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Chairman: Cr Neville Castle
Mayor Lithgow City Council

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Reference: nc: bjs mmyydd
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Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290,
QVB Post Office NSW ▪ 1230

Dear Tribunal Members,

At the meeting of the General Manager Advisory Committee 31 July it was resolved Centroc lodge a submission to the IPART review.

Centroc represents over 236,000 people covering an area larger than 70,000sq kms comprising Bathurst Regional, Blayney, Boorowa, Cabonne, Cowra, Forbes, Harden, Lachlan, City of Lithgow, Mid Western Regional, Oberon, Orange City, Parkes, Weddin, Wellington and Young Councils and Central Tablelands County Council. Centroc members include regional and small rural councils. Some of our members are experiencing growth while others are declining in population.

Centroc notes that the issues paper "Revenue Framework for Local Government" raises a series of questions for local government where it is looking to stakeholders such as Councils for solutions. This response will not provide evidence from every member, but rather will address the questions raised in the issues paper providing the region's experiences, identifying principles and problems then suggesting some solutions.

It needs to be stated up front that sustainable service delivery from Local Government to the communities of Central NSW is not about rate pegging, but rather requires an assessment of the resources required to deliver sustainable management of assets of the region. This level of resourcing needs to be considered in the context of regional and national expectations for rural communities, where we face coming challenges such as food security, peak oil and climate change.

In reality, a complete review of the roles and responsibilities at all levels of government and how this should be funded would be timely.

The 2006 Percy Allan report into the future and sustainability of Local Government suggested there was a perception that councils represented between 10 and 30 per cent of the public sector. In fact, Local Government represents only five per cent of government in Australia and its revenue share is even smaller. In short, this equates to high expectations teamed with limited resources. This raises issues of equity and fairness for the ratepayer, and Local Government as a result of the burden placed on councils by the Federal and State tiers. Add to this a massive Australia wide local government infrastructure restoration backlog (estimates are as high as \$6.3 billion just to restore assets to a satisfactory condition) and

the pressure becomes clear. If this infrastructure backlog is not addressed and the assistance from the Federal and State governments continues along the path of doing more with less, then there will be a greater reliance on rates and other sources of revenue to ensure financial independence. This is not sustainable and is exacerbated in a rate pegging environment.

To some extent the calls by Local Government through the Local Government and Shires Association in NSW for an end to rate pegging is a way of looking for a solution to meet the ongoing financial challenges presented to our members by:

- Changing and growing community expectations
- Councils endeavouring to meet the charter of deliver the services called for by community
- Unfunded mandated legislation
- Greater calls by community, state and Federal government for more transparency and accountability in delivering sustainable services, examples of which are the DLG calls for both “New Directions” strategic programming and understanding and maintenance regimes of assets
- The competitive grants culture where those who are adept at grant writing are the winners no matter what the need
- Expectations for Councils to “do business better” having the risks associated with it of the recent sub-prime investment disaster which has affected our members variably where some will have significant problems. It should also be noted here that while there may be scope for Councils to widen their revenue through growing revenue streams, there would have to be a review of legislation to ensure that Councils remain within the law

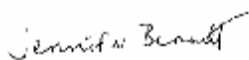
Rising to this challenge, Centroc members work collaboratively and work smarter all the time. increasing efficiencies through resource sharing, group purchasing, information sharing and collaboratively seeking funding.

In order to continue with their improvements in service delivery, Centroc members support a revenue framework that recognises differences between Councils and addresses the real problem of sustainable service delivery where to some extent issues of whom decides the rate peg and under what criteria is just moving the deck chairs.

Centroc sees this review with IPART as offering a unique opportunity for an independent review of the issues facing service delivery for our members and for local government in NSW. As such, our members are more than happy for the Executive to flesh out the information provided below and for IPART to visit this region and experience the issues raised in this submission first hand.

This response firstly address three objectives of this IPART review and then the specific questions raised in Appendix E. For more information, please contact our Executive Officer, Ms Jennifer Bennett, on 0428 690 935.

Yours sincerely



Jennifer Bennett
EXECTUIVE OFFICER

An appropriate inter-governmental and regulatory framework for setting rates and charges that facilitates the effective and efficient provision of local government services

Rates and charges form a significant component of Council activities in Central NSW. At the same time exigencies such as drought and the overall lower socio-economic capacity of most of our rate-payers means that a higher service level from Councils is required to offer equity for our communities while Councils have a lower capacity to meet this burden.

Not wanting to pass on rate hikes in the past has left some Councils with a lower base rate to work up from to deliver services in the rate pegging regime. Even those Councils with a greater capacity to financially manage are still unable to meet the challenge of sustaining assets and services.

While Centroc realises it is outside the ambit of what IPART can deliver, it notes two critical points to the ongoing sustainability of Local Government and vibrancy of rural communities and these are:

- Constitutional recognition
- Corollary access to nationally levies taxes, such as a percentage of GST

A role for IPART in setting rates and charges in future years

In the first instance, Centroc believes that the real issue is how Councils are to fund the increasing expectations for community service delivery, the ongoing unfunded mandates from State and Federal Government, meaningful community based strategic work and asset management.

Centroc sees roles for IPART as:

- providing advice to all levels of government on “reasonable expectations” of service delivery
- a monitor in a more flexible revenue framework where Councils have greater independence
- an entity providing independent review for rate increases in a non-rate pegged environment which can be triggered through a composite of above CPI and calls from the community
- in a revenue raising framework where this not much change, there could be a role in taking the politics out of rate variations

A framework for setting the charges levied by certain public authorities, such as Sydney Harbour Foreshore Authority (SHFA), Redfern Waterloo Authority (RWA), Sydney Olympic Park Authority (SOPA) and the Growth Centres Commission (GCC), to enable these authorities to recover costs for the provision of services that are normally provided by local government.

Not address this as it has no relevance to our region.

ADDRESSING THE TERMS OF REFERENCE AND QUESTIONS IN APPENDIX E

The role of local government in delivering infrastructure and services to the community

Legislation and community perceptions

Currently the role of Local Government is determined by the State. The Local Government Act contains a Charter to guide councils in carrying out their functions. As part of this Charter, councils are required to

- provide (either directly or on behalf of other levels of government) adequate, equitable and appropriate services and facilities for the community
- manage the assets for which they are responsible
- exercise regulatory functions, and
- raise funds for local purposes by the fair imposition of rates, charges and fees, and by income earned from investments

Thus, to a large extent, an individual council's policy choices determine its role where the provision of infrastructure and services is a given. Communities in Central NSW have very broad and growing expectations of what their Councils will deliver.

Communities in Central NSW who elect Shire, Regional and City Councillors generally believe that they will act in their interest in areas of local concern. A brief survey of electoral material going to up and coming Council elections shows the range of commitments that 'would be local Government elected representatives' are making. These include employment for young people, more doctors, water security and passenger train services.

It is Centroc's submission that its member Councils want to be in a financial position to provide an optimalist role as detailed in the Percy Allan Report. In this approach, Councils are champions of their area and take a leadership role in harnessing public, NGO and private resources to provide particular outcomes for its residents.

To deliver on this, as is the expectations of our communities, Centroc Councils experience direct and specific challenges to their service delivery. State and Federal governments are perceived by our communities as failing to deliver, for example in health services. Local Government is being called on to breach the gap. Further, as Local Government in this region is distant from metropolitan drivers of policy and prioritisation for resources, so our members are increasingly marginalised and less able to deliver despite their resilience and ongoing willingness to meet the challenges into the future. An example here is the lack of a State regional plan for Central NSW while there are State coastal and metropolitan plans.

Council's role delivering infrastructure

In Central NSW, roads, water supply, sewerage and waste services are all administered by Councils. Theatres, libraries, community centres, swimming pools, sporting fields, showgrounds, galleries and child care centres are also Council run. Further, airports, fire protection infrastructure, caravan parks and tourist facilities are typically administered by our members. Increasingly aged facilities and "walk in walk out" medical facilities are falling into Council's ambit of management.

It should be noted that our members often have multiple urban centres often located some distance from each other. They therefore often have to maintain multiples of facilities such as Council depots and offices, waste facilities, community halls, showgrounds, sporting fields and swimming pools.

Of note are the increasing expectations in the region to breach the gap in health services. A significant number of our members, often those who have very limited financial capacity as they are more remote from regional centres, are being called on to provide health services to

ensure that medical, allied and aged care services are provided in their communities. The expenditure can and does run into the millions of dollars. Besides this direct investment, members are being asked to understand and develop the businesses and infrastructure required for “walk-in walk-out” medical centres. For small, rural councils struggling with skills shortages in planning, engineering and IT services, this is more than challenging.

Councils in Central NSW have a significant and increasing portfolio of assets to sustain. Just the auditing of these assets has proved challenging for members and it is recognised by every Council in the region that the funding to sustain the region’s assets is not within the scope of current Council financial capacity.

The current role of Local Government, its limits, where this comes from and what it should be.

Councils’ roles vary responding to calls from the community. The role of regional, rural and remote Councils varies widely from their metropolitan counterparts. The more remote the Council the more critical its role becomes in delivering and auspicing programming to sustain communities. At the same time, the more remote, the smaller is its capacity to deliver. The smaller community the less voluntary capacity it has to deliver the varying governance needs including local government, State and Federal agency Boards.

Where once Councils were the “3Rs” they now take on community services, development, environmental sustainability and economic development as “natural fits” to their programming. With economic development comes programming in sustaining communities, which now includes marketing their local government area as a destination for business investment, medical and allied services, education providers and tourism.

Local Government in Central NSW also has an advocacy role on behalf of its communities. Indeed it is called upon by both its communities and State and Federal agencies to deliver this role as an honest broker and representative of local communities. This has a significant impact over the operational delivery of upper management in Councils. General Managers report significant efforts in brokering funding arrangements to bring doctors to towns, ensure adequate transport facilities and gain funding for infrastructure and services.

Councils in this region support their role as advocates. They would argue that it is essential for them to act on behalf of their communities to seek better services, especially in an environment where service delivery roles are blurred, resourcing can be a function of political outcomes rather than need and advocacy gets results.

Demands for Council service delivery also come from State and Federal agencies. Councils deliver on legislation from both the State and Federal level. With increasing regulation in environmental protection this can only continue to escalate where a recent example is the management and regulation of underground petrol tanks. This will have significant impacts in this region as Councils become the regulator for ensuring the commissioning, decommissioning and environmental monitoring of all underground fuel tanks including those in small towns that have not been used for years, phasing in till 2012. While it is logical that Councils fulfill such functions as this, septic tank regulation, the Companion Animals Act etc, the resources are invariably not provided with the regulation to deliver these services. Further, at times just informing Councils of their obligations is little more than the posting of legislation and the development of a State funded web based portal.

A salient example for Central NSW of demands on service delivery is the State Plan. The Work Plan for the State for this region lists Local Government as the driver for transport and integral to service delivery in regional development. The State Plan does not outline where the resources are to come from to deliver on these outcomes.

Councils also act as information conduits. Members are chronically surveyed for information about their communities to inform other levels of government. Often the same questions are asked concurrently by different agencies at the State and Federal level.

Currently there is significant largesse in how Councils determine their role and Centroc supports this flexibility. At the same time Centroc recognises that there must be limitations to the services that can be expected of Local Government. It may be that IPART has a role in advising on what can be reasonably expected from Councils to provide in terms of service levels.

Finally, regarding limits, some discussion regarding the boundaries of Local Government in this region is pertinent. Centroc members support local control over local communities where communities of interest inform Council boundaries. Calls for efficiency gains that include amalgamating Councils are not supported.

Infrastructure and services councils currently provide, infrastructure and services should councils be responsible for and the extent to which there is overlap with other levels of government

Besides the infrastructure and services mentioned above, Councils other key roles are in planning and development, community services and economic development.

Planning and development includes the Local Environment Plan's development and maintenance, managing development applications and assuring that building standards are adhered to.

Community services include managing passive and active recreation, footpaths, skate parks, bike tracks, show-grounds and other recreational and cultural facilities. Meals on wheels, community transport, road safety, childcare and family day care are also typically administered by our members. Members are also responsible for Rural Fire Services. Most recently the DLG has devolved film friendliness to Councils with expectations for protocols and support for filming in the region becoming a function of Councils.

These services often have both infrastructure and programming obligations.

Over time State and Federal support erodes for asset maintenance and other programming through Councils. Examples include noxious weeds funding where many Councils in this region now administer these services, public library per capita contributions and shortfalls in reimbursement for pensioner rebates. The Federal "Roads to Recovery" funding is also eroding.

Councils in regional NSW support the local provision of such services and recognise the commonsense of using on-ground Local Government management structures to deliver State and Federal programming. The concern regarding this creep in service provision is two-fold:

1. The State and Federal programming comes either unfunded or with sunset funding
2. Community expectations of Council grow as they increasingly become the "one stop shop for all service requirements." This put increasing pressure on council service delivery.

There is overlap of Council service delivery with other levels of Government in a number of areas. Further, there is ongoing change to Council service delivery where activities in this region vary significantly from our urban counterparts.

Regarding overlap, two areas that Centroc would like to bring to the attention of IPART are health service provision and economic development.

In the international doctor shortage, local communities have been calling on their elected representatives to attract more doctors for over a decade. To date, the State and Federal Government are not delivering programming with sufficient resources to achieve this outcome. Only in the last month a member approached the local State Area Health Service requesting it increase its minor contribution to a \$3.6million one stop health facility as there had been increases in steel and transport costs. The reply was “no more dollars, Local Government will have to find the balance.” Centroc members would prefer not to be in the business of delivering health services.

Economic development is another area where the State offers part funding of positions in Local Councils which are sunset funded. Centroc agrees that the local delivery of economic development is a meaningful role for Councils. Again it is a question of resourcing. Here there are overlaps with State and Federal economic development programming where, in this region, duplication is managed through working closely at all levels of government. This sector could be better managed in terms of duplication and is currently under federal Government review.

Regarding the changing nature of Council service delivery, currently the Department of Water and Energy are reviewing Councils role in the provision of water and sewer services. The Department of Planning is eroding Council involvement in planning and development. In both these instances Centroc supports the retention of local control over these services.

Environmental management is another area of significant overlap and service delivery change. Where the roles of CMAs, the Murray Darling Basin Commission and the gamut of State and Federal Departments and Agencies managing the environment in the region are blurred, Centroc members find themselves struggling to navigate their role and fund programming where communities are calling for better environmental outcomes and improved water security.

The extent to which service levels vary between councils in their scope, value and quality of infrastructure and other assets. Factors that cause differences between council's provision of infrastructure and services. The extent that ratepayers are satisfied that Councils provide services that are appropriate and delivered effectively and to acceptable standards. As stated above, there are significant differences in service delivery between metropolitan Councils and Centroc members. Councils in this region respond to calls from their community for local service provision in different ways and with different capacity to deliver. Some Councils have high amenity models, while others struggle to cope at the minimalist level as they have large geographical areas and small populations.

As stated previously, Councils in the region are generally still struggling with auditing their assets with a view to their sustainable management.

There are two factors which affect service delivery in this region- money and skills. Councils in the region are under-funded to deliver on their service obligations and struggle during skill shortages to attract staff. This is especially the case in communities with mines. Some Council must pay top dollar for personnel and offer attractive packages to get staff.

Rate payers in this region constantly remind Councils of the poor state of local infrastructure. Roads is usually the first concern with community facilities like halls and sporting fields also a concern. Trip hazards and access issues are regularly complained about. Community members balk at increases and rates and charges and have the usual concerns with Council's role as regulator. Community expectations for services continue to grow and this has a knock-on impact of increasing rate payer dissatisfaction when expectations are not met.

The demographic, intergovernmental, economic, social, technical and environmental changes are affecting Councils now and their future revenue requirements.

- Changing and growing community expectations
- Councils endeavouring to meet the charter of deliver the services called for by community
- Unfunded mandates and cost shifting through failure at the State and Federal levels to deliver and areas of responsibility such as health and aging, where the Local Government and Shires Association (LGSA) report on the impact of cost shifting on Local Government in NSW categorically determined that the total burden of this “cost shifting” amounted to \$412 million in 2006/2007, or over 5% of its total revenue
- Greater calls by community, state and Federal government for more transparency and accountability in delivering sustainable services, examples of which are the DLG calls for both “New Directions” strategic programming and understanding and maintenance regimes of assets
- The competitive grants culture where those who are adept at grant writing are the winners no matter what the need
- Expectations for Councils to “do business better” having the risks associated with it of the recent sub-prime investment disaster which has affected our members variably where some will have significant problems
- Skills shortages especially in engineering planning and IT
- Growing ATSI population by a significant number of members with their service needs
- With its proximity to Sydney many of our Councils are experiencing an influx of “tree changers” with their urban expectations for Council services
- Increases in mining in the region with growing transient populations
- Peak oil, climate change, changes to water management
- Increasing expectations for environmental management
- National and international food security, where this region has a significant agricultural base
- Communities wishing to retain local control over their future to remain in local government areas of manageable geographic sizes where there are recognisable “communities of interest” in the context of the call by State and Federal Government for efficiencies of scale

Rate Pegging, the regulatory framework and IPART’s involvement

How effective is rate pegging and what are the implications for councils and ratepayers? To what extent does rate pegging affect financial sustainability?

As stated previously, rate pegging is not the critical issue for Councils in Central NSW, it is getting the resources to adequately meet service and asset management obligations.

Few people like paying taxes including rates and fewer still enjoy rate rises. Most people in the street like the idea that it rates are ‘capped’ as it implies kept to the lowest level possible.

CPI increases or close to have not met the growth in wage and material costs in Central NSW where the region pays a premium for both when taking into account transport costs and workforce shortages. Further, for every rate peg a raft of new obligations falls onto Local Government from the State and Federal sectors.

Ratepayers in this region have been struggling through the drought in the past decade and there is little will either from communities or elected representatives to increase rates and

charges though Councils generally do take up the rate peg as they recognise they are unable to fund their obligations.

Appropriate and adequate resourcing outside rates, for example a percentage of GST, would be better tolerated by communities in Central NSW.

Regarding financial sustainability, as mentioned throughout this document, rate pegging does not tackle the underlying problems of financial sustainability. Where it is linked to the CPI, Councils in this region go backwards.

Where rating remains a significant component of Council income, Centroc supports the removal of rate pegging.

What are the objectives for a regulatory framework for local government revenues?

In the first instance, it must be to ensure adequate resourcing to sustain Local Government services.

Secondly, the regulatory framework must be flexible enough to recognise that Councils differ widely in the services they deliver and the capacity they have to deliver them

Then the principles of efficiency, equity, simplicity, transparency and accountability apply.

How does the current regulatory framework for council revenue, or any alternative framework:

- *Promote the effective and efficient provision of services?*
- *Enhance the financial sustainability of local government?*
- *Meet the standard of principles for good regulation and taxation – efficiency, equity, simplicity, transparency?*
- *Enhance the accountability of local government?*

What scope is there for councils to make greater use of user charges?

As stated previously, rate pegging linked to the CPI is not meeting the growing needs of Centroc members to deal with their growing service obligations, escalating costs and asset maintenance obligations.

Councils in the region also have a raft of charges that operate typically on a user pays basis. While there may be more scope for growing these charges, it will be limited and our communities, especially in drought years, have a very low capacity to pay.

Looking to equity where Councils have an obligation to their members to deliver at the minimum, equality of opportunity, this region will require an even greater amount of funding than metropolitan and coastal Councils. A uniform rate peg working from a low rate base will not achieve this.

The role should IPART play in setting local government rates and charges, including charges for non-business activities. Should IPART have a determinative role provided by legislation or should IPART's role be limited to making recommendations, if and when requested by the Minister?

As an independent authority, Centroc sees IPART has having a meaningful role in providing advice regarding rates, charges or other funding streams.

Centroc sees roles for IPART as:

- an entity providing independent review for rate increases in a non-rate pegged environment which can be triggered through a composite of an increase in rates above CPI and calls from the community
- providing advice to all levels of government on “reasonable expectations” of service delivery
- a monitor in a more flexible revenue framework where Councils have greater independence
- in a revenue raising framework where this not much change, there could be a role for IPART in taking the politics out of rate variations

Is the Department of Local Government modification of the Australian Classification of Local Governments (ACLG) a suitable framework within which to consider the differences between councils?

Councils in this region have not given a great deal of consideration to the ACLG.

The ACLG, with its criteria including population, area, remoteness and size and location of urban communities is an adequate starting point for classifying Councils.

The use of such classification to inform a revenue framework to drive better equality of outcomes for our residents with their urban counterparts is of interest to Centroc members.

What this Australia wide classification misses is the difference in funding of the States by the Federal Government where NSW does not fair well and the differing needs for asset maintenance by Councils. These are other significant determinants for a funding framework.

Further, Councils need to be large enough to undertake business sustainably. For some of our smaller members this is becoming challenging where traditional income streams from water supply management are currently under threat while unfunded programming continues at a pace.

Currently Councils in various groups look at others in the same classification to assess where they fall in terms rating. Those in the upper quarter would be hesitant to apply for a rate variation as they are already doing better than most of their group, even though they have trouble sustaining assets. This needs review.

How does the current regulatory framework impact on the efficiency of rate setting by councils.

While chronic under-funding forces Councils to operate on a shoe string and therefore be as efficient as possible, at some point service delivery and/or asset maintenance is compromised. Councils in this region would argue that this point was reached decades ago.

An ongoing concern of Councils is the timing of the rate peg announcement. Time is spent by members modelling different rate pegging scenarios in order to deliver on their strategic deadlines to get a management plan delivered within the legislated time frame. Should the State go down the track of setting the rate through IPART timing of this process would need review if efficiencies were to be gained.

Where Councils seek variations, there must be some more efficient way to process this without politics, as is under the current system. The fallout from this process has significant impacts in communities ensuring Councils shy away from a process that may assist with the backlog in asset management. Here IPART could play a role.

To what extent has the control of rates revenue under the rate pegging regime limited overall revenue growth or encouraged greater use of non-rate revenue?

Councils in the region rely to a lesser extent on rates and charges than their metropolitan brethren. They rely to a greater extent than their metropolitan counterparts on funding from other agencies eg Federal Assistance Grants, Roads to Recovery, Water and Sewer Funding, State Roads and Bridges programs to deliver infrastructure.

Having said that, rates revenue is a significant component of Councils in this region.

To increase Council revenue streams in this region, members look to grant funding, investing and ensuring as much user pays on services as the polity can withstand.

This has encouraged the growth of the “grants officer” where Councils employ staff to take advantage of the competitive grant environment to gain more resource for both Council and the community. The grants officers have varying success in their role and can at times have the effect of the tail wagging the dog where some Council activities are driven by where they are successful in seeking funding rather than delivering on the long term strategic direction of their communities. The other concern with grants is that they often call for matching contributions either in kind or direct that have a deleterious effect on other Council activities, so that while the total revenue goes up, services have to be moved around to fit in with the demands of the grant.

Councils can also undertake commercial activities and members in the region are engaged in these at varying levels and with varying success. Besides the limitations of competitive neutrality, these activities are often restricted by community resentment. For example, Bathurst council is involved in land development as well as many other areas such as Mount Panorama, building rentals, etc. This forms a very strong revenue base for Council but unfortunately when it comes to higher risk commercial ventures, Councillors and the Department are very reluctant to look at these activities. Guidelines need to be set but this again could be another source of revenue for council.

The extent to which local governments’ expenditure requirements likely to grow in the future and the implication for rate pegging or alternative regulatory frameworks

In keeping with their communities’ calls to “Keep It Local” Councils in this region intend on retaining as much of their existing service delivery as possible.

Centroc anticipated increases in

- transportation costs
- wages
- cost shifting
- community expectations

Further, as Councils tackle the “New Direction” of the DLG with its call for resources in strategic development as well as coming to grips with the scale of resourcing required for asset maintenance, Council needs for expenditure will increase. These will all call on greater levels of resources.

It is suggested that significant rate increases will not be tolerated well by the communities of Central NSW, who are already struggling with a decade of drought on top of being in the poorer end of the socio-economic scale. A more equitable distribution of taxation through a percentage of GST would provide revenue that does not generate community uproar.

To offer an example, recently Blayney Council successfully sought a rate rise of 11.4% for ten years under Section 508(2) of the Local Government Act to return an asset, the community hall, to meet Australian Standards and the Building Code of Australia.

Developing up the application involved significant work for Council. Concurrently there has been considerable disaffection in the community of greater Blayney especially from other small towns in the region such as Milthorpe and Carcoar where they asked why they should have to pay \$75 for the next decade for a facility in the township of Blayney. These communities are able to demonstrate needs in their own towns for asset renewal.

This disaffection has political ramifications that cause destabilisation and have Councillors and senior staff having to spend significant amounts of time dealing with disaffected ratepayers rather than other activities they could be pursuing for the benefit of the Shire.

Further, the Blayney Council operational budget has had to be reworked to maintain the asset.

Staff and community at Blayney report this as a time consuming and unhappy experience for the Shire. Those looking on in the region are in no hurry to follow in Blayney's footsteps. There is no interest in the short term in seeking rate variations with some interest in the medium term.

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?

Councils can borrow and it is agreed that on the face of it, Councils could go further into debt. Councils in this region do borrow money and debt fund some capital works programming using the principle that the users in the future should fund the asset.

Going into debt can be politically risky and running deficit budgets is not seen by the community as good financial management. Councils borrowing funds for capital expenditure means that funds are redirected from service works to loan repayments and in effect this means the greater the loan borrowings the less funds are available to perform service related works in lieu of loan repayments.

Further, members would argue that borrowing money to essentially prop up Local Government as it continually steps into the breach for the State and Federal Governments will only generate even greater burdens on local communities in this region into the future.

Councils concede that the quantum of their obligations is an unknown in terms of current liabilities to maintain assets. Given that and their unknown obligations to the State and Federal Governments for ongoing unfunded mandates, going into debt becomes less of an option.

Other significant factors affecting financial performance of local government.

Centroc submits to IPART that it not underestimate the cost of causing community disaffection, such as in the Blayney experience listed above, to Local Government.

Further, some Councils in the region have had significant issues with code of conduct. This absorbs senior Council staff time as well as having direct legal costs. While not huge in multi million dollar budgets, there is the unmeasured effects of staff morale and turnover and the opportunity costs to Councils and communities of the services that could have been delivered.

It is important to note that at the present time the water, waste and sewer funds are self balancing funds and money raised within these are not to be used in the General fund. This

restrictive practice needs to be removed and any funds raised by Council can be used for the benefit of ratepayers. No matter if it's in the General, Water funds etc. The idea of no cross funding needs to be removed from both the accounting practice as well as the Local Government Act.

Accountability of Local Government

What are the appropriate measures for efficiency of local government? To what extent have councils undertaken efficiency reforms and has this been effective?

Councils are audited annually and communities measure their efficiency at each election. Councils experience close scrutiny and are well embedded in their communities where transparent, consultative, strategic and accountable information processes are standard to our practice.

It is the view of Centroc members that they are in the most transparent, consultative, strategic and accountable sector of the three levels of Government where this comes at an efficiency cost as it does not necessarily improve the relationship between Councils and their communities as Councils are in political environments.

Councils in the region are constantly looking for more efficient ways to operate within the context of legislation.

A recent example in this region that illustrates how challenging this can be is the purchase of petroleum products. Petroleum products such as petrol and diesel are both significant line items for expenditure in the region where Councils spend well above the \$150,000 per year on each that triggers compulsory tendering legislation. Under the Local Government Act Councils also have obligations to seek best value. To keep costs down, the NSW Department of Commerce develops a series of State contracts. For petroleum products this contract is not competitive where the local suppliers in Central NSW provide significantly cheaper prices.

A neighbouring regional ROC has tried and failed to deliver regional contracts with petroleum products suppliers and to some extent it is a very limited market in this region. To remain within the law, Councils must sacrifice the cost savings of purchasing petrol on the spot market. This is not efficient.

It is Centroc's contention that if there are to be efficiency measures put in place beyond that of the ballot box, that they should:

- be funded from elsewhere
- include benchmarking against other levels of government
- be flexible to reflect differences between Councils and communities
- follow SMART principles

It is the view of members that Councils in the region are generally as efficient as they can be where there are also ongoing improvements to Council efficiency through:

- internal auditing
- the sustainability health check
- the New Direction with governance reporting to each Council term
- delivering on the Local Government Better Practice Review recommendations
- developing regional programming for procurement, resource and information sharing through Alliances and ROCs
- growing capacity in corporate risk
- improving "life of asset" management

Group purchasing and information sharing saves millions of dollars annually through driving down prices and shared procurement costing for one region a 17th of what it would cost per member.

Councils working co-operatively continually renew this type of programming to seek further savings and efficiencies.

There have been some amalgamations in the region and these do have efficiencies in the long terms. Over the short term disaffected communities are often resource hungry.

If variations under Section 508(2) provide for an escalated base for future rate increases under rate pegging, what benefits do councils gain from making application under the alternative Section 508A? What is the frequency and pattern of individual council requests for special variations to the rate cap? Are rate pegging special variations becoming the norm rather than the exception with local councils and should alternatives to existing rate pegging practices be considered to provide greater certainty for councils and reduce the need for Government approvals?

There is not a great deal of interest expressed by members in seeking rate variations in this region. There is no short term interest within the next twelve months and around 30% of our members have said they might consider them in the next three years. It is certainly not on the radar in an election year. At the same time members agree that money must come from somewhere. Here IPART could have a role in taking the politics out of the process.

It is clear that Councils that can bear the agony of a rate variation are doing so to maintain assets. It is Centroc's contention that this is not sustainable. If the assets cannot be maintained within existing budgets, up to ten years of variations will not sustain the asset beyond this period, as the experience in Blayney has shown. Some other programming in Blayney will have to be sacrificed to maintain the community centre.

Given the role of special variations and the other revenue sources for local government, does rate pegging effectively constrain the level of rates and total revenues for local government?

There are a number of constraints over Council income of which rate pegging is one. There are alternative revenue streams such as venturing into commercial operations; however this requires significant capital investment and business investment expertise and is also dependent on the community support for such a venture. These are also limited by competitive neutrality.

Councils can gain revenue from investments, though the sub-prime disaster has had a significant impact over some members. The reality is that Councils do not have significant expertise in financial management and rely on fund managers.

Should councils be able to achieve a permanent increase in revenue by applying for a special variation?

Given the agony of special variations and the fact that at the end of the day assets require ongoing maintenance, permanent increases should be possible.

Better would be a removal of rate pegging and better again a total review of Council funding to assure sustainability through for example a percentage of GST.

Does rate pegging increase the affordability and/or availability of local government

services especially for poorer regions and sections of the community? In addition to the Pensioner Rebate Scheme, are there any other specific measures that could be introduced to address any social impact issues arising from the regulation of council revenues?

To some extent, the measures that could be put in place to assure better outcomes for those left are only limited by the imagination and include:

- Direct funding to LGs by the State and Federal Government recognising the capacity of ratepayers to meet the infrastructure and service needs of their communities
- A review of taxation to favour rural and remote areas through an enterprise zone-like model
- A review of appropriate service delivery from each level of government
- Rebates to pensioners and other low income or drought affected individuals and businesses

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.

Members in the region suggest the IPART review provides an opportunity for benchmarking to be developed across levels of government and between Councils that are meaningful to member communities.

Note 13 comparisons, rating structures, customer satisfaction, guaranteed service levels, baskets of goods and services both as inputs and outputs, workers compensation premiums, insurance and legal costs; DA processing times could all inform a standardised report card.

The region does not have an agreed position on this at this stage but would welcome the opportunity to develop this further with IPART.

If there are negative unintended effects on financial viability, what modifications or alternative mechanisms would reduce these? To what extent does rate pegging enhance or diminish the revenue raising by local government when assessed against the above criteria for taxation options by altering the revenue mix or enhancing/diminishing criteria such as efficiency, equity, simplicity, and accountability. What alternative regulatory models could be used to regulate rates and charges in NSW

Throughout this response a series of other possible funding scenarios are mooted that recognise the underfunding of local government in Central NSW. It has been noted that the removal of rate pegging is one response where there are others.

These include:

- A review of assets to be managed by Local Government with adequate resourcing recognising that Councils in Central NSW have more assets to maintain with a smaller rate base to maintain them
- A review of appropriate service delivery at all levels of government
- A percentage of GST to go directly Councils
- Change of legislation to allow more revenue streams to Councils
- Funding from the State and Federal Governments to come with legislation growing Council activities

Regarding efficiency, equity, simplicity, and accountability, there is no doubt that Councils in Central NSW:

- spend significant and increasing amounts of time in the area of accountability which impacts on costs and efficiency
- are unable to deliver comparative services to their urban counterparts

Special note should be made regarding farm rates. Rural ratepayers typically raise the complaint that they pay substantial rates for which they do not get services and that rural

roads are in a poor state. Where Councils have insufficient funds to maintain assets this is exacerbated. Finally, where Councils must engage in activities such as the implementation of the Septic Tank legislation, they are seen by the farming community as wasting resources on unnecessary programming while not delivering on the real rural priorities.

Centroc members provide advice that they have experienced unpaid rates as a result of the drought and have been putting in place systems to assist drought affected members of the community.

How do the various alternatives rate against the criteria listed above ie, financial accountability and governance, financial sustainability, comparative efficiency and effectiveness indicators including affordability and availability of local services and facilities?

An assessment of appropriate roles and service delivery for all levels of government with matched resources is the preferred option. This might be a commensurate share of GST where the real issue is the region being able to manage its assets in the context of growing calls on local government for service delivery.

Rate pegging, variations and their current management is not working. As a final point, members would like to note that there are significant sectors of their activities which are not rate pegged, for example water and sewer. Here members develop these services, their management and augmentation in consultation with communities and set rates accordingly. Members would argue that they can do the same for the General Rate.

How does the current regulatory framework impact on the efficiency of rate setting by councils

While rating based on land is efficient and mostly fair, though members advise of continued dissatisfaction by farming communities, it does not deliver the outcomes that our rural communities are calling for. It is insufficient for Councils to deliver both their growing services and failing assets.

There is a direct conflict between the expectations set in the legislation for service delivery and asset maintenance and the capacity of Councils to deliver in the current funding framework.

Centroc members hope that IPART can provide independent commentary to the State government in this regard with a view to improving the lot of our Councils and their communities.