



Our Ref: 2061506
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15 September 2009

Dr Michael Keating, AC, Chairman
Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290
QVB POST OFFICE NSW 1230

Dear Dr Keating,

***SUBMISSION TO THE IPART INQUIRY
DRAFT REVIEW OF THE REVENUE FRAMEWORK FOR LOCAL
GOVERNMENT***

Please find attached a submission from Penrith City Council generally in support of the recommendations of the draft report into the Review of the Revenue Framework for Local Government.

If you require any additional information please contact me on (02) 4732 7620.

Yours faithfully

Alan Stoneham
General Manager



***Independent Pricing and Regulatory
Tribunal***

***Submission in response to Review of the
Revenue Framework for Local Government –
Draft Report July 2009***

Independent Pricing and Regulatory Tribunal (IPART)

Submission in response to Review of the Revenue Framework for Local Government – Draft Report July 2009

Penrith City Council generally supports the recommendations of the draft report into the Revenue Framework for Local Government. Council is encouraged by the prospect of greater transparency in the setting of the annual rate increase and the prospect of increased autonomy for local communities in setting their rates.

In considering the recommendations of IPART's draft report Council provides the following comments and recommendations for consideration by IPART and inclusion in the final report.

Option A

The introduction of Option A does provide greater transparency to the annual increase of rates. The composition of the new Local Government Cost Index (LGCI) has been identified by IPART in the draft report and it is to be recommended that Local Government have an opportunity to provide input into the final composition of this index. Once the index is finalised it is agreed that this independent assessment conducted annually by IPART is a desired outcome. However this proposal only results in the information being announced and provided to the Minister who will still be responsible for the final determination of the annual rate increase. It is recommended that the proposed framework require that deviations from the LGCI not be permitted below the increase in the LGCI determined by IPART.

In addition to this the timing of the release of this information is proposed for March each year. It is recommended that this be brought forward to better coincide with the development of the annual budget and be released in January/February each year.

The inclusion of multi year revenue paths is also supported as it will allow Councils to have greater certainty of rating revenues for the term of their election allowing for more accurate multi year budgeting.

Option B

Penrith City Council supports the view that "Option B can provide a better outcome for ratepayers than rate pegging" and endorses the principles underpinning Option B whereby "eligible councils seek autonomy in setting revenue requirements and annual rate increases above the regulated rate of annual increase".

In terms of eligibility it is agreed that councils should need to earn their independence.

Council supports the view that "in addition to demonstrating sound financial practices and planning, councils would be required to seek and obtain a 'mandate' demonstrating sufficient community support for their proposed rates from their constituent communities"

However Penrith City Council recommends that the specific requirements for both sound financial management and what constitutes a community mandate need to be more closely examined and amended to reflect a more pragmatic approach to implementation. The following amendments are recommended for consideration and inclusion in the final report.

Sound Financial Management

Council recommends that:

1. The Unrestricted Current Ratio (UCR) measuring liquidity be lowered from the proposed benchmark of 2:1. Council believes that recurrent financial sustainability can be achieved below this benchmark. An UCR of this level suggests existing capacity and seems to contradict the need for a rate rise. It is recommended that a more appropriate benchmark would be the level recently set by the Division of Local Government of 1.5:1.
2. The expectation of a council's Operating result (excluding capital amounts) being an average 5% over each economic cycle be reviewed to consider the impact on the Operating Result of developing Councils. Council recommends that greater focus be placed on the Long Term Financial Planning of Councils to demonstrate financial sustainability as opposed to the retrospective consideration of operating results. Again the requirement of surplus operating results may only be identifying existing capacity.

Community Engagement - Customer Survey Option

Council supports, in principle, the use of customer surveys to determine the extent of a community mandate supporting a proposed rate increase. However, how this mandate is determined needs to be re-examined in regard to:

- Who is the "Community"?
- Criteria for Representative Sampling
- The Benefits of Contracting out the Survey Function

Council recommends that:

1. IPART include, as a minimum, "residents" as the key stakeholder group in any survey option as a means of confirming a "community" mandate for a rating proposal under Option B. Council's position is that although ratepayers are directly affected by any rating proposal, this group is not an adequate representation of Penrith's population. In addition, more than 15% of ratepayers are property owners who do not live in the Penrith LGA.
2. IPART set an appropriate statistically reliable benchmark based upon a set confidence level and error rate to be applied to all councils. Council does not support any fixed percentage survey participation rate (eg 25-30%) in the determination of representative sample sizes. This position has been taken by Penrith City Council as it believes:
 - A 25-30% survey participation rate is too high compared with the response rate from other local government surveys which may be anywhere between 10-20%. To guarantee such a response rate each council would need to devote significant resources and time to survey design and methodology and incur significant costs.
 - The high cost of the type of survey proposed would be prohibitive for many councils, and may see some councils essentially 'priced out' of this option. Using Penrith City Council as an example, council would need to receive 14,500 responses from its 58,000 ratepayers to achieve a 25% participation rate. Council has obtained a number of quotes from leading survey companies and the cost of a randomised telephone survey for the proposed sample size is estimated to be in the vicinity of \$100,000 to \$150,000. Council supports the position that there is a better way to achieve reliable and accurate survey results using smaller sample sizes based upon sound statistical and probability conventions and standards.

There is a common misconception that the bigger the samples size for a survey the more accurate the result. For any survey of a large population (over a few thousand ratepayers, households or businesses), a sample of 600 respondents is usually adequate to give quite precise estimates ($\pm 4\%$ maximum error rate at the 95%

confidence level) of population attitudes and choices. This means that we can be confident that if the survey was repeated there are approximately 95 chances in 100 that the new results would be within + or – 4% of the results achieved in the survey.

These statistical principles have been applied by Penrith City Council when conducting its bi-annual city-wide customer telephone survey since 2003. In order to obtain a statistically reliable and representative sample, just over 600 responses are obtained from a total population of approximately 178,000 residents. This sample size provides for a result that statistically returns a 95% confidence level with a maximum error rate of + or -4%. A survey of this size can be undertaken for approximately \$36,000.

3. IPART include in its final report the benefits of using external survey experts to carry out surveys on behalf of individual or groups of councils. Council's position is that there is merit utilising survey experts outside of councils to carry out this type of work on behalf of individual councils or groups of councils. The advantages include:
 - Perceived and actual independence in the process of data collection.
 - Expertise and capacity provided for councils where both may not be present
 - Opportunity for costs savings with groups of councils awarding work to the same provider
 - Opportunity to provide and obtain benchmark comparisons with other councils within the same tender group.