for our community and our children. To paraphrase Rosabeth Moss Kanter on a social-economic response to globalisation:

*“The best social program is good jobs; the best jobs are those that provide linkages and capabilities for the global economy. The best source of those jobs and capabilities is a world-ready business. The way to attract and keep world-class companies is to build a strong community; one that adds value to the company’s business through its core global skills, welcomes newcomers, and offers a high quality of life; and a desirable community is one that can work together to address its problems and build a healthy business climate that creates good jobs... which is the best social program.”<sup>1</sup>*

This capacity to be able to work together, often referred to as "social capital", together with globally-efficient urban infrastructure, are becoming the central determinants of regional success in the 'new economy' and, by virtue of domestic linkages, to national success in the global economy.

Economic growth theorists have shown how a nation's rate of economic growth is directly linked to its inventiveness and entrepreneurial spirit. Other studies have shown how these cultural features rely substantially on the strength of social capital that local institutions and associations develop - a sense of social co-operation and creativity. A recent, and local, example for the City of Sydney was the success of the Olympic Games.

Increasingly, it is local government that acts as the catalyst for the development and maintenance of this social capital and advocating/facilitating the provision of urban infrastructure to sustain the economic and social viability of an area.

## **2.5 Changing Nature of National Economy**

Associated with this 'globalisation' process, approximately two-thirds of all business activity in OECD countries is now in the services sector, which also accounts for about 70% of employment. In Australia, the services' proportion of GDP has risen by more than 10% since 1980.

For the last few years, the City of Sydney has experienced a rate of economic and employment growth that is unprecedented for a generation. Whilst Australia as a whole over the 1990s experienced over 100 consecutive quarters of uninterrupted trend economic growth, at rates that for a large part of the decade exceeded that of the US, the Sydney CBD experienced growth that averaged between 1.5% and 2% in excess of that impressive Australian average.

In part, this occurred because of the structural mix of industries within Sydney with its emphasis on financial and business service sectors. The year 2000, marked the first time in Australia's economic history that GDP from 'Property

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<sup>1</sup> Rosabeth Moss Kanter, World Class, 1995:370.

and Business Services' exceeded the contribution of 'Manufacturing' as the most significant industry sector to total output.

Even now, as inevitable cyclical forces have heralded a period of economic uncertainty, it is those industries in which Sydney is dominant that, to date, have continued to underpin the Australian economy. In many ways, it will be Sydney's capacity to maintain this growth through global diversity and flexibility that will determine Australia's economic future. And underpinning Sydney metropolitan growth is growth in the Sydney CBD, particularly in the 'global' industries.

The locus of Australia's economic growth in the second half of the 20<sup>th</sup> century, shifted from mining, resource and manufacturing centres such as Newcastle and Wollongong to the CBD hearts of the cities of Sydney, Melbourne, and Perth. Increasingly the national economy is being fragmented, to the degree that the Australian economy should not be regarded as a homogeneous entity.

However, in the concomitant global economy, such success is not automatic. Nor does it depend merely on relative economic size. Of increasing significance, is the city's on-going capacity to meet the needs of existing and prospective global, national and support industries.

Moreover, at the other end of the spectrum, this process has had transitional costs on other, particularly rural and non-metropolitan, regions. Hence the need to develop national so-called regional policies to address these costs.

## **2.6 Urban Infrastructure**

Throughout history, cities have always been constrained by, or benefited from, their heavy dependence on physical infrastructure either in the form of transport networks and hubs or as utility networks – water, gas and electricity, and communications. These networks provide the skeletal base that connects activity internally within the city and the city, itself, to other areas.

### **2.6.1 Telecommunications**

At one level, the city as a congruence of transport routes has been replaced by the city as telecommunications hub.

For a city and its residents to compete globally in a world dominated by rapid flows of information, the infrastructure connecting the city and its residents to the commercial telecommunications hub network needs to have sufficient capacity to cover both the current and prospective requirements of the city economy.

This depends not merely on the infrastructure of the city itself but also how (and to whom) it connects itself to the worldwide web of network infrastructure (Internet) – that is, its 'place' in the new economy world. Newer technological

developments seek to expand the speed of connectivity to the Internet, the range of information that can be transmitted (from moving pictures, clearer sound and greater interactivity), and the extent of that information – e-commerce and e-business/ business-to-business and business-to-consumer. The critical factor remains the requirement for increasingly broader bandwidth to enable exponentially more information to travel faster.

In the light of recent global growth and the success of the Olympics, it would be tempting to conclude that Sydney is well catered for by the requisite infrastructure to meet short-term capacity demands. However, the issue of long-term broadband capacity needs and extension of the infrastructure network across the nation remains a continuous issue - as does the capacity to remain at the innovative edge and in a pre-eminent regional-global position. Unfortunately, at the rate at which informational data demands are expanding, the concept of short- and long-term are becoming more blurred, and compressed in time. The challenge is to maintain a rollout of sufficient broadband capacity to enable unfettered and reasonable cost access to high-speed data transmission. A secondary issue, of course, is the connection of such infrastructure to 'smart' buildings.

Important though the communications infrastructure and bandwidth may be in not restraining potential growth in Internet connections and transmission of information, it is equally important to recall that this new technology is still reliant upon other basic forms of infrastructure. such as electricity generation and distribution. The recent experience and its aftermath affecting Silicon Valley and California in respect to the electricity utilities and the regulatory/pricing structure of basic core infrastructure stands a salutary reminder of the need for continuous attention to be directed to the basics.

### **2.6.3 Transport Infrastructure**

Similarly, until flesh-and-blood human being or physical 'things' can be digitised into electronic pulses in the same way that information and images have been transformed, then there is also a physical environment or space in which activity needs to take place. This will continue to constrain lives in much the same way as today.

Whether it is the need for reliable transport nodes or routes for the distributional aspects of E-commerce, or the need for face-to-face meeting space to negotiate and transact deals or the spatial manifestation of 'informal' knowledge networks – physical space and the transference of people and things will still require attention. This requires a global city to have an accessible set of transport linkages to other global nodes as well as an efficient internal and inter-regional transport network to sustain its global economic push.

Airport links, seaport capacity and linkages and routes, and an internal private and public transport system that allows its inhabitants to move about with

efficiency and amenity (particularly in association with environment pollution factors) remain significant factors.

While Sydney's physical infrastructure is generally in good condition following specific upgrading for the Olympics, there are still areas of general as well as specific concern, highlighted by a recent report by the Institute of Engineers, which claimed that.

*"Sydney's population has doubled since the 1960s and traffic has quadrupled, yet national spending on public sector infrastructure has declined from 8% of GDP to 2% over the past 40 years."*

With corporatised government trading enterprises under pressure to maximise returns to government it has been claimed that necessary maintenance and refurbishment expenditure has often been reduced for short-term goals.

Given the long lead-time required in planning and construction, the metropolitan rail system, centred on the City, is fast approaching the need for major infrastructure investment to address the needs of Sydney into the new century.

In the necessity to expand telecommunications infrastructure, there is a possible tendency to downplay the significance of maintaining and upgrading the more 'traditional' infrastructure that continues to keep the city functioning efficiently, which is a basic precondition to maintaining its status.

In summary, ultimately infrastructure provision is the factor that constrains city growth – as it always has over the centuries. The increased reliance on connectivity and the direct link between capacity and speed of access in the so-called new technology era only serves to increase the significance of this. The challenge to Sydney is to ensure that broadband infrastructure does not become the location constraint to future growth that left unaddressed by public policy-makers, it may.

This infrastructure challenge extends to all other areas. In particular, the adequacy of basic core infrastructure to sustain the demands of the new economy and technology, and the adequacy of the physical transport system in ensuring the efficiency of movement of goods and people within the city and between the city and other national and international destinations.

## **2.7 Global-Local Paradox**

What is emerging is what has become known as the 'Global-Local' paradox, in which, as the world becomes more interconnected and the locus of economic and political power moves inexorably higher, many of the ingredients for economic success are grounded in highly differentiated but inter-related local and regional economies.

In many ways, the key challenge to Government in the early part of the 21<sup>st</sup> Century will be to balance the 'Local' and the 'Global'.

## **2.8 Legislative Devolution of Responsibilities**

Since 1993, when the then broader roles of Local Government in New South Wales were consolidated in the *1993 Local Government Act*, there have been some important additions to legislation under which Councils have functions, notably the Waste Minimisation and Management Act 1995, the Protection of the Environment Operations Act 1997, the Rural Fires Act 1997, and the Companion Animals Act 1998.

At the same time, further or more complex responsibilities have been inserted into existing legislation, such as the environment Planning and Assessment Act and the Local Government Act itself. The corporate planning and reporting requirements of the 1993 Act (including preparation of the State of Environment Reports) have been added responsibilities for the preparation of community plans, and to incorporate special provisions relating to ecologically sustainable development and access and equity into Councils' management plans.

Many of these functional responsibility increases are necessary to ensure that Councils exercise their responsibilities prudently and effectively, and are therefore welcome. The problem comes with the capacity, on a sustainable and on-going basis, to respond in like prudent fashion to the financial consequences of such devolution of responsibilities.

### **3. LOCAL GOVERNMENT CAPACITY TO RESPOND**

#### **3.1 Limited Fiscal Autonomy**

The financial autonomy of local governments hinges on the degree of discretion or control available to them over their revenue source.

In the long-standing economic literature on fiscal federalism, it is generally agreed that fiscal decentralisation results in a number of economic welfare gains and that a capability to mobilise local revenue is the most allocatively-efficient way to organise public finances.

Unfortunately, reflecting Constitutional arrangements, local government is able to exercise little control over revenue sources.

Currently, according to Government Finance Statistics (ABS: 5512.0), Local Government Australia-wide, raises about 37% of its revenue from local taxes (property-based) and about 33% from fees and payments for services provided; 13% comes from grants, a mere 3% from investment income and 16% from other sources. In NSW, given its supposed fiscal capacity, grant revenue falls to 10%.

The City of Sydney, however, raises about 60% of its revenue from local rates, 25% from fees and charges, and receives less than 2% in grant revenue.

##### **3.1.1 Rate Revenue**

Rate Revenue depends upon the rating base and the rate applied. The basis for the former (which differs between the States) in NSW is the Unimproved Capital Value (UCV).

For the City of Sydney, this essentially relates to the value of the property's potential development for establishments operating in the global/national economy and hence is subject to the state of the global economy and global corporate location decisions. Whilst national dominance provides an alternative base for stability, this, too, is increasingly subject to global forces/pressures.

Whilst the City has benefited in the recent past there is no overall sense of stability as demonstrated by the collapse of the rating base in 1991-92 in response to over-development and speculative activity.

Moreover, land-value based rates are closely akin to State Land Taxes. This has been a growing source of revenue for the State Government. There is the danger

Changes in the rate determination are essentially subject to pegging by the State Government - often with little regard to the specific needs of individual councils in terms of global competitiveness. Too often applications for exemption are based on abnormal operating expenses rather than potential for further growth.

### **3.1.2 Grants and Grants Criteria**

Whilst most direct financial Grants can be sourced to the Federal Government, the States tend to act as an inefficient pass-through mechanism, where actual allocations are essentially based on a per-capita resident basis.

This particularly impacts adversely on Councils such as the City of Sydney where as demonstrated above the actual numbers of city-users is far in excess of resident numbers or where the Council adopts a role far in excess of its geographic region.

At a bare minimum, such allocation criteria through the 'national principles' should incorporate a more comprehensive basis for assessing base relative need other than mere resident numbers - perhaps the combined resident and working population would reflect a better starting point for assessing relative need.

The result is often a need to lobby/advocate/negotiate with the relevant State Government on the Expenditure side of the fiscal accounts for the necessary infrastructure to remain competitive.

However, State Governments themselves are subject to competing political/economic and service delivery pressures on a scale often beyond the particular human needs of local councils.

In particular, inefficiencies and inequities in the direct allocation process from the Federal Government to the States can compound the financial pressures 'net subsidising' governments have available for necessary infrastructure provision.

This can often result in inefficiencies and delays in obtaining the infrastructure necessary to remain as globally competitive.

Such inefficiencies inevitably lead to a lack of co-ordination and necessary planning. Which hinders the maximum benefit being obtained from the government investment.

### **3.1.3 Limited Relationship to Revenue Generated.**

Whilst the activities of Councils increasingly affect the economic viability of an area, particularly in the global sphere -(and in an area such as the City of Sydney, the performance of the national economy) - there is little recognition



of the benefit of that in the current funding arrangements. Indeed, it may act as a negative element in a system based on equalisation of revenue potential.

Currently, according to an estimate for 1998-99 (prior to the introduction of the GST), the Federal and State Governments raised about \$5 billion each year from activity generated in the Sydney CBD. This figure did not include any receipts received by these governments in respect of corporate tax or withholding tax. (In that regard, it is worth noting that over 40% of the top 100 listed National corporations have their Headquarters in the Sydney CBD, as do over half of the regional Headquarters of multi-national corporations. And over three-quarters of the head offices of domestic and foreign banks and insurance corporations. Sydney, generally, is also home to 70% of the headquarters of IT corporations and over 60% of national Call centres.)

The State Government through Payroll tax, Land tax, and Financial and Share Transactions Duties raised almost \$1 billion of this revenue. For the Federal Government, the City generated approximately \$4 billion from Income tax on City of Sydney residents and from City employees and expenditure taxes.

It has been estimated that over 10% of State Land Tax was raised from buildings in the 6.18 sq. km. City of Sydney.

The introduction of the GST with its extension into the service sector, in particular professional services such as accountancy and legal services, is likely to have increased the relative revenue generated from the Central Business District.

### **3.2 Service Expansion and Community Leadership**

In response to the increased need to "Think Global-Act Local", Local Government administration, particularly reflected in the City of Sydney, has undertaken substantial reform in the recent past.

It has embraced and expanded into new functional roles and areas of service provision, often servicing a 'community' far beyond its nominal administrative boundaries. One example of this is the City's Homeless Persons Program.

For most overseas observers, their perception of Sydney is their perception of Australia. In turn, their perception of Sydney is increasingly determined by their perception of the City of Sydney and the CBD.

More fundamentally, perceived core values of the city, state and nation are increasingly being measured globally by the actions/images of the City Centre. Notably, the value of our social capital is the outcome of how visitors, the homeless and others are overtly treated in our City Centre.

### **3.3 Sydney City Council Initiatives**

In consequence of the recognition of the City having a role beyond its resident community the City of Sydney Council has initiated a number of programs.

#### **3.31 City of Sydney Homeless Persons Program**

Amid the rapid social and economic upheaval associated with the new global economy, too many people - either due to economic circumstance or as an outcome of social disintegration - exist in a homeless situation. Inevitably, by virtue of the location of support services or the power of gravitation, most of these people drift towards city centres. Most cities around the world faced this problem and Sydney was no exception. A recent landmark study by the Australian Bureau of Statistics (released in 1999) found that more than 105,000 people were homeless Australia-wide. This has been variously recognised as one of the unfortunate 'down-side' by-products of the 'globalisation' process. Paradoxically, its resolution is one of the important components of 'social capital', which is increasingly becoming an important element of attraction for the location of globally operating corporations.

The solutions to this complex problem are made the more difficult by a variety of other social factors, including drug and alcohol issues, psychiatric histories and crisis situations. Far from "sweeping it under the carpet" or "off the streets", the City of Sydney Council has been actively addressing this important social issue on an on-going basis for the past 15 years.

The Homeless Persons Information Centre receives over 30,000 calls for assistance each year, with that number increasingly rapidly on an annual basis. A recent study indicated that only one-in-four of those seeking assistance called from the City of Sydney or South Sydney LGA's. When asked where their last permanent accommodation was, the figure drops to 7% of total clients.

Over 30% of the total of those seeking assistance stated their last permanent accommodation as being country NSW or interstate. The remainder came from other areas of the Sydney Metropolitan area. The City's 'client-base' or 'community' clearly extends far beyond the LGA boundary limitations.

The factors contributing to homelessness - the complex interaction of housing supply, affordability, suitability, psychiatric and physical health, employment, safety, and community and peer group support - are difficult to unravel, resolve and address.

Recognising that the solution to homelessness is often not just a bed for the night, the emphasis of Council's approach has been to treat the homeless as individuals (not some amorphous group) and to recognise people's differing

needs and to practice appropriate people-service management. In 1997, the City of Sydney initiated the Strategic Partnership Brokerage program to provide frontline primary care and assistance as well as access to appropriate services for the homeless, in conjunction with the State Government and community agencies. The management model is now the subject of intense investigation as to its applicability to a number of other service delivery processes by other levels of government.

This is a prime example of the innovative management response required of Local Government management at the heart of a city integrally entwined into the 'globalisation' process.

It demonstrates the key emphases on planning, outcomes, 'whole-of-government' response, and inter-governmental co-operation.

It demonstrates a willingness to find a solution to increasingly complex public policy problems outside of the 'traditional' community service response and or the 'too hard' basket.

### **3.3.2 City of Sydney Safe City Program**

The City of Sydney Council's expanded role in place management and the formation of national perceptions is also reflected in its Safe City program.

Like all major city centres the City of Sydney experiences crime. On an international scale, the level of crime in Sydney City is very low. The large numbers of people frequenting the city on a daily basis (in excess of 600,000) inevitably bring with it a degree of anti-social and criminal behaviour.

To further reduce this, and improve Sydney's, the State's and Australia's international standing, the City of Sydney Council, working in close co-operation with the NSW Police, has increased its role in crime prevention in the city.

It has installed Street Safety Cameras in recognised hotspots. These CCTV cameras are monitored 24 hours-a-day and have been instrumental in helping the police make arrests. Environmental design improvements in streets and open spaces have minimised the opportunities for crime-inducing locations, and crime prevention partnerships have been established with licensed premises and amusement centres.

The consequence has been a dramatic decline in the CBD's ranking for crime incidence, according to the NSW Bureau of Crime Statistics and Research. This, in turn, enhances the image of Sydney overseas and, given that over half of all international visitors visit Sydney, enhances Australia's reputation as a 'safe' environment for both skilled labour migration and direct investment.

### **3.3.3 City of Sydney Library**

The City of Sydney provides three library facilities. The libraries provide extensive services and funding secured from government is based on a per capita allocation. City of Sydney residents comprise 28% of users illustrating that service is heavily subsidised by City of Sydney ratepayers for use by the broader community.

### **3.4 Functional Competencies**

Local government has slowly been moving its service provision from predominantly property based services to a much broader range of services. These are largely based on the policy choice of the Council. The City of Sydney is no different in this sense, however, its choices are driven by a diversity of high end users.

The City not only provides services which range from traditional roads, rates and garbage. It has had to develop functional competencies in areas which are city specific.. These include homelessness services, CCTV security, retail business support, tourism and cultural development, new years eve celebrations, public domain development, public transport planning, among others.

The City has been contemporary and dynamic in its response to local government reform. This has necessitated organisational restructure to reflect an outcomes orientation which has delivered tangible results. This organisation comprises three outward focussed, service divisions – Living City Services, City Projects and City Development and two internally focussed divisions – Corporate Services and General Counsel.

### **3.5 Managerial Reforms**

The City of Sydney has embraced Competitive Tendering as a philosophy to create a focus on performance and efficiency in the delivery of services. The shift to competitive tendering in the market place has resulted in more than organisational restructure. Significant workplace reform has occurred within the award based industrial relations framework of the City.

There is a strong customer focus philosophy evidenced through the one stop shop, call centre, community service facilities and proposed neighbourhood service centres. This has occurred through redirection of resources from administrative roles to the front line service providers. This has been supported by response systems and times that meet the needs of city residents, visitors and workers.

These reforms have been accompanied by other quality management processes such as continuous improvement, quality systems and performance management.

The competitive tendering environment has provided an opportunity to outsource to other organisations as occurs most notably in Victoria. While there has been some outsourcing to other Councils this has been of a minor nature. The City of Sydney provides the majority of its service capabilities within its own boundaries.

Strategic partnerships have been an integral business development tool for the City. The City has formed strategic partnerships with key organisations, agencies and peak bodies to enhance its service delivery capabilities. These include Commonwealth Bank, Grace Bros, Multiplex, Toyota, Radio 2UE and Channel Ten, among others to deliver New Years Eve, Chinese New Year, the Sydney Sculpture Walk and Late Night Dining programmes. Similar partnerships are in place with State Government for the management and development of public open space, public domain improvements, public transport co-ordination and others.

In a climate of declining government financial support and increasing global and local demands, managerial reform remains a vital tool to embrace change in empowering the City of Sydney to deliver local services and drive national economic growth.

### **3.6 Financial Efficiencies/Rationalisation**

The City's focus on competitive tendering service reform has delivered significant financial benefits. The City has recorded its tenth successive surplus which for the 2001/02 year was \$39.8 million. The City funds its capital works program from the surplus as well as augmenting its plan to retire debt.

The City had an accumulated debt of over \$55 million in 1991. Organisational reform has ensured the City has been able to accrue sufficient funds to retire all debt by 2003/04. This has been a significant achievement, particularly when the City also delivered over \$300 million of capital works in the lead up to the 2000 Olympic Games.

Competitive tendering of services from the market place has resulted in organisational efficiencies across a number of areas. Despite taking on additional responsibilities such as the Olympic preparations and parking enforcement, the City has been successful in reducing its workforce from 1380 employees in 1990 to 715 in 2002.

This has led to efficiencies in related areas such as sick leave reduction (7.5 days down from 11.5 days), lost time injury incidents down by 60% (38 down from 101 in 1995) and actual lost time (down by 87% since 1995).

The City has also worked consistently since 1995 to increase its non rate revenue in areas such as commercial property investment, venue hire, parking and enforcement activities. This has resulted in an increase of non

rate revenue to \$75 million, up \$35 million from 1995. This has significantly reduced the burden on ratepayers in providing new services and capital works improvements to the city.

Apart from good economic management, the city has also focussed on social and environmental sustainability. This is being delivered through our ESD planning and asset management policies, as well as homeless and community grant programs.

### **3.7 Organisational efficiencies**

Competing in the market place for services has enabled the City to deliver significant efficiencies. The lower cost of providing services has provided a strong operating surplus to fund capital works and public domain improvements. These efficiencies underpinned the City's ability to deliver Sydney's CBD Olympic upgrading and preparations.

Over \$300 million of public domain improvements were delivered in the lead up to the Olympics. These include George St, Circular Quay, City Retail Core, Wynyard Park and Park St, among others. The City is running a \$64 million capital works program in 2002/03.

The City's infrastructure assets are valued at \$342 million. The magnitude of the City's works program is a reflection of asset replacement costs and the increasing demand for world class facilities and infrastructure.

### **3.8 Co-operative Reforms in Service Delivery**

Regional co-operation has been of limited value to the City of Sydney because of its unique capital city roles and responsibilities. Adjoining Councils do not share the same issues and diversity of interests, making it difficult to benefit from strategic partnerships in service delivery.

Council's membership of IMROC (Inner Metropolitan Region of Councils) is a point in case in which issues of shared interest between the City and Ashfield Municipal Council are in stark contrast. Possibly greater benefit could have been derived from regional alliances of like minded Councils such as North Sydney or South Sydney who have much more in common with the City.

Previous attempts at utilising cross servicing arrangements with South Sydney Council failed because of inherent self interest and a lack of accountability.

Opportunities for "regional co-operation" can only exist in a framework of business principles in which service outcomes and accountability can be guaranteed. Other Councils do tender for the City's work, but these are rarely from neighbouring Councils within a regional context.

The critical mass of population and area that deliver economies of scale is not clearly defined. There are many other factors that contribute to the generation of a surplus to fund asset and infrastructure replacement and non-core services. What is clear is that some local government bodies are struggling to maintain their infrastructure and that is typically occurring in smaller councils.

### **3.9 Governmental Reforms**

The state government has been supporting an agenda for local government reform with Inquires examining the amalgamation of Councils in the city, inner and eastern suburbs. The government policy of no forced amalgamations has worked against any real achievement of reform, while progress on changing city and inner city boundaries has been stalled by legal action.

The clear themes emerging from the government is the creation of local government structures that are more “macro”, outward looking, regionally focussed and strategic (Sproats 2001). The Sproats Inquiry recommendations would have re-cast eight Councils into four. The re-cast Councils would be of similar population and area as many of the western Sydney Councils eg Blacktown, Campbelltown.

### **3.10 Service Expansion**

Increasing demands for services to address issues of community concern are often being met by State legislation requiring enforcement or delivery by local government. This is happening across a range of fields including planning, community safety, welfare, land management and community services generally.

The majority of these initiatives are much needed and the City is not being critical of the initiatives, but of the resourcing implications for local government, and current funding arrangements.

Development control faces continual and increasing demands to tighten the framework for assessment and determination. This is reflected in the amendments to the Environmental Planning and Assessment Act 1979, the introduction of Integrated Development Assessment legislation and the ongoing implementation of State Environmental Planning Policies (SEPPs). There are now 72 SEPPs which require significant additional resourcing to assess applications. These range from design quality evaluations to social impact assessment evaluations to assessments and referrals for adjoining planning authorities. Additional resourcing is also required to comply with NSW Police Safer by Design Guidelines and conferencing.

There are also areas of policy and operational responsibility which sit with higher levels of government which are not sufficiently servicing local needs. Two key areas are homelessness and community safety. In both instances

the City has entered into strategic partnerships with government and non-government agencies to service these need areas. These services are outlined above, but reflect resource allocation that is unique to the city environment and necessary to ensure its growth as a driver of national economic growth.

Community land management in metropolitan areas is a similar issue with local government, bearing the development, maintenance and management costs and responsibility of Crown land.

State legislation has provided some relief in the area of development levies. The City of Sydney Act 1988 provides a 1% levy on development for the City to improve public domain and community infrastructure. This currently provides on average \$5.5 million per year in income for capital works.



## **4 ACHIEVING A BETTER SYSTEM**

### **4.1 Inter-governmental Co-operation**

If Australian Governments are to deliver the best possible benefit to the Australian people, then it is clear that a better system needs to be defined and implemented.

At the very least, this needs to be based on a co-operative approach between levels of government, rather than one based on competitiveness and subservience.

Such an approach also needs to take account of the changing nature of the Australian economy and its differential spatial impact, as well as the potentialities that that change can provide.

This suggests a need to better link national, regional and local policies, and mechanisms to ensure better co-ordination of requisite infrastructure development.

Under the current and prospective global economic regime the capital cities, Sydney and Melbourne in particular, are becoming more crucial to the generation of national economic growth. And within these cities, the capacity of the Central Business Districts to compete with other globally-oriented cities is becoming more crucial. This altered functional role needs to be recognised in these co-ordination structures.

This means that it is imperative that a National Cities Policy be formulated, through a mechanism such as a Capital Cities Forum. This ensures the appropriate co-ordinated planning is undertaken to ensure that the requisite infrastructure, whether it be in transport or telecommunications infrastructure capital or in the formation and maintenance of social capital, is regularly reviewed and agreed upon.

Underlying this is a recognition that so-called regional policy should not solely be concerned with the economic disadvantage side of the equation and place equal consideration to the economic generation aspects of regional economies. Equally too, attention needs to be turned to more effective inter-spatial transfer mechanisms.

This links strongly to the changing roles and responsibilities of Local government. Local government is, and can, play an important part in this process.

## **4.2 Secure and Growing Revenue Base**

Central to this improved planning mechanism is the funding system available to ensure that the requisite funds are available, within a system of fiscal federalism (with contingent vertical fiscal imbalance), to operationalise the outcomes of such planning mechanisms.

Local Government cannot be solely reliant on a volatile and uncertain revenue base based on land value. This base can be subject to major swings in response to forces outside of a Council's control and, being unrelated to community needs, is inimical to proper medium-term planning. Aspects such as 'rate-pegging' whilst understandable in terms of fiscal prudential requirements, do not provide the flexibility required for proper 'place management' and can often reinforce other inequities and inefficiencies in the resource-allocation process. Certainly, in equity terms, decisions by State governments to peg rates for inflation should not be accompanied by other State Government decisions to increase charges on Local Government by more than the cap rate, as has happened in the past.

The current maintenance of funding from the Federal Government in real per capita terms does not provide access to a growing revenue base such is available to both State and the Federal Governments. In particular, the nexus of funding to the States and Local Government needs to be re-established through a mechanism which gives Local Government access to a growth-tax similar to the GST revenue for State governments and Income tax for the Federal Government. Perhaps this could take the form of a guaranteed share of total GST and Income Tax revenues.

## **4.3 Allocation of Funds from other Levels of Government.**

The principles and formulae whereby such Grant funds are allocated to particular Local Governments need to be over-hauled. This should recognise the multiplicity of roles that Local Government is called upon to perform and the differential nature of such functions to particular local government areas. At a National level there is inconsistency in approach between the States in implementation of the so-called national principles. The principle of 'fiscal equalisation', though admirable as a theoretical goal, should not be the sole basis for resource allocation. In some senses, this is a passive negative concept that ignores the potential for certain areas to generate supra-normal economic growth, through prudent and judicious investment, which generates the total taxation revenue available for distribution at either national or State level. Recognition needs to be paid to the necessity to replace and upgrade necessary infrastructure to ensure continuance of such 'supra-normal' growth. In this regard, for instance, as the central link to the global economy the City of Sydney local government area requires consideration of infrastructure requirements necessary to maintain and improve our global competitiveness and our responsibility to other users of the city beyond residents.

Such an active positive regional policy would also recognise that the criteria currently applied to the dispersal of funds needs to be broadened.

#### **4.4 Specific Financial Arrangements**

Currently, the City of Sydney receives less than 2% of its total revenue from Grants, yet the local government area raises considerable revenue for both the State and National governments. This is because the allocation criteria and formulae applied are based on resident numbers, number of assessments and length of local roads, but pays no attention to the use of facilities or density associated with such use. In fact, under the operation of the current national principles, sparsity of density and isolated distance are favoured aspects affecting allocation. Yet, a recognition of the role and responsibility of the City beyond its current boundaries suggests that use of facilities by the 250,000 workforce, 25,000 accommodation visitors and other 300,000 daily users of the City warrants some recognition beyond the 30,000 residents. The consequence is that these residents are effectively subsidising these other users.

Similarly, the local road system may be short compared to other more wide-spread LGAs but the use made of them is considerably more. Since it is use that generates the need for maintenance, equity would suggest that this is a more appropriate concept for funding allocation. Again, with allocations made on the basis of number of rate assessments, no regard is paid to the fact that commercial buildings in the CBD have significantly more tenants and establishments than other largely single owner-occupied buildings in other areas.

These examples point to the inequities in operation of the current system.

However, over-riding these is the need to fundamentally re-appraise the system of inter-relationship between the levels of government. The City of Sydney Council believes that the Inquiry cannot look at cost-shifting without looking at revenue-raising and spatial resource allocation. And it cannot do this without critically examining the changing roles and responsibilities of Local government in the globalised economic climate of the present and the future, and the changing nature of regional relationships in our nation. The Council hopes that the Inquiry takes the opportunity to do this in a fashion that the benefit to all Australians can be maximised and the opportunities presented taken full advantage of.