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26<sup>th</sup> August 2008

Chair  
Review of the Revenue Framework for Local Government  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office  
NSW 1230  
SYDNEY NSW 2000

**SUBJECT: SUBMISSION ON THE REVIEW OF THE REVENUE FRAMEWORK FOR LOCAL GOVERNMENT**

RAMROC appreciates the opportunity to make this submission to your Review. Our responses have been provided in respect of the following six key issues.

**24. To what extent are local governments' expenditure requirements likely to grow in the future?**

Councils are being asked to address their infrastructure backlog and to adequately maintain existing and new infrastructure. Various estimates have been provided for the value of the Local Government infrastructure backlog, although there is general consensus that it is very substantial. Addressing this backlog and managing future infrastructure demands requires an integrated approach and contribution from all three levels of Government, Commonwealth, State and Local.

It cannot be addressed by Local Government alone, due to the overall restrictions on revenue raising and alternative revenue sources, particularly in rural areas, coupled with ever increasing community expectations.

**26. What is an appropriate level for the net liability ratio and what obstacles prevent Local Government from making greater use of loan borrowings (debt) as a means of financing priority infrastructure renewal/replacement?**

The obstacles that prevent Local Government from making greater use of loan borrowings are the impediments that debt levels place on operating funds available for future years. It is also difficult to commit to long term debt in an environment of declining real revenue levels, including the decline in the level and range of state and federal grants over an extended period.

**29. What are the appropriate measures for efficiency of local government?**

The NSW Corporate Overheads Costing Guide, part of a series of Better Management Practices developed by Cost and Quality of Government (CCQG) to assist NSW government agencies in providing consistent costing data, provides two relevant key indicators for inclusion in an overall set of KPIs, these being Corporate Overheads Staff Ratio and Corporate Overheads Expense Ratio.

The Corporate Overheads Staff Ratio indicates the extent of the council's staff resources involved in corporate overheads functions.

The Corporate Overhead Expense Ratio is the ratio of expenses incurred on internal overhead functions divided by total Council operational expenses. The ratio can be a useful indicator of the

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efficiency of a Council, by calculating the share of Council staffing and expenses devoted to back-office activities rather than frontline services.

Generally, the lower the COR the more efficiently the council is being run. The COR can help organisations to plan and monitor their activities and it provides a foundation for important managerial decisions to be made. CCQG has developed appropriate benchmarks for the proportion of staff engaged in corporate services activities for government agencies.

**30. To what extent have councils undertaken efficiency reforms and has this been effective?**

Some councils have embarked on the SAI Global Business Excellence Framework as a tool for finding system deficiencies and to reduce rework, waste etc. This approach grew out of the Quality management philosophies. It would be appropriate to undertake an assessment of the bottom line impact of this approach.

Anecdotal evidence indicate councils are often unable to say what impact the approach has had on the bottom line, however, some Councils may have been able to demonstrate efficiency savings and improvement in their financial management as a result of applying this framework.

Large scale efficiency may be achieved with significant investment in IT. Economies of scale can really only be achieved with a large number of partners, rather than individual councils or even individual ROCs.

In the UK, central government has invested significant resources into providing a comprehensive set of tools and resources to significantly improve the efficiency and effectiveness of local councils. This includes policies, strategies, framework outlines & approaches, IT systems, Best Practice forums and websites etc, so that individual councils are not reinventing the wheel all the time. In addition, significant investment has been made to improve capacity and skill building for local government employees and managers.

This support has been accompanied by a comprehensive set of performance tables, against which all councils must report and are audited (through a combination of self audits, peer audits, central government audits). It includes a range of indicators ranging from nation wide resident and business satisfaction surveys, employee satisfaction surveys, corporate overhead efficiency ratios, financial ratios, and sustainability measures (quadruple bottom line theory), against which all councils are benchmarked with other councils in their category.

An integrated, comprehensive approach such as this assists councils with the tools and support that they require, yet it is done within a strong accountability framework.

**39. Which performance measures should be developed for councils (or groups of councils) to provide information on outcomes, outputs, processes, inputs and cost effectiveness in their service delivery.**

The Victorian State Government provides standardised resident satisfaction surveys. All local councils are surveyed annually and benchmarked against each other, with the results available publicly. NSW could expand this approach to also include standardised employee and business satisfaction surveys as well as the resident satisfaction surveys.

**44. What role should IPART play in setting local government rates and charges in future years?**

The setting of the level of rates and charges should be left to the local councils where factors such as need and ability to pay are determined and Councillors are held accountable through the election process.

As the Issues Paper notes, there is a significant variance between the circumstances and capacities of local councils and their communities. Any rate setting framework requires a very flexible approach

given the different cost and revenue structures. Hence, one uniform cap rate is inappropriate, particularly when the rate's calculation is not transparent.

Any role of IPART in setting the rates and charges will unnecessarily add a further level of regulation for local councils to contend with. The whole issue of constitutional recognition centres on Local Government's desire to be autonomous with accountability to its ratepayers and electors, and not hindered by regulation from any third party, except those who allocate specific purpose grants and those that apply to any NSW organisation.

IPART could play a valuable role though, in monitoring the justifications provided by NSW Local Government for the level of rates and charges, as against setting parameters for those rates and charges.

Thank you for the opportunity to comment on the Issues Paper for the review of the revenue framework for local government.

Yours faithfully,

Ray Stubbs

Executive Officer