

8 August 2008

Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Sir

Integral Energy Regulatory Proposal for Distribution Network

I refer to the 2009 to 2014 Regulatory Proposal from Integral Energy for a schedule of price increases over and above the Consumer Price Index, commencing in 2009.

Council understands the need to review prices but is of the view that street lighting is an essential public service and that there should be a community service obligation associated with the provision of street lighting.

Local Government has been subject to significant increases from other public utilities and Government Agencies due to their desire to provide services on a cost reflective basis. In Council's view, public utilities and Governments have been established to provide public services to their constituents.

Many of the services provided by Local Government are not cost reflective but are provided as public services to the community. Libraries, passive and active recreation areas, aged and youth services and local infrastructure such as roads, drainage and footpaths cost Councils far more than they receive back in revenue.

The ongoing cost shifting by Government Agencies to Local Government and the continual intervention of the State Government on Councils ability to raise revenue through rate pegging is placing extreme difficulties on Council's budgets and their ability to provide the community with an appropriate level of service.

The significant increases that are proposed by public utilities such as Integral will have a detrimental effect on the level of service provided by Local Government.

The following information provides additional supporting argument for Council's position.

Financial Position of Local Government

A number of recent studies into the viability of local government finances has clearly identified that local government in NSW has a number of sustainability issues.

Key cost pressures on local government include:

- The range of functions undertaken by local government in Australia has expanded beyond the physical infrastructure of roads and waste to include a variety of important social and human services. This has come about through a combination of community pressure, State and Australian Government inducements and the withdrawal of services by other levels of government.
- Local Government's diminishing share of federal taxation revenue is significantly impacting on Councils' ability to fund operations and infrastructure maintenance and renewal.
- Rate capping or pegging has existed in NSW for 28 years and while the annual increase announced by the Minister for Local Government has mostly been in excess of CPI, cost increases such as the NSW Local Government State Award, and levies such as the NSW Fire Brigades Levy, account for much of the rate capping increase. Several attachments have been included in Council's submission, which clearly demonstrate the impact of rate pegging on local government rate income (Extracts from *Independent Enquiry into the Financial Sustainability of NSW Local Government - Attachments 1 and 2*). In particular it is noted how local government in NSW has been significantly impacted in comparison to local government in other states, and in comparison to key financial indices.
- Various fees are also capped by the State government, including developer contributions and statutory fees (such as for processing Development Applications), and do not reflect the true cost of these services.
- The cost shifting of services from other levels of government has continued to impact on Councils generally, including elements such as the Waste Levy, NSW Fire Brigade Levy, Rural Fire Service Levy, public library operations, administration of the Companion Animal Act, community safety and other net cost transfers. These costs consume approximately 6% on average to Council operational income, amounting to \$5.6m in 2006/2007 for Campbelltown Council.

Future Cost Pressures

Federal and State Governments are currently considering a number of proposals that will impact on local government:

- It is anticipated that the proposed Federal Government Emissions Trading Scheme will have an impact on local government, with the costs for electrical and gas energy increasing due to the imposition of a carbon tax in some form. With the likely implementation of this Scheme occurring in 2010, it will overlap with the proposed integral Energy price increases.
- In the recent IPART Review of State Government Taxation, several key recommendations were made that have particular impact on local government. These included the removal of the current payroll tax exemption for local government (costing local government \$184m), and the transfer of Fire Services Levies to local government (with a cost impact of \$534m).
- Although detailed regulations have not been made available as yet, Council anticipates that the recently introduced NSW Planning Reforms are likely to have a significant cost impost in so far as the additional responsibilities Council will have to resource, such as support of the Planning Assessment Commission and Joint Regional Planning Panels as well as the costs associated with engaging and indemnifying planning arbitrators.

Integral Energy Submission

It is noted that the Integral Energy submission makes specific reference (Section 19.15) to the ability of local councils to seek a special variation from the Minister for Local Government to the standard rate pegging limit, to cater for the proposed price increases.

It is noted that this process does not provide a guaranteed increase over and above the standard rate pegging limit, as the Minister can choose to not allow the special variation if the Minister so wishes. It is noted in the Independent Inquiry into the Financial Sustainability of NSW Local Government (Section 9.3) noted that

It seems that the State Government often sets the peg below generally accepted cost indices and makes determinations for individual Councils without providing adequate explanations.

Further, as indicated in Council's submission, local councils in NSW are already facing a number of challenges from the impact of 28 years of rate pegging, combined with a number of cost shifting elements, which have contributed to the current unsustainable approach to the funding and provision of local government services.

In assessing the Integral Energy submission, Council seeks the Australian Energy Regulator's specific consideration of the following:

- The ability of local government to pay for the proposed cost increases, and its impact on the level of services able to be provided by Council to its community, in view of the overall background of historical income capping through rate pegging, the transfer of costs from other levels of Government, and the future likely cost impacts from further regulatory changes at State and Federal levels.
- The consideration of whether Integral Energy should be required to provide some contribution to a community service obligation for street lighting.
- The need to review the Public Lighting Code and its service obligations, to identify a more sustainable level of service for public lighting.
- To seek from Integral Energy a commitment for the accelerated roll out of more energy efficient public lighting, and to offset any approved increases in public lighting costs.

If you require any further information please do not hesitate to contact me on 4645 4633.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Dick Webb', with a horizontal line extending to the right.

Dick Webb
Manager Technical Services

Encl.

ATTACHMENT 1

Table 9.3: Changes in composition of Local Government revenue, 1995/96 to 2003/04

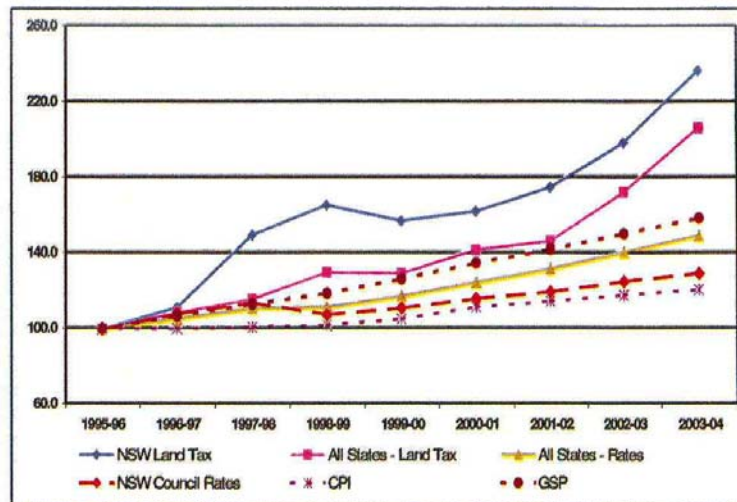
Variable	% Change Nominal	% Change Real	% Change p.a. Nominal	% Change p.a. Real
Ordinary revenue (total)	47.1	21.6	4.9	2.5
Rate revenue and annual charges	45.7	20.5	4.8	2.4
-Rate revenue component	29.2	6.9	3.2	0.8
User charges and fees	39.4	15.3	4.2	1.8
Grant income	30.5	7.9	3.4	1.0
Contributions and donations	87.1	54.7	8.2	5.6
CPI	20.9	0.0	2.4	0.0
Gross State product	58.8	31.3	6.0	3.5
Gross domestic product	61.8	33.6	6.2	3.7

Source: Brooks, J. (2006) for figures in first column. Other figures calculated.

In terms of real changes per annum (i.e. changes after discounting for inflation as measured by the Sydney consumer price index (CPI), gross state product (GSP) rose by 3.5 per cent per annum between 1995/96 and 2003/04²⁰. On the other hand, in real terms, the ordinary revenue of Local Government rose by only 2.5 per cent per annum. Significantly, again in real terms, rates rose by only 0.8 per cent per annum and grant income rose by 1.0 per cent per annum.

Figure 9.1 compares the movement in NSW Council rates compared with those of all states, NSW GSP, Sydney CPI, NSW land taxes and all states' land taxes. As can be seen the only index that NSW Council rates has surpassed is the Sydney CPI. In all other cases, especially State land tax, NSW Council rates have lagged significantly behind.

Figure 9.1: Growth in NSW Council rates compared with increases in other indices, 1995/96 to 2003/04



Source: Brooks, J. (2006).

²⁰ Gross state product (GSP) is a measure of the value of a state's total economy. It is the equivalent of gross domestic product (GDP) at the state level.

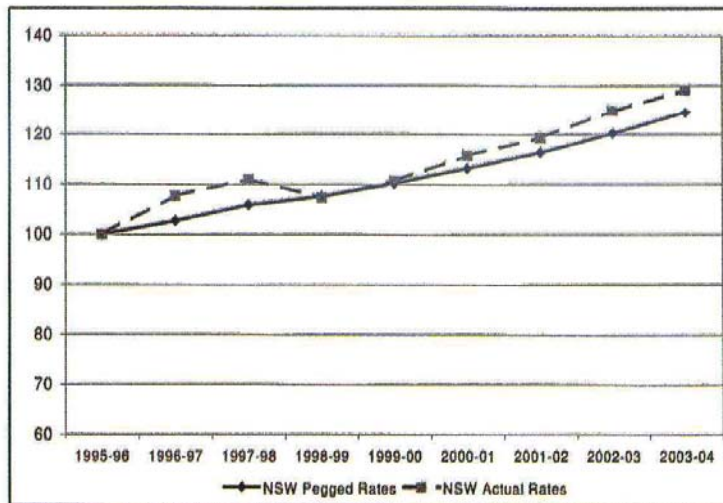
Table 9.4: Rate increases by jurisdiction, 1995/96 to 2003/04

State or territory	Per cent increase
NSW	29.2%
ACT	35.2%
Tasmania	36.3%
South Australia	55.1%
Queensland	55.6%
Western Australia	64.8%
Victoria	66.1%
Gross domestic product	61.8%

Source: Brooks, J. (2006).

The chart below shows the extent to which actual rate income has exceeded that allowed by rate pegging as a result of special rate variations granted to some Councils by the Minister. As can be seen the additional revenue allowed has not been large as a proportion of the total increase in the rate peg limit. This would suggest that rate pegging has been a major constraint on Councils' revenue raising capacity causing it to fall behind other states, notwithstanding NSW's relatively strong property market over this period compared with Australia as a whole (see figure 9.1 for comparative expansions in land tax revenue).

Figure 9.6: Growth in actual Council rates compared with pegged rates, 1995/96 to 2003/04.



Source: Brooks, J (2006)

However, this does not itself present an argument for or against rate pegging. Rate pegging may have limited the supply of local services below what residents would have wanted or alternatively provide local citizens with some protection against local Council monopoly power.

It may be argued that, because local Councils are monopoly suppliers of various basic services, the price of their services (in this case local rates) should be regulated just as may be