

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC WORKSHOP

REVIEW OF REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

Chairman: Dr Michael Keating

Held at the Conference Centre,
Novotel Pacific Bay Resort
Coffs Harbour, NSW

On

Wednesday, 12 November 2008 at 9.00am

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1 INTRODUCTION

2
3 THE CHAIRMAN: I would like to begin by welcoming you to
4 this public workshop which is being conducted by the
5 Independent Pricing and Regulatory Tribunal as part of its
6 review of the revenue framework for local government.

7
8 I should begin by introducing myself. I am Michael
9 Keating and I am the chairman of the tribunal. With me
10 today are members of the IPART secretariat, Mr Michael
11 Seery, to my right, who is the program manager for this
12 local government review, and Mr Tony Camenzuli, who is
13 sitting in the back of the room.

14
15 The former premier requested that IPART undertake a
16 review of the revenue framework for local government. The
17 premier requested that the review consider three terms of
18 reference and the workshop today will address the first two
19 of these three terms of reference. The third term of
20 reference is of particular interest to just a small number
21 of Sydney councils.

22
23 These two terms of reference are, firstly, an
24 appropriate intergovernmental and regulatory framework for
25 setting rates and charges that facilitates the effective
26 and efficient provision of local government services;
27 secondly, a possible role for IPART in setting rates and
28 charges in future years.

29
30 In undertaking this review, IPART is also to have
31 regard to a range of matters including the role and
32 financial position of local government, the revenue sources
33 available to local government, the scope for efficiencies,
34 the social and economic impacts of rates and charges,
35 and the differences among councils across the state. In
36 addition, IPART is to have regard to the findings of the
37 recent reviews of local government and the matters in
38 section 15 of the IPART Act.

39
40 This workshop is part of the tribunal's public
41 consultation process for the review. This workshop
42 includes this phase of our consultation and it follows a
43 workshop held in Sydney and five others in regional centres
44 over the last six weeks.

45
46 As part of this investigation, in July IPART released
47 an issues paper which set out key aspects of the review

1 process. That issues paper outlined some of the matters
2 that IPART considered important in its review along with
3 the timetable for the review.

4
5 In the issues paper, IPART called for submissions from
6 interested stakeholders by 29 August 2008. To date, IPART
7 has received 64 submissions which have been placed on the
8 IPART website and are available for viewing.

9
10 I want to take this opportunity to say that IPART is
11 appreciative of those who have taken the time to make a
12 submission. All of the submissions received will be
13 carefully considered by IPART in reaching its conclusions
14 on the framework for regulating local government revenue.

15
16 Some of the organisations that have made submissions
17 to the review are participating in our workshop today, and
18 I would particularly like to thank those of you who have
19 agreed to participate here today. IPART considers this to
20 be a very important part of its investigation.

21
22 Following consideration of the matters stakeholders
23 have raised in submissions and at these workshops, IPART
24 will make recommendations to the Minister for Local
25 Government via a draft report in May. Then, following
26 further comment on that draft report, there will be a final
27 report in September 2009.

28
29 Before proceeding further, I would like to say a few
30 words about how this workshop will be conducted. I think
31 you all have available to you an agenda which indicates
32 each discussion topic or session of the workshop. The
33 proceedings will be divided into three broad topic areas.
34 These sessions focus on some of the major issues that were
35 included in the submissions and where IPART believes it
36 will benefit from hearing more from you, the stakeholders.
37 The sessions are intended to provide IPART with information
38 which will assist us in our deliberations.

39
40 The three sessions will deal with, firstly, the role
41 of local government in providing services to the community;
42 secondly, threats to the long-term financial sustainability
43 of local government; and, thirdly, consideration of the
44 options for a more sustainable financial management system.

45
46 At the outset of each session, Michael Seery from our
47 secretariat, who is seated on my right, will make a brief

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1 presentation to introduce each item. Michael will be
2 posing a series of questions. Each of you people who are
3 at the table will then be invited to express your views on
4 the issues that Michael has raised.
5
6 As we go around the table, I would ask the
7 participants to respond to each of the issues without
8 interrupting other speakers. I don't know whether it is
9 really necessary to say that here but at some of our
10 hearings, some people have felt provoked, so the rules of
11 the game are that people be allowed to speak without
12 interruption.
13
14 At the conclusion of each roundtable session, I would
15 like to make a short period available for members of the
16 audience - those of you at the back of the room - to
17 express your views and opinions on the issues that have
18 been discussed.
19
20 As you have probably noticed, our proceedings are
21 being transcribed and the transcript will be available from
22 IPART's website within the next week. For the benefit of
23 the transcribers, I would ask that you use the microphone
24 and speak clearly.
25
26 Finally, I should point out that while IPART is to
27 provide a draft report to the Minister for Local Government
28 by May 2009, IPART, quite properly, has not determined its
29 position on the issues raised at this hearing today.
30 Consequently we should refrain from giving you our views.
31 It would probably be fair to say, although you may surprise
32 us, that at the other workshops there has been a fair
33 degree of commonality in the views being expressed;
34 however, that doesn't prejudge what you are going to tell
35 us.
36
37 Can I commence by inviting each participant at the
38 table to introduce themselves for the record by stating
39 their name and the organisation they represent.
40
41 MR O'SULLIVAN: My name is Paul O'Sullivan. I am the
42 general manager for Lismore City Council.
43
44 MR RYAN: Shane Ryan, I am the chief financial officer for
45 the Port Macquarie-Hastings Council.
46
47 MR ALLEN: Dale Allen, executive manager finance, Coffs

1 Harbour City Council.
2
3 MR MOEGE: Sascha Moege, from the Local Government and
4 Shires Associations.
5
6 THE CHAIRMAN: Thank you very much. I will now ask
7 Michael Seery to introduce the first session.
8
9 SESSION 1: ROLE OF LOCAL GOVERNMENT
10
11 MR SEERY: Thank you, Mr Chairman. May I ask that you
12 sign the register for today, if you have not already been
13 asked to sign it. Finally, there are a small number of
14 copies available of the issues paper for our review. If
15 you do not get one today, give me your details and I can
16 send you one in the mail tomorrow.
17
18 We have chosen for this workshop three of the broad
19 topics from a large number of issues that were in our
20 issues paper: these topics were the ones we thought would
21 be best to get some community input from. We would like to
22 hear from all stakeholders, councils and community groups,
23 on what their views are on those particular issues that are
24 being put forward.
25
26 In each of the sessions today, as the chairman
27 mentioned, I will give a brief introduction and then lead
28 into a number of discussion points that we need to address.
29
30 Councils have a wider role today than they have had in
31 the past. This has had a considerable impact on the costs
32 of councils. We note that the Local Government Act
33 provides councils with considerable flexibility in
34 determining their role. What we would be interested in
35 from the council perspective is what factors do councils
36 take into account when determining their role. In reality
37 a council's role is in response to the needs of the
38 community. This role requires councils to provide a
39 diverse range of infrastructure and facilities. Over time
40 these changes in expectations create pressures for new
41 services. Consequently, councils have to assess priorities
42 in providing those services and infrastructure. The key
43 issue for IPART is how the councils determine their role
44 and the expectations of the community and how
45 accountability fits into that structure.
46
47 We have three discussion points for this particular

1 session. The first one is how does the determination of
2 the various roles for local government impact on
3 expenditure and revenue? Secondly, how do councils
4 establish their roles and become accountable to the
5 community? Finally, how effective is the annual report as
6 a mechanism of accountability to the community?
7

8 THE CHAIRMAN: It's over to you, gentlemen.
9

10 MR RYAN: Clearly the burgeoning role of local councils in
11 providing services to the community impacts expenditure.
12 Quite often the expenditure commitments will increase but
13 they will not necessarily be offset by decreased
14 expenditure in other areas. From a revenue perspective, we
15 are somewhat limited in our ability to match the
16 expenditure with the increase in revenue under the current
17 regime.
18

19 THE CHAIRMAN: So what do you attribute this expansion
20 of the role to?
21

22 MR RYAN: Enhanced community expectations and probably
23 also a lack of service provision from other tiers of
24 government insofar as the local councils are at the
25 coalface and they become the service provider of last
26 resort in many circumstances.
27

28 THE CHAIRMAN: We have received information on cost
29 switching, which is generally attributable to a lack of
30 provision of certain services by the other levels of
31 government. In some instances at least, I am sure the
32 other levels of government would say they stopped producing
33 them because they were not cost effective to provide. They
34 may decide, for example, to consolidate hospitals, so a
35 small town would lose its hospital services on that basis.
36

37 I know that the distance between two towns on the
38 South Coast where the government wants to consolidate the
39 hospitals is less than a 30-minute drive, which is less
40 time than most people in Sydney would spend to get to a
41 hospital. From the government's point of view, they will
42 say that consolidation is rational. From the councils'
43 point of view, they will say that that is cost switching.
44 Do you have a view on that?
45

46 MR RYAN: I don't have a relevant example to reference in
47 terms of health, although what you say seems fair to me.

1 In terms of crime prevention or community services at the
2 youth level and things like that, it is an area where we
3 spend money. That is an area that traditionally would have
4 been covered by the state, in the absence of our doing it.
5 We then become the local providers of services at the
6 coalface and the ones who suffer.
7

8 MR O'SULLIVAN: I think that example that you gave has
9 some relevance. As I said before, I am from Lismore, which
10 is at the centre of a region in its own right based on
11 catchments. There has been some rationalisation of health
12 services, so I will stick with that example. Yes, the
13 community does get agitated when they see their services
14 being cut back in the smaller centres. To be quite honest,
15 I think the civic leaders are a little more mature these
16 days and accept that there does need to be some
17 rationalisation.
18

19 In our area, we have a ROC, which is a regional
20 organisation of councils. It has been quite helpful that
21 the councils of that ROC, which range from the Tweed
22 through to the Clarence Valley Council area, as one
23 identified that they, in fact, would focus and lobby the
24 government to focus resources in the most effective way
25 that. Inevitably with the health services it meant that
26 the smaller towns, the centres with hospital services would
27 be scaled back to support services, so they are not trying
28 to do everything in every hospital.
29

30 That is probably not a bad model. As I say, there has
31 been a maturing and an acceptance of the inevitability that
32 governments, whether it be state or local government,
33 cannot do everything, so they do have to move in this
34 direction. I do not know whether I like the use of the
35 term "cost effective", it probably is what it is about, but
36 it's best use of the resources for the community.
37

38 What goes with that consolidation in the regional
39 areas, as I am sure you know, is access. It is fine to say
40 Lismore Base Hospital, with its facilities, is where a
41 focus on the expenditure will be, but getting people there
42 is where the other services fall down. Public transport is
43 inadequate and not everyone has a car. There is a bigger
44 picture, even though there is obviously some sense in this
45 idea that some centralisation take place. Cost shifting
46 does get mentioned, but I don't think, frankly, in the
47 local government context that is a legitimate complaint.

1 In fact it has not been used widely in our area.
2
3 THE CHAIRMAN: While you are talking, can I ask you to
4 comment on the expansion of the role of local government,
5 what the pressures are for it?
6
7 MR O'SULLIVAN: I will pick up that point. From our point
8 of view, we find that there has become an expectation that
9 because the state, to a great extent the state, less so the
10 federal government, has thought about some of their
11 activities, people get used to whatever it might be, and
12 security is an example. That is a bit touchy because it is
13 a police activity, but the council has found probably over,
14 it would have to be more than 15 years. In Lismore, again,
15 as a reasonably sized city, there were serious concerns
16 about security in the city - I am talking now in the retail
17 area - and accordingly the council embarked on a program of
18 improving security.
19
20 I mention that particularly because all of the
21 reasonably sized councils in our region are now going down
22 that path. There is pressure from businesses, from the
23 community, to actually improve security in their town
24 centres and that is a pure failing of the adequacy of the
25 security measures that traditionally have been with the
26 state government.
27
28 Having said that, the police recognise their
29 limitations and in all instances that I am aware of they
30 are actively assisting, so there is this partnership.
31
32 But getting back to your point, the locals have made
33 it very clear to their elected representatives that they
34 are not satisfied with what they have been getting. The
35 locals lobby the state government, and if nothing happens
36 inevitably it moves in our direction.
37
38 In our case, bearing in mind we are talking here about
39 impacts on rating, council actually applied a special rate,
40 paid for by the businesses, which generates something of
41 the order of \$260,000 a year, which augments police
42 activities and the community is satisfied that that has
43 delivered a result. That has been mirrored in Ballina,
44 Casino and Byron Bay, because there was debate about them
45 going down the same path. So it was controversial at the
46 time but council stepped out and said, well, we are not
47 going to get this any other way, so it moved in that

1 direction.
2
3 That is a reflection of a community need. More
4 broadly, we do bi-annual community surveys, which are
5 structured surveys, statistically proper and valid, and the
6 council identifies through that process what the priority
7 of each community is. I don't have to tell anybody that
8 the number one priority is always that roads are
9 inadequate. I can say also that the councillors and in
10 fact I think the community has come to accept that there is
11 a shortfall there and they are not about to give up some of
12 the other things that the council is able to provide and
13 put it all into roads. They are not going to go there -
14 even though they will complain about it, they will not give
15 up some of those other things that have been developed.
16
17 That is a result of what I guess we would have to say
18 are shortcomings in other areas, and the community has
19 demanded that. It has said, "We want you to do these
20 things", and that is where that drain on the resources has
21 been spread. The problem is that it is spread too thin.
22
23 MR ALLEN: In support of Paul, there are pressures on
24 council to take on an expanded role rather than a
25 contracted role. The way local government is funded at the
26 moment, it is a contracted role and not an expanded role,
27 but the expectations of the community, in particular the
28 need to fill gaps in service that other levels of
29 government and community are no longer providing, puts
30 pressure on councils to expand their role to meet those
31 expectations.
32
33 It is not just the community. Councillors want to
34 provide a better service. The whole council, including the
35 staff, want to provide a better service to the community.
36 The difficulty is in just being able to fulfil existing
37 roles let alone expanded roles. That is one of the real
38 issues for us.
39
40 THE CHAIRMAN: Just pushing this a bit further, some of
41 the things we have talked about have been traditionally
42 covered by rates, but security is certainly not a
43 traditional function of government, although we could
44 debate which level of government.
45
46 Some of the things we have heard about are the newer
47 functions for any level of government - aged care and child

1 care. That is something that has developed in the last few
2 decades. I don't pretend it happened yesterday, but it was
3 not there in our grandparents' day. I have picked up from
4 other hearings that we have had that councils have felt
5 pressure to move into areas such as aged care and child
6 care, and we accept that is part of what you are talking
7 about.

8
9 MR ALLEN: When we do surveys in our 2030 vision we are
10 planning at the moment and ask people what they want, they
11 don't mention roads or the traditional services. They
12 expect them to happen. If you were to cut them down or
13 out, the screams would be unreal. They are looking for
14 services in different areas, new areas, where they are not
15 currently being adequately addressed. That is the pressure
16 that is on local government that it can't really meet.

17
18 MR O'SULLIVAN: Just commenting again on a couple of
19 examples. As far as aged care, I can't say that has been a
20 strong push in our neck of the woods. Our council is not
21 directly involved in direct services for aged care. It is
22 pretty well catered for through generally church-based
23 organisations.

24
25 I do know of one other council which is engaged in the
26 same way. My understanding is that it is cost neutral in
27 the way it is structured. But children's services
28 certainly is an area - this has nothing to do with what has
29 happened in the last couple of months - where the council
30 some years ago commenced child care services because there
31 was nothing available.

32
33 It is not a huge cost, I concede that. It might be a
34 net cost to the council, the fact we have three centres, of
35 the order of about \$70,000, so that is manageable. But the
36 service that the council is providing is one that the
37 private sector won't provide and that is the difficulty.
38 It is after-hours school care and occasional child care.

39
40 We do have a normal fixed hours child care centre
41 which I suppose is effectively in competition with the
42 private sector, but there was nothing there when the
43 council commenced that and they have continued with it to
44 give people that service, but it is that other type of
45 care, which there is a big need for, and there is no-one
46 else who will do so the council stepped up there. It has
47 become a community expectation that came from nothing.

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1 Council chose to go down that path as a result of
2 representations, and it is highly regarded as being a good
3 service, and community surveys rates it very high, so it is
4 not about to be cut off.

5
6 MR ALLEN: Another area councils are moving into is the
7 role to foster and grow activities, to make sure towns and
8 areas are alive and healthy. That is a real issue for
9 councils with inadequate funding, they can't fulfil that
10 role, which is not being filled by any other level of
11 government either.

12
13 MR MOEGE: As you just heard, you would be aware a few
14 years ago we commissioned an independent inquiry into
15 financial sustainability and that gives some support for
16 what is being said here, but as far as drivers for local
17 government there were a number, if I can just list them,
18 because they are summarised quite well.

19
20 Firstly, there was the increasing complexity of
21 regulation and standards that local government has to deal
22 with generally. There were increased community
23 expectations, particularly as was said, not only in the
24 basic services they provide but in the human services,
25 cultural facilities, educational facilities, aged care and
26 child care.

27
28 There was a lot of pressure in terms of demand
29 management, additional functions under the Environmental
30 Protection Act and other acts local government has to deal
31 with. Another big driver was the demographic change, sea
32 changes, where councils face a very different population,
33 for instance, people who come from the city expect to get
34 the same services in the country.

35
36 Generally, we have often found, what you mentioned
37 before, is those cost opportunities. In a general sense we
38 look at all functions that local government does and, as
39 you probably know, we do an annual survey of organisations
40 and look at all these examples, and when we look at new
41 functions, we have administration, lands management,
42 financial management, the Environmental Protection Act,
43 obnoxious weeds, food safety regulations, so there are lots
44 of increasingly new functions for local government that
45 they have to deal with, and often they can't recover those
46 costs, so that is one example.

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1 The other example of cost shifting is where the state
2 government, rather than local government, withdraws from
3 services in a particular area and councils have to provide
4 that. There are a few categories there, mainly in the
5 community safety area, the road safety area, educational
6 services, human services like aged and child care, where
7 councils feel compelled to provide these services if there
8 is a gap and the community needs it. The regulatory
9 framework has to recognise that in a sense local government
10 does it and there is then this public perception problem,
11 so we consider that it is cost shifting as well.

12
13 What I want to add as well is that our inquiry is a
14 survey of 900 residents, which is a survey done of
15 deliberate polling, so people were fully informed
16 beforehand about what council was doing, and what the
17 survey found was that most people still think that roads,
18 waste management and other services are really important,
19 that high importance was placed on them, but equally high
20 was that council provide human services, educational and
21 cultural services and certainly didn't want council to
22 curtail these services. What the survey found was that 70
23 per cent of residents were ready to pay higher rates for
24 these services to be provided as well as, for example, some
25 sort of child care.

26
27 What I really want to say is that local government -
28 and I think we should have this discussion - that we looked
29 at the level of general government of the local area and
30 how can it respond to community challenges and all these
31 important issues that the community faces and that the
32 regulatory framework should be flexible enough to cater for
33 that.

34
35 It is important to discuss this because if you read in
36 the discussion paper about local services and price
37 control, it might well be if you have a commercial service
38 you can link that to a particular customer, but if you look
39 at all the general government activities where you have
40 taxation, that you can't really link it back to the
41 original consumer like roads and safety issues and
42 environmental management and all these other things where
43 you say that is a commercial service we provide to a
44 certain customer group and we can link that back and the
45 customer can determine the level of their usage and what
46 they have to pay. That doesn't work out.

47

1 Provision of services and price controls in a sense is
2 a political process and if you have a political process, it
3 is politically accountable to the decision-makers who
4 decide on the level of taxation, and not a red tape system
5 or any other body that would determine how much council
6 should charge for their general government activities.

7
8 If IPART did it, what will happen if the community
9 wants more services? Would you say, no, because we have
10 made a certain examination, that is, that you look at the
11 role of the government and all those drivers.

12
13 THE CHAIRMAN: Some of the questions you have got on to
14 we will explore a little bit later in more depth. Just before
15 we start, if there is anyone here from the Great Lakes
16 Council or Greater Taree Council, there are seats here at
17 the table.

18
19 (Mr O'Leary joined the forum)

20
21 THE CHAIRMAN: To fill you in, we have provided for
22 discussion today three topics, we are on the first topic,
23 and the questions we are exploring are up on the screen.
24 We are principally on the first of those questions at the
25 moment.

26
27 Just to pick up on what you had to say, Sascha, I
28 guess this issue of costs depends a bit on whether you have
29 a clear picture of what are the roles and responsibilities
30 of each level of government. If they are clearly
31 delineated, if the state government withdraws, then I can
32 see if it withdrew from something that is clearly
33 delineated that is its responsibility then that is a cost
34 switch. It is less obvious that it is a cost switch if it
35 is not delineated. That is the problem with issues like
36 child care and aged care, that it has not been clearly
37 delineated as to whose responsibility it was in the first
38 place.

39
40 Even roads, classically local roads are local
41 government's responsibility, highways are state
42 government's responsibility, and there is still some
43 argy-bargy about what is a local road and what is a
44 highway, so that I think to me the more important point is
45 that there are community expectations and pressure on
46 government to deliver services, and perhaps local
47 government being closer, feels such pressure most strongly.

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1 But just how far it is cost switching depends on being very
2 clear as to who is responsible in the first place and
3 whether it is possible to delineate it.

4
5 MR MOEGE: I certainly agree with that. We have three or
6 four categories of cost shifting we look at. Certainly the
7 last two of them we look at, state government provides us
8 some seed funding and then that funding ceases to be
9 provided, local government must then make a policy choice,
10 for example, as to aged care, child care facilities.

11
12 Certainly it is not quite clear cut and I think the
13 point here is that if you have local government doing it,
14 you need to provide a regulatory framework where it can get
15 the money from to provide the service. On the other hand,
16 there are services where it is clear cut and there is a
17 national agreement now on cost shifting which looks at
18 legislation requiring local government to provide different
19 functions. I mentioned that has to be taken into account
20 and dealt with. There are many, many regulations and acts
21 that come on every year where local government has to
22 provide it.

23
24 Local government would be happy to do that if the
25 regulatory framework allowed for it, to cover the fees and
26 so on. But then there are issues like, in the reforms you
27 dealt with fire service funding, for instance, and it is
28 quite interesting that for fire services, local government
29 basically has no operational responsibility and no budget
30 but still needs to provide 13 per cent of contributions to
31 these services. That is clearly not a function for local
32 government and it is not quite clear why local government
33 should contribute to that. We consider that as a cost
34 switch as well.

35
36 THE CHAIRMAN: I will just comment briefly. I can see the
37 debate about whether local government should pay for any
38 fire services. What we proposed in our report was that the
39 collection should be through local government as you have a
40 more efficient tax structure for taxing insurance. Taxing
41 insurance for fire services can be both unfair and creates
42 the wrong incentive. You want people to be insured rather
43 than not insured.

44
45 In our view in that report we came to the conclusion
46 that it would be better that the tax in effect that
47 currently exists through insurance was collected through

1 local government but we fully accept that in that case an
2 adjustment should be made to local government so that they
3 can collect that without shift costing. We accept that.

4
5 Let me press on. We have had raised how councils test
6 community opinion. I would like to explore that a bit more
7 because clearly an issue in the context of rate capping is
8 what are the alternatives in terms of accountability. If
9 you are going to get rid of that blunt instrument called
10 rate capping, or modify it in some way, then you have got
11 to have an alternative accountability mechanism. That in
12 my opinion is where the state government is coming from.
13 So I would like to explore a bit more on the one hand how
14 you assess community priorities from the community's point
15 of view and on the other hand how you are accountable to
16 the community for that in terms of reporting back
17 information, if we could have some discussion about that.

18
19 MR ALLEN: I do not think the annual report provides any
20 of what you are looking for. It is an historical document
21 and, to be quite honest, the community is fairly apathetic
22 in relation to the annual report. Certainly at Coffs
23 Harbour we find that is the case. We have spent a lot of
24 money on it at various times.

25
26 THE CHAIRMAN: We have heard that repeated.

27
28 MR ALLEN: It takes a bit of time and effort to prepare,
29 but we don't spend a lot of money on preparation of it any
30 more. We make it accessible but it is not really an access
31 document.

32
33 THE CHAIRMAN: It is a regulatory requirement but not a
34 very effective requirement.

35
36 MR ALLEN: I agree. The way we go about it is by being
37 very active with press releases on what we are doing and
38 what is happening and gauging public reaction from that.
39 We also have about a dozen or more different mailing lists,
40 and if anything is important we start a mailing list, which
41 people can freely subscribe to by providing a contact
42 email. They are in such areas as what is going on in our
43 city, Coffs Harbour City Council news, library newsletters,
44 cultural news, environmental news, all those sorts of
45 things to involve members of the community who are
46 interested in those areas to know what it is that we are
47 doing but also to give them the opportunity, as projects

1 are in place and things are happening, to actually consult
2 and impact on the results and let council know what it is
3 that they feel about what is happening.

4
5 We find those sorts of things far more effective than
6 things like annual reports and things like.

7
8 MR RYAN: Continuing with that, we have in our annual and
9 our corporate plan opportunities for the public to not only
10 submit formally but attend public forums where we present
11 and answer questions and provide information in
12 anticipation of where they have been able to provide a
13 submission where they can influence the outcome of a
14 corporate plan on an annual basis. We also have various
15 opportunities, public forums, like with the big foreshore
16 issue at Port Macquarie at the moment, we are anticipating
17 receiving 1200 submissions on that particular issue, so
18 there are any number of ways where the community can have
19 its say in terms of setting priorities and influencing the
20 outcome of policies.

21
22 MR O'SULLIVAN: Pretty much a similar approach. Certainly
23 the annual report is not at all effective. What we do is
24 put together our own version of the annual report and
25 circulate that pretty widely. We do not letterbox drop it
26 so much as we have a good network of small communities.
27 There are a lot of villages in our area, and we have
28 established good relationships with the community groups in
29 those areas, so we kind of circulate that in that way, and
30 have quite a number of community forums in the greater
31 Lismore urban area as well, which are reasonably well
32 attended.

33
34 Other than that, our second-year survey is probably
35 our best tool for assessing community needs through our
36 customer service centre. We log and monitor all of the
37 inquiries, whether they be complaints, sometimes praise,
38 what people are asking for and wanting assistance with, and
39 use that as a guide as to where our deficits are, because
40 usually it is a question of service. That is useful to us.

41
42 In addition to that, in the development of each year's
43 management plan and budget we actually go out of our way
44 to highlight the fact that the community has the opportunity
45 to make submissions. We get a lot of submissions.

46
47 We also give three occasions before anything is locked

1 in for people to present verbally at occasions like this,
2 and we get 40 or 50 people attend. There is a community
3 expectation, but I think it is accepted that council is
4 pretty accessible in terms of people letting us know what
5 they want and I think again they respond appropriately,
6 don't ask for the world, because they know they will not
7 get it, but that we can usually manage most of the
8 submissions.

9
10 We had something like 320 submissions from the public
11 to the last management plan. We were able to accommodate
12 probably to the order of about 190 of those. A number of
13 them were multiples anyway. A lot of them are relatively
14 simple things, because they are maintenance activities that
15 we can handle through the budget process. But from a
16 community point of view they actually saw that the council
17 was responding, and that was a positive.

18
19 It is really the opportunity that we all have, I am
20 sure, to get pretty close to the community, and that is why
21 we feel that we have a pretty good handle on what their
22 expectations are, and they really don't ask for the world,
23 they just want a reasonable standard of service. The point
24 that Sascha made is noticeable in our area, a fair bit of
25 new residency, generally from the metropolitan area, who
26 expect a high level of service, and frankly that is where a
27 lot of these submissions come from. They come to a
28 regional centre and things are not done the way they used
29 to, so why can't we have this, that or the other thing.
30 They are reasonable about it, but we find that is where a
31 lot of the push is coming from you, that it is that lifting
32 of the level of standard that is coming with the people who
33 are moving into the area. It is not just here, it is
34 generally held that that is what you can expect.

35
36 But they tend to accept, okay, we have come to the
37 country, we will not get city standards. But they are
38 always looking for that, and that is where the push comes
39 from, and the council tries to accommodate it and spread it
40 around.

41
42 THE CHAIRMAN: Keith, before you speak, can I ask you to
43 give your name for the record because the proceedings are
44 being transcribed.

45
46 MR O'LEARY: I am Keith O'Leary, general manager of Great
47 Lakes. I apologise for being late. We were actually out

1 at the Aqualuna resort rather than the Novotel because that
2 is where we thought the hearing was to be. I am sorry
3 about that.

4
5 I have similar views with regard to the annual report.
6 It is only looked at as being a statutory requirement. I
7 would imagine that in the community there is little if any
8 interest in the annual report. We tend to interact with
9 our community basically along the same lines as Dale Allen
10 has referred to. We are strongly into issuing press
11 releases on items of interests.

12
13 Each year we have formalised community forums at our
14 local government area in four different locations. We go
15 along with planning and engineering and items of interest
16 to that particular area as well as the overall local
17 government area and seek feedback from the community. We
18 have found that those forums have been really well
19 attended, very well supported and appreciated in some of
20 the smaller locations. We do have some newsletters in
21 specific areas - environmental and other such specific
22 areas - that get out to our community.

23
24 We also try to get to our various locations. We are
25 somewhat unique in some ways with our major population
26 areas. One is at the extreme north-east corner of the
27 local government area and the other one is right at the
28 southern end, so we have to make an effort to get there
29 fairly regularly. When anything major comes up, like a
30 traffic study, the staff will go down there and conduct
31 public forums for these people and they appreciate that.

32
33 Our senior management team tries to get out fairly
34 regularly - at least once a year - and meet with the
35 various chambers of commerce around the local government
36 areas as well as the regular contact that our staff does
37 have. It is very important to do that because you can get
38 locked away in local government and not be seen
39 particularly by those in the larger local government area.

40
41 The annual report side of things would be negligible,
42 I guess, in terms of our community.

43
44 THE CHAIRMAN: I am aware that you have a number of
45 statutory reports you have to produce. Michael can rattle
46 them off. There are about four or five. There are
47 corporate plans and environmental --

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1
2 MR SEERY: There's the management plan as well as the
3 annual report, the reports to the Department of Local
4 Government.

5
6 MR O'LEARY: There is the state of the environment report.

7
8 MR MOEGE: And social planning.

9
10 THE CHAIRMAN: I guess the question that I want to raise
11 with you is whether there is scope to make these reports
12 more effective through perhaps better integration of them.
13 Whilst I have a sense of testing community opinion on what
14 they want, I guess the other side of the coin is the
15 effectiveness of councils in delivering KPIs. I would be
16 interested in what scope there is for improvement in
17 reporting requirements of councils.

18
19 MR O'SULLIVAN: I hope I am not cutting across anything
20 here, but are you aware that the Department of Local
21 Government is requiring councils to adopt a new report
22 structure?

23
24 THE CHAIRMAN: Yes, I am aware of that.

25
26 MR O'SULLIVAN: That presents the opportunity for doing
27 what you are talking about it, I believe. I think that
28 that would be a lot more useful. I suppose it would depend
29 very much on how that takes shape.

30
31 THE CHAIRMAN: I think we have an opportunity to try and
32 hop in at this stage.

33
34 MR O'SULLIVAN: In that respect, these reports need to be
35 more user friendly. You don't need all this kind of
36 bureaucratic jargon and lists that, frankly, are
37 irrelevant. People want to know how the council is
38 performing. Those reports need to be used as a judgment
39 about the council's performance. That is where the
40 identification of the four-year performance program is a
41 reasonable thing so the council can be measured against
42 that. The report does need to be in a form and able to be
43 presented in a form without redoing it. We can do our own
44 version of the annual report to make it user friendly, but
45 we should not have to do it. We should be able to come up
46 with something which is easily read, understood and which
47 means something to everybody.

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1
2 KPIs - nail them down. That is tricky when you are
3 trying to develop KPIs for anything, but it is a skill to
4 be developed. It is probably not hugely well done in local
5 government, perhaps. Maybe that is a bit too judgmental,
6 but there needs to be some energy put into that area so
7 that they are understood by the community. Members of the
8 community needs to know what they can expect when the
9 council signs off on whatever it may be in their management
10 plan and they get measured against that. If that
11 information were to be put into simple form without all the
12 guff that goes with these annual reports now, it would be
13 helpful to everybody.

14
15 I am certain that even the people in the department do
16 not read its annual reports. They pick up that there is
17 something wrong when someone starts complaining and then
18 they start looking. Other than that, they don't look at
19 all the stuff that is in the annual report.

20
21 MR MOEGE: Can I just add to that very quickly. I would
22 fully support that suggestion. With the department's
23 integrated planning and report reform, there is an
24 opportunity now to change the current reporting framework.
25 We think that is really important. It is important to note
26 that there should be a shift from accountability to the
27 state government back to the community. The annual report
28 would be an important part of that new accountability
29 framework. It should really, in a sense, report back to the
30 community on the achievement of outcomes and community
31 objectives which have been determined with the community
32 through a strategic planning process beforehand. Those are
33 all policy things and they are all very important.

34
35 In terms of community engagement, in a practical
36 sense, there are other problems. Do we properly engage the
37 community in the political process? It is always really
38 difficult to get a good representative opinion of what the
39 community really wants. Many councils do it in very
40 different ways and there should be enough flexibility for
41 each council to do it in its own way.

42
43 As to the effectiveness of the delivery of those
44 outcomes and potentially the performance indicators for
45 that, it might be really difficult. Every performance
46 indicator might be different depending on the outcome the
47 council has, and they will be relatively individual in

1 particular in terms of their annual reports. If you wanted
2 to have a standard set of performance indicators, it might
3 be quite a difficult task. It might work well, for
4 instance, in the financial sense, but in the sense of
5 achieving the outcomes the community wants, they might be
6 very specific to that particular council or that community,
7 so there might be a bit of difficulty in setting that out.

8
9 THE CHAIRMAN: Just responding to that, on the one hand,
10 what we have had pointed out to us in all these hearings is
11 the diversity of councils. That point is understood. On
12 the other hand, there would be some value, I would think,
13 in being able to compare your council with what I will call
14 a similar council, not only from a council's point of view
15 but also from the ratepayer's point of view - the citizen's
16 point of view.

17
18 It may be that we can try to get some degree of
19 commonality in reporting for what I will call like groups
20 of councils. Perhaps you will contradict me, but my
21 perception is we have here at the table a number of
22 councils that are generally growing, which is not true of
23 all of the councils in Australia. You are growing. The
24 population base is growing. You are getting residents from
25 outside who demand different sorts of services. There is a
26 degree of growth. These are attractive places to live and
27 that is reflected in the fact that your population is
28 growing and so on.

29
30 MR O'SULLIVAN: Can I query what you said there,
31 Mr Chairman? I don't contradict you so much as to ask what
32 do you see as the value in having what I will call a
33 benchmark? The reason I query that, getting back to the
34 point Sascha makes, is that the councils are there for the
35 community. I think it is reasonable to presume that all
36 communities will have different priorities - they won't
37 have the same priorities anyway. That is what makes a
38 community.

39
40 I see a bit of danger in this. We have had the
41 checklist of the department, which is a nonsense. They
42 pull up some stats and say, "You are a bit of that one" and
43 all the rest of it. It is not at all balanced. With that
44 experience, I just wonder about this benchmarking of like
45 councils because they are different. As an example,
46 Lismore happens to have an unhappy reputation as a heavily
47 flood-prone area. It is regularly flooded.

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1
2 THE CHAIRMAN: I thought that was fixed.
3
4 MR O'SULLIVAN: We have improved it a lot, but that was
5 its reputation, that it gets flooded all the time. Of
6 course, there is a huge cost associated with that. Our
7 budget has quite a bit of money applied to that activity,
8 but our neighbours don't. What also goes with working on a
9 flood plain is that it is a lot more expensive to do lots
10 of things - build roads, develop land and so on. That is
11 something other councils are not saddled with; however,
12 they might have other deficits and we might have some other
13 advantages.
14
15 I am not too taken with this notion of here is a model
16 and everybody should be within this kind of range. I am
17 happy for a system to be developed that irons out the base
18 in that, but I am not really taken with that idea because I
19 am not sure what it achieves. Who are we trying to
20 convince is right?
21
22 THE CHAIRMAN: I suppose I am thinking from the point of
23 view of the ratepayer. I live in Eurobodalla. The
24 Shoalhaven is next door. I reckon they are different, so
25 Eurobodalla, on a series of things, does a lot worse than
26 Shoalhaven. That's from me; that is my point of view as a
27 citizen.
28
29 I certainly don't want to be making a comparison with
30 the city of Sydney. I understand it is different, or, for
31 that matter, with Bourke, which is different again. And
32 Shoalhaven is different. It has a big town. It is much
33 bigger than any town in Eurobodalla.
34
35 MR O'SULLIVAN: But then isn't that really a matter for
36 that community? You might be jealous or you might not
37 think it is as good as Shoalhaven, but you do something
38 about it in Eurobodalla.
39
40 MR O'LEARY: Taking up on Paul's comment, I agree
41 actually. I don't think we can all be lumped in the same
42 basket. In our local government area, for instance, we
43 have three major waterways, the lake systems basically run
44 the whole end of it. Our council has a massive focus on
45 the environment. A fair degree of its budget goes to
46 environmental protection and the waterways. We have one of
47 the bigger oyster industries in the state coming out of

1 there and our tourism is built around it, but that may not
2 be the same focus for other councils. That focus may be
3 growing, but they may not have the waterways or similar
4 situations. There are variances between them. I know what
5 you mean. Shoalhaven and Eurobodalla are probably similar
6 councils because they are right next door to each other
7 basically, or nearby.
8
9 THE CHAIRMAN: They are different. I am sure that the
10 councillors will tell me why they are different.
11
12 MR O'LEARY: Of course, but --
13
14 THE CHAIRMAN: But to me as someone who lives there --
15
16 MR RYAN: I think the principle is absolutely correct.
17 You want to be able to judge a good performance, but coming
18 up with an objective measure to do that is going to be nigh
19 on impossible. Really the solution for that is for each
20 individual community to set appropriate KPIs or internal
21 benchmarks and then assess the performance against those
22 benchmarks that are relevant to the performance of their
23 particular council.
24
25 MR MOEGE: That could be part of the strategic planning
26 process as well for each individual council. Generally it
27 is quite difficult because what we really need to
28 distinguish here is whether the outcomes or the objectives
29 that a council pursues are the right ones or whether it is
30 effective and efficient in pursuing the objectives that
31 have been determined.
32
33 With the first issues, I think there is no way of
34 benchmarking that because every community will have
35 different objectives and it is up to the community to
36 decide which ones they want to have.
37
38 As to measuring how effective and efficient a council
39 is, I would say that there is some scope to measure that.
40 I draw your attention, for instance, to the reform that has
41 been going on in the United Kingdom. In order to find out
42 how effective and efficient councils are in achieving
43 objectives, they are undertaking whatever it is called, be
44 it a best value or capability assessment with each council.
45 They have a number of inspectors who go out and do a
46 two-week assessment of each council in order to see how
47 effective and efficient they are in achieving the

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1 objectives they have set themselves. It is a really
2 difficult onerous and costly process they are doing. The
3 outcome there, if you talk to the people at the
4 universities or the academics, instead of actually
5 councillors and management, they are quite happy with that.
6 But what happens is that they are disengaging from the
7 process in a sense because it is all being assessed by the
8 inspectors and not by community anymore. This kind of link
9 to the community is missing.

10
11 The last point I want to make is on measuring
12 effectiveness and efficiency. I think it is important
13 that, in a financial sense, we have some KPIs or
14 indicators. We all know that financial sustainability
15 indicators can be set for councils. You can look at the
16 operating surplus and describe what it would cost to
17 implement all the policies councils have and look at their
18 actual revenue and whether that needs to be adjusted or
19 whether councils actually renew all the assets and
20 infrastructure they have.

21
22 I think there is scope to have a framework in a
23 financial sense which could be part of not a benchmarking
24 exercise, because it probably is not politically that
25 valuable possibly, but councils can assess that data and
26 look at other councils and see what their financial
27 performance is.

28
29 MR ALLEN: There is some scope in those areas, but I
30 believe that actually setting measures that try to compare
31 councils based on the costs of providing service are
32 totally useless.

33
34 I remember looking at some figures produced by the
35 Department of Local Government a long, long time ago. They
36 had comparisons of the costs of construction of urban
37 roads. I remember looking at Orange and Bathurst. In
38 Orange, it was costing \$700 a metre to construct a piece of
39 urban road. In Bathurst, which is next door, it was
40 costing \$4,000. There is obviously not that sort of
41 difference between the councils. It is a difference in the
42 way in which costs are included and identified and
43 measured. All councils are different in that regard. It
44 is very difficult to set comparisons between councils based
45 on costs of service.

46
47 THE CHAIRMAN: Certainly if you're going to benchmark, you

1 have to have common definitions.

2
3 MR ALLEN: That is very difficult to do when you have a
4 whole range of different councils and all different methods
5 of collecting costs, identifying costs and charging --

6
7 MR RYAN: However, if part of the set-up of the framework
8 was to provide those definitions and to say that these are
9 the costs included under this umbrella upfront, then it may
10 be possible.

11
12 MR ALLEN: Maybe, maybe.

13
14 MR RYAN: Under the current system, it is just not
15 rational.

16
17 THE CHAIRMAN: At this point, I am going to ask people in
18 the audience if they want to make any comments and then we
19 will go to the next session. Can you give your names
20 before you speak, please?

21
22 MR BURGESS: Allan Burgess from Kempsey Shire Council.
23 I would like to go through some of the points that you have
24 raised on the determination of services to the council.
25 Obviously the council provides services based on community
26 needs. From that point of view, it is providing services
27 on a voluntary basis. It also provides services because
28 they are imposed by other levels of government. That can
29 be through the Local Government Act itself. It can be
30 through other types of legislation, the planning
31 legislation, health and so forth. There are a lot of
32 services that councils need to provide that are not
33 necessarily something that they may want to provide as a
34 first preference, but because of the legislative role, they
35 are required to provide them.

36
37 One of the points that I would like to make in respect
38 of the imposed services, if you like, and I don't think it
39 was drawn out, is that a lot of those imposed services also
40 have a fees and charges structure that is also imposed.
41 The fees and charges that a council can levy in respect of
42 those services are actually imposed by another level of
43 government and are not set by the local government area
44 itself.

45
46 Good examples of that are to be found in the planning
47 scheme where a DA is submitted. In that situation,

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1 statewide fees and charges apply and there is no local
2 determination in respect of those fees and charges. That
3 means that we, in local government, are providing those
4 types of services, but not at cost. For instance, if
5 somebody puts in a DA to build a house, the community in
6 general is actually subsidising that person for putting the
7 application in because the fees and charges that we are
8 able to impose don't cover the cost of processing that
9 application. As well as having the services imposed on us,
10 we are also having a fees and charges regimen imposed on
11 us, and I think that should be looked at.
12
13 The other services that local government is getting
14 more and more involved in are services that are supposed to
15 be provided by other levels of government, by state and
16 federal government, but because the level of services
17 provided by those spheres of government in the local
18 government area are not up to that community's
19 expectations, local government has to step in and
20 supplement those services.
21
22 This has happened in my community, and I know Paul was
23 talking about it in Lismore, where you have safety issues,
24 law and order issues, and so forth. In our area in
25 Kempsey, and I know for a fact this occurs in other local
26 government areas as well, because the state funding, or
27 federal funding in some cases, for those particular
28 services is not up to the community expectations, local
29 government has to step in and provide or top them up. That
30 is something additional that has been imposed on them.
31
32 We have the same old thing where local government has
33 gone into providing different services because grants have
34 been available. I suppose there was some form of cost
35 shifting in that the grants that were available at the time
36 that the service was introduced got less and less over a
37 period of time until such time as they did not even provide
38 the level or the percentage of funding that was originally
39 intended and local government has then had to take over
40 that type of funding. That has been a further impost on
41 local government.
42
43 I have to agree that the annual report is absolutely
44 useless in its current form. We produce it, like every
45 other council, under the legislative requirement for an
46 annual report. We try to make it as interesting as far as
47 we possibly can for our community while, at the same time,

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1 complying with the legislative requirements. However, I
2 have to say that very, very few people would read that
3 annual report. The occasional progress association might
4 read it. You might get a comment in the paper, but from an
5 individual point of view, I don't think anybody would even
6 know of its existence even though we do advertise the fact
7 that it is there.
8
9 There are other reporting systems where Kempsey is no
10 different from any other local government area. We hold
11 public meetings. We allow the public to address council.
12 We conduct surveys. We have put out newsletters four times
13 a year to our community. We try to be accountable to our
14 community through other avenues other than the statutory
15 requirements.
16
17 On the last matter where you were talking about what should
18 be reported to the community, you have to report to the
19 community what the community understands; you have to
20 report what they want. In our annual report we put down a
21 couple of pages of the required financial information. I
22 can't even understand half of it. It is very hard for
23 members of the community to look at an annual report and
24 try to understand the finances. You have to have relevant
25 matters that the community is interested in. If they are
26 going to look at an annual report, they are interested in
27 whether there was a deficit or a surplus. If there was a
28 deficit or a surplus, the reason for there being a deficit
29 or the reason for there being a surplus should be explained
30 to them.
31
32 We have to look at the financial indicators and report
33 those more than we probably do at the current time. If you
34 have a large debt service ratio, tell the community that.
35 Tell the community what are the reasons for having a large
36 debt service ratio. It could be because you have water and
37 sewerage schemes and the only way of financing those
38 schemes is to borrow. Members of the community needs to
39 know that background information and not be given a set of
40 figures that will confuse them.
41
42 On the key performance indicators, I agree with
43 everything that has been said. You must compare apples
44 with apples. To have key performance indicators based on
45 the cost of providing a service is absolutely useless. At
46 Kempsey, because of our community need, we might have an
47 emphasis on a particular service but our next door

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1 neighbour might not have the same emphasis. We have a
2 strong emphasis on providing library services. Our cost
3 per capita of providing library services might be three
4 times that of our neighbours because their community
5 doesn't want that level of service, but they could be
6 providing another service where their per capita costs are
7 much higher than ours. If you are going to have KPIs, you
8 have to compare apples with apples. If you don't do that,
9 the information it is useless.

10

11 MS ROBSON: I am Barbara Robson from the Corindi Community
12 Group Incorporated, which is one of your little progress
13 association type activities. I thank you very much for
14 allowing me as a member of the public to be here today. So
15 far, it has been very educational and informative. I will
16 be very short and sweet. As far as the community is
17 concerned, what we have seen over the last 10 to 20 years
18 is the devolution of responsibilities from the higher
19 levels of government to the local government level without
20 the adequate funding to handle those new responsibilities.
21 As a result, those local governments in being forced to
22 take on those new responsibilities have to increase their
23 rates and their fees far beyond the normal expected rise.

24

25 These are really direct taxes as against the
26 means-tested taxes of the state and federal levels. There
27 is, therefore, that observation that a different form of
28 taxation is coming in to fund these new responsibilities
29 that councils are having to take on and yet they are not
30 being funded sufficiently to perform these new
31 responsibilities.

32

33 I am one of the new people who has come to the area
34 because it is the best place in Australia to live - there is no
35 doubt about that - but I also come from another council
36 area where I started to observe those sorts of changes in
37 responsibilities. As one example, the state government
38 handed down to that council the entire responsibility
39 for looking after all the environmental laws in its area.
40 That involved that tiny little rural council putting in a
41 whole new department - a whole new environment
42 department. That requires an incredible amount of funding,
43 infrastructure, equipment and the like, but they were not
44 provided with the funds to do that. Obviously, the
45 residents then had to take up those costs.

46

47 This is really confusing to us. If you have three

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1 levels of government, can they not delineate between
2 themselves exactly what services each one of them is going
3 to provide and can they not stick to it? Is there a
4 massive problem with sticking to such decisions? I have
5 just seen this problem creep up over the last 20 years,
6 particularly in the last 10 years. It seems that local
7 government is the kicking board. It is very difficult for
8 local government, I imagine to, try to provide these
9 services. That's it, thank you very much.

10

11 THE CHAIRMAN: Thank you.

12

13 MR PALMER: My name is Bill Palmer. I am a Coffs Harbour
14 City councillor. The comment I picked up on was that we
15 should compare our council with a similar council. I would
16 prefer that we compare our council with metropolitan
17 councils, which I generally regard as maintenance councils.
18 Most of their infrastructure is in place, for instance, and
19 they are maintaining what they have. We are in a far
20 different situation here where we are a developing area.
21 New areas are being developed all the time.

22

23 The one thing that is very noticeable to me is that when we
24 get a developer in to do a development, he has the
25 responsibility of providing infrastructure yet we, at the
26 same time, have to play catch-up with the infrastructure
27 that was neglected in the old days. Under the planning laws
28 in the old days, they were not required to do certain things.

29 The comment that you hear from the community more
30 often than not is, "Why don't I have a concrete footpath
31 past my door?", or "Why do I have a drain that is full of
32 mosquitoes?" We are continually playing catch-up whilst
33 trying to do the adventurous things and progress the city

34

35 MR RAY: My name is Greg Ray. I am president of the
36 Woolgoolga Chamber of Commerce. Like the lady from
37 Corindi, I am an immigrant here because this is the best
38 part of Australia to live in. I came here after a career
39 around the area of politics, as a journalist, a ministerial
40 adviser and a lobbyist.

41

42 One of the things that astounds me about this whole
43 thing is the absolute apathy related to local government
44 and particularly the way it conducts its affairs. It was
45 obviously a complete optimist who set out the chairs here
46 this morning because three, four or five chairs would have
47 been enough. I think that is extraordinary.

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1
2 One of the reasons I believe that there is so much
3 apathy surrounding these issues is because generally
4 ratepayers feel disenfranchised and frustrated. The
5 principal reason they feel that way is because
6 accountability and consultation are a farce.
7
8 There is consultation when there are motherhood
9 issues. When it is to do with finding new industrial areas
10 for future development, yes, there is consultation with
11 business, there is consultation with the community. When
12 we are looking at the big image issues there is
13 consultation, it is all part of the process, it is a box
14 that has to be ticked.
15
16 However, when we get to things like rate rises, and
17 let me pre-empt this by saying that no one underestimates
18 the problems of council. I certainly don't. One of the
19 reasons why I admire people like Bill Palmer, who hold
20 their hands up to stand for council, is that it is a tough
21 job, there is no question about that, and I accept what
22 Bill says entirely about this catch-up process that they
23 are going through here in Coffs Harbour.
24
25 I live in an area at Emerald Beach. Frankly, if you
26 can find a concrete gutter there, I will give you first
27 prize. Having said that, there was a process here earlier
28 this year, in January, February and March where council
29 considered a rate rise. It came up with a process of
30 increases over a six-year period which amounted to 72.4 per
31 cent. Now, when I first heard about it, I thought it was a
32 joke. But in fact it was reality.
33
34 That announcement was made on Easter Thursday, when ,
35 frankly, everyone was asleep. Certainly the media was. If
36 it hadn't been for an astute member of my chamber of
37 commerce it probably would have escaped attention.
38
39 That was an appalling situation and we fought, and we
40 fought hard over this issue. We didn't get the support
41 from other sections of the business community we expected,
42 and that was even pointed out by one of the councillors or
43 one of the former councillors. Again it gets back to
44 frustration and lack of accountability. I know this has
45 been denied, that it wasn't deliberate, however, you have
46 to be concerned about a council that announced that on
47 Easter Thursday, then a similar council decides that it

1 won't advertise in the local newspaper any more because it
2 is copping too much criticism.
3
4 This is not an accountable process. There is
5 accountability and consultation, as I said, on motherhood
6 issues, but on the tough issues there is not.
7
8 If they had got away with that 72 per cent increase
9 over a six-year period, what in blazes would it have done
10 to small business in the current climate and the climate
11 that we are about to face over the next year or two or
12 three or four? It would have been disastrous had that been
13 locked in place.
14
15 There was a safeguard mechanism, a failsafe if you
16 like, that there was ministerial approval. In fact, before
17 it got to that point, council backed down and decided that
18 it would only apply for a 6 per cent increase over and
19 above the pegged rate, so business was faced with a 9 per
20 cent increase anyway in just the basic rate. Then, of
21 course, you have all the other charges, water and all the
22 rest, which just keeping going up and up, so the
23 accountability process just in my view isn't there.
24
25 As I said, I accept that council has a tough time trying to fund
26 its processes. However, you mention outsourcing
27 and the curtain come down, no-one seems to want
28 about that sort of process and cost saving.
29
30 I have said enough I think about that. I just wanted
31 to make it perfectly clear that I don't think the
32 consultative process or the accountability is working, it
33 is simply a tick in a box.
34
35 MR COLREAVY: Mike Colreavy, General Manager of
36 Bellingen Shire Council. A lot of what has been said around
37 the table is applicable to our council so I will not repeat
38 that.
39
40 Just to pick up on how our role is established, we are
41 a council of 1600 square kilometres of area and a small
42 population of about 13,000 people. 53 per cent of our area
43 is non rateable, is inside national parks or forests, so we
44 have a relatively large area for a coastal council, with a
45 small population and inadequate rate funds from which to
46 fund our services. The services and the role we defined
47 for ourselves are really defined by the expenditure

1 constraints.
2
3 We find as new people move into the area, we have a
4 lot of sea change type people coming into our area too, out
5 of the metropolitan areas there is this expectation that
6 the council will be able to provide a wide range of
7 services, but the reality is that we don't have sufficient
8 funding to look after the basic infrastructure, the roads,
9 the parks, the very basic items that people would consider
10 basic items of infrastructure, and therefore a lot of my
11 time is spent just dampening down the demand, of bringing
12 people back to reality when they come forward with those
13 sorts of suggestions.

14
15 We have gone through community visioning exercises to
16 see what it is that is expected of us and at the end of
17 that exercise it is invariably a case of saying, well,
18 effectively it is nice to know what we all would like to
19 have, but without some dramatic increase in funding it is
20 going to be impossible to provide those expectations.

21
22 It does not take long before people's expectations are
23 worn down because people realise it is not possible, that
24 we don't have the capacity of cities that are operating in
25 smaller areas, that we are looking after a massive area
26 with a very small rate base, so our role is effectively
27 established by the infrastructure maintenance requirements
28 and not so much by the desire of our constituents.

29
30 THE CHAIRMAN: Thank you. I think, unless there is
31 anyone else --

32
33 MS ROBSON: One thing I did forget to add, because you have
34 commented on trying to consult or at least get information
35 out to your constituents, that annual reports can be very,
36 very plain. It is what is in them that is important.

37
38 It was only through reading the last two annual
39 reports that I got to be involved with this community
40 organisation because it gives people a chance to see how
41 their area is comparing with other areas in that council
42 area as regards services and facilities.

43
44 I do disagree that putting out press releases is a
45 good enough way to say that you are informing the public
46 when the figures probably will show that very few of the
47 public ever read the newspapers. In our area we have 450

1 houses and seven of them subscribe to the local newspaper.
2
3 We have overcome the problem by establishing our own
4 local newsletter and we try to put across in that a lot of
5 these types of issues that you are raising. But as far as
6 your bigger bodies, councils and so on, I don't think you
7 have a chance in hell of being able to inform the public
8 unless the public is interested in what you are saying.
9 Thank you.

10
11 THE CHAIRMAN: The question of finance has been in the
12 background for a while now and that is something we need to
13 explore in the next session.

14 15 SESSION 2: THREATS TO LONG-TERM FINANCIAL 16 SUSTAINABILITY

17 MR SEERY: This session is about the threats to long term
18 financial sustainability of local government. When we
19 first put together this presentation about eight weeks ago,
20 we thought that we would start by reflecting on what we
21 mean by the term financial sustainability.

22
23 What we have done is paraphrased from a number of
24 sources a definition which we have defined as that service
25 and infrastructure structure levels and standards are
26 delivered according to a long-term plan without the need to
27 substantially increase rates or substantially reduce
28 services.

29
30 We need to take that factor into consideration as we
31 move forward in our review. Having said that, we would be
32 interested in any comments about that particular
33 definition.

34
35 A number of the submissions to our review have
36 identified various threats to financial sustainability.
37 Chief among these have been rate pegging and cost shifting,
38 which has been mentioned at some length today.

39
40 Areas where IPART requires further information include
41 how adequate is rate pegging? Has the variation in
42 capacity to raise revenue changed across the state? There
43 are certainly differences across the state in their
44 ability, as some people have mentioned today, and certainly
45 over the last few weeks in our other workshops. How does
46 revenue and expenditure align? Someone earlier this
47 morning mentioned that it would be good if you could

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1 identify all your expenditure and compare that to your
2 ability to raise that money in revenue.
3
4 What is the scope for greater efficiencies? Has local
5 government, for example, reached the limit of its ability
6 to find further productivity improvements? Are there
7 legislative requirements such as the Occupational Health
8 and Safety Act which make it difficult to achieve
9 efficiencies? Are there conditions such as a water
10 requirement that make it difficult to achieve efficiencies,
11 for example, through outsourcing?
12
13 So the discussion points for this particular session
14 are how effective is rate pegging and what are the
15 implications for councils and ratepayers? For example,
16 does rate pegging effectively constrain the level of rates
17 and total revenues for local government?
18
19 What best practices are used by local government to
20 achieve greater efficiencies and what else is possible?
21
22 What are the constraints on councils making greater
23 use of debt financing to provide services, infrastructure
24 facilities, and what is the attitude of councils towards
25 debt funding?
26
27 THE CHAIRMAN: Thank you, Michael. Just on the rate
28 pegging question, one of the elements behind that question
29 is the possibility of getting a special variation. From
30 memory, about a third of councils get a special variation
31 every year. I am aware of one council that has had five
32 special variations, an average of one about every two
33 years. That raises the question, do we really have rate
34 pegging, where you have a system of rate pegging but where
35 it can be avoided even if it is there, and do you think a
36 special variation system works? We have heard criticisms
37 of it.
38
39 MR O'LEARY: I don't believe it does. Just from our
40 experience at Great Lakes, and going back to an example a
41 number of years ago, we had to seek an increase of around
42 11 per cent. The percentage really throws you out a little
43 bit because it sounds like a lot. But when it was worked
44 out, our average rate is around \$680, which is less than
45 what people are paying for Austudy a year, but it only got
46 emphasis because of the percentage.
47

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1 I spoke to the Director-General of Local Government
2 about that, and we did our newsletters and brought it back
3 into real terms, that it was something like about \$1.26 a
4 week, and they thought that was a good idea, because 11 per
5 cent is a lot if it is based on a lot of people.
6
7 Our community, at public meetings, said, this is
8 crazy, why not you guys just go - we will wear 5 per cent a
9 year on the basis that 3.5 per cent covers CPI and the
10 balance will go towards the infrastructure, we would be
11 happy for you to do that. So that is exactly what we do,
12 we put that to the community to be accountable to them,
13 instead of having to go through this process of rate
14 pegging. If you do go back to a rate peg of 5 per cent a
15 year, it is fairly broad, if you go back the next year or
16 so, because of the process you have to go through.
17
18 Again is the emphasis that the media placed on rate
19 increases, the headlines in the local news, "council is
20 going for rate increases", whereas things like electricity
21 and water and sewerage for those people, no-one seems to
22 take any notice. But if you dare put the rates up we will
23 hammer you, regardless of what it is for.
24
25 Some community forums that we have had, we have
26 discussed this issue - I would like to see, perhaps it will
27 not be in my time - is that accountability for local
28 government goes back to the community. At the moment I
29 find we are accountable to the state government and the
30 community comes second. That is certainly not the way it
31 should be.
32
33 At one of the most recent meetings we had, people were
34 talking about whether they would look footpaths and cycle
35 ways. Our engineers pointed out, yes, we have actually a
36 plan for that, and it turns out there is a \$19-odd million
37 program, but under present funding we have about \$200,000 a
38 year to put into it, so it is a 95-five year program, which
39 brought a few sighs from those there. They said, we are
40 happy to pay a bit more and work with you on that if we can
41 get these things that we want in our area, but
42 unfortunately under this system it does not work that way.
43
44 MR ALLEN: In many local government areas there is
45 resistance against making applications for rate variations
46 even when councils are financially constrained. It is not
47 an easy process. You will certainly get a lot of public

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1 criticism and in the final analysis you get no advice on
2 why a decision has been made in the end. Quite often it is
3 "no" and one gets to think that it has not been too
4 scientific in the final analysis about how a decision has
5 been made as to whether a council gets a variation or not.
6

7 The system of rate pegging has been in place for 30
8 years and has led I believe to councils no longer being
9 adequately funded in New South Wales as a whole and in fact
10 the ability to undertake works and services has declined,
11 and I can be very specific if I was asked about the impact
12 in Coffs Harbour over the last 30 years. Overall it has
13 led to a fall in the standard of services and in the
14 provision of good service to the local government
15 community.
16

17 THE CHAIRMAN: If I can tease you out on two points, just
18 to get you to confirm your view when you don't get much
19 direction on what the criteria are in the first place when
20 you ask for a special variation; and, secondly, you are not
21 told how you have performed against the criteria, which you
22 were never told about in the first place. Is that a fair
23 summary?
24

25 MR ALLEN: That is a fair summary. The impression we
26 have is that it is a very subjective decision in the final
27 analysis by the Minister of Local Government.
28

29 THE CHAIRMAN: Apart from being agreed that it is
30 subjective, as I understand it you are not even aware of
31 what the criteria are, in an exact sense how you will be
32 assessed?
33

34 MR ALLEN: That is a pretty fair comment, yes.
35

36 THE CHAIRMAN: You said you don't get much assistance
37 on how to make an application. There is no criteria laid out
38 to address.
39

40 MR O'LEARY: It is fairly clear that if there is a
41 conservative campaign locally by the community, the cabinet
42 or minister, they do react to that. There are examples of
43 that.
44

45 THE CHAIRMAN: Quite clearly where there is public
46 support.
47

1 MR O'LEARY: With that example, Mike has had that in
2 Bellingen, that you need only one person to rustle up some
3 support, because the silent majority won't say anything,
4 that you only need a reaction like that to reach the
5 minister and it will hit it on the head.
6

7 THE CHAIRMAN: I will ask Bellingen to comment. I do not
8 normally ask this from the floor, but I think you should
9 comment.
10

11 MR COLREANY: You asked the question, do we really have
12 rate pegging in view of special variations on the numbers
13 that are approved. From our perspective, yes, we do. For
14 this current financial year our council lodged an
15 application for a 5.6 per cent special variation to raise
16 sufficient funds to repay loans to fix a major
17 infrastructure problem that was an occupational health and
18 safety nightmare. One of our workplaces needed to be
19 fixed, effectively bulldozed and replaced.
20

21 We looked for the cheapest options in terms of
22 patching it up just to keep it going and the engineering
23 consultants that looked at it for us, their advice
24 effectively was you cannot continue with this site, you
25 have to knock it over and start again.
26

27 Now, we lodged an application for a special variation
28 which resulted in a group of people within the community
29 running a concerted campaign against it. They got a lot of
30 publicity for their position. The council also ran a
31 considerable campaign of public information to try to get
32 an understanding of why we needed to proceed with the
33 infrastructure project, including holding open days at the
34 site that we were talking about, so people could walk
35 through and see what the problem was.
36

37 At the end of the day it was occupational health and
38 safety compliance with legislation that we were trying to
39 raise the money for. The minister declined the increase,
40 gave a number of reasons, but the key reason was that the
41 community did not support the rate increase. But in the
42 letter where disapproval was advised to us, we were told by
43 the department that notwithstanding the minister's
44 decision, we needed to proceed with the project, and
45 departmental officers told me that this needed to be our
46 highest priority on our works program.
47

1 So there was an acknowledgement that we needed to do
2 it but refusal of the funding capacity to go ahead with the
3 project because of the level of opposition. The department
4 also told me, but not formally through letters, that had we
5 dressed this up as a project that might have had community
6 support, like more money for roads, for example, it would
7 have had greater potential to have been approved.
8

9 The fact that we were honest about the nature of the
10 application went against us and we were getting advice
11 that, you know, if you juggle your funds around and make
12 your application for a project that will generally be
13 supported by the community, you have got a greater
14 likelihood.
15

16 What that tells us is that the whole process is
17 potentially political.
18

19 THE CHAIRMAN: Thank you. If we can get back to the
20 other views of effectiveness. Can I just throw another thing
21 on the table. There could be a view that this allows the
22 state government to force councils to be efficient, to cap
23 the revenue. So that is an issue that gets perhaps to the
24 next question, has it worked, can it continue to work, or
25 did it ever work well?
26

27 MR O'SULLIVAN: If I can offer a thought on that, to pick
28 up on what Keith said, one of its greatest flaws is in fact
29 the tightness of the numbers. They generally talk about
30 what the state government decided is the CPI, which does
31 not always coincide with what the CPI is, but they make the
32 decision, and they don't explain it, but they come up with
33 a number that is suitable to them. It does not bear any
34 resemblance to what is going on on the ground and that is
35 one of its greatest flaws and why in local government
36 circles it is held in disrepute, for the reason that it is
37 not realistic.
38

39 There is this kind of scaremongering attitude of the
40 state government that you can't trust councils to do
41 anything safe, they are irresponsible, if you give them a
42 cheque book they will use it all up. A more responsible
43 approach could be that in fact the cap is lifted to a
44 sensible level. There is another opportunity, I will not
45 go on with that right now, we will talk about
46 sustainability later.
47

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1 THE CHAIRMAN: We will talk about the options for change.
2

3 MR O'SULLIVAN: I will not play on that too much but I do
4 think that the limit is a real problem.
5

6 Going on to the point that you referred to, this has
7 been a method by which it has forced councils to be more
8 efficient, that is true. Whether it was intended I am not
9 so sure. It may have been. But one way or another it is
10 done that. What I see is that local government has
11 squeezed the lemon pretty hard and now this is why you are
12 seeing 30 councils a year having to make these submissions
13 for essential works. What Bellingen needed to do they
14 needed to do. It was not a question of inflation. They
15 were not going to waste money. They had to do it but the
16 government said, no, the community does not agree,
17 therefore you don't do it. It was patronising. Councils
18 have not got enough room to do some of the things that they
19 really need to do, and some councils will manage that
20 better than others, but it is all about scale and
21 efficiencies.
22

23 That is the truth, that is the fact of the matter.

24 Yes, there have been efficiencies gained, meaning that
25 councils have found ways of delivering services within
26 their means, and I am speaking from my own experience but I
27 do know that councils in our area are in that boat.
28

29 A good example of that is we have a huge region and 11
30 years ago we went for a special variation specifically for
31 roads and it was approved. Since that time it has just
32 gone with the rate cap. What we have done, we have placed
33 the emphasis on business ventures and other means of
34 generating revenue and grown that quite considerably in a
35 way that we have been able to cope with the rate cap, we
36 have not even looked like going to the government for a
37 revenue increase there.
38

39 We have been fortunate in that regard and, as I say,
40 the revenues from other service, rates, fees and charges,
41 but particularly business activities, specifically
42 quarrying, we have taken a strong hand in that business, to
43 the point that none of the other councils now do quarrying
44 in their areas, we have taken on that mantle because we are
45 geared up and have the expertise, so we are servicing other
46 areas. This is where the councils in terms of efficiency,
47 have realised we can't all do the same thing and so let's

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1 work together. And there has been some success in that
2 regard.
3
4 I think it has been forced. If councils had not been
5 put in a corner they may have carried on the way they were.
6 I guess that is a positive. It has put a lot of pressure
7 on councils by the same token, so I think your question,
8 has it led to efficiency, yes, councils in our neck of the
9 woods all point to that, because they are only just now
10 getting on the bandwagon and having to go for a rate
11 increase, they are all doing now because they are all
12 behind the eight ball.
13
14 I think the government was not too subtle in inferring
15 that councils had money tucked away, they have not used
16 their debt opportunities, they have not financed some of
17 the stuff from debt. That is a fair enough financial
18 strategy but you have to pay it back too. If you have not
19 got those revenues, you can't do that.
20
21 There has been improvements, forced in a lot of
22 instances, but those efficiencies have been gained. I
23 don't think there is much left there for councils generally
24 to seek out or the government to force us to seek out.
25 There has to be a new model.
26
27 THE CHAIRMAN: Thank you.
28
29 MR MOEGE: Can I add something to that?
30
31 THE CHAIRMAN: Yes.
32
33 MR MOEGE: We should also acknowledge the challenge in
34 consulting with the community that was raised before by a
35 few people from the floor. I hope that as we discuss the
36 strategic planning process we might refocus councils'
37 consultation and planning processes away from the state
38 government and back to the community by abolishing social
39 plans and the environment plans and putting them back to
40 the community.
41
42 I want to talk about some of the unintended
43 consequences of rate pegging, particularly with regard to
44 the effect on the community. It is often said that there
45 is a perception that is created by rate pegging. When you
46 limit the amount that councils can raise through their
47 taxation means, the community, for instance, thinks that

1 anything that is above that level is inherently suspicious
2 or wrong.
3
4 There is a perception that might mislead the community
5 in the sense of making the right choices and understanding
6 how much the public service actually costs. They think if
7 the government says, "That's the rate pegging limit", that
8 must be right and that is how much it must cost. Then, if
9 the council wants more, they think that there is something
10 wrong with it or it really can't be right. That perception
11 is there, and that is something that is wrong. If you want
12 to engage the community, the community should understand
13 how much things cost and what would be the right way, and
14 it is up to council to do that.
15
16 In terms of unintended consequences, and I say this
17 carefully, if you give that decision to somebody else,
18 there might be other political interests that come into
19 play. A minister may make a decision about the rate
20 pegging level. That minister may not necessarily be into
21 that particular constituency and that particular council.
22 He might also have other interests in deciding what rate
23 pegging limits should apply or how a special rate variation
24 should be dealt with, so there are some unintended
25 consequences.
26
27 Having said that, I want to reiterate that rate pegging is a
28 taxation level for general government activities and
29 providing public services. A democratically elected
30 body that represents the constituents that are affected
31 by those decisions should make these taxation decisions
32 and not any other body. As I said before, if the community
33 wants more, how can an external body or somebody
34 else decide that they can't have any more because there is
35 a limit on the external resources they can be paid to get
36 the resources they want?
37
38 If we were to abolish rate pegging, there would be
39 more accountability and probably more consultation with the
40 community. If we talk about the special rate variation
41 process, that might be even the process councils have to go
42 through if they want to increase their rates because that
43 is a community consultation process. The only thing that
44 would need to change is that it is not the minister who
45 approves it; it is the community. That would be a much
46 more accountable process.
47

1 With regard to what you were asking about
2 efficiencies, it might be right that there are some
3 efficiencies in terms of management and administration, but
4 I want to mention also that there are strong indications
5 that rate pegging has had consequences that we can see now
6 in the infrastructure backlog, for instance, that now
7 exists. There is an estimated infrastructure backlog of
8 \$7.8 billion. Because councils couldn't increase rates as
9 needed, they had to cut back on those services that are
10 less visible - services like infrastructure renewals - that
11 the community doesn't see immediately. Now we have a
12 growing infrastructure backlog and that infrastructure
13 backlog might be directly attributed to rate pegging over a
14 period of 30 years where councils could not raise enough
15 money.
16
17 There was a New South Wales local government inquiry
18 which found that councils are very lean. The inquiry did a
19 back-office study. I think it has been submitted to IPART
20 already. It was found that councils are much leaner in
21 terms of their back-office management sections compared
22 with state government, other levels of government and other
23 public organisations.
24
25 Finally I also want to say that New South Wales is the
26 only state that has rate pegging. There are not really big
27 differences between New South Wales and other states in
28 terms of how councils are run and how efficient they are,
29 at least not as far as I know, so rate pegging does not
30 really affect that in that sense.
31
32 THE CHAIRMAN: Thanks for that. I would like to make a
33 couple of comments. While I said that I wouldn't talk
34 about where the tribunal is heading, I think it is fair to
35 say that I don't think we are going to get a more
36 democratic system. I agree with you; democracy doesn't
37 have rate pegging, but I don't think we will get a more
38 democratic system by, on the one hand, removing rate
39 pegging without, on the other hand, providing that
40 reassurance that other forms of accountability are working
41 well or can be made to work well.
42
43 It is not a question of one in front of the other;
44 they are two sides of the same coin. I don't think the
45 state government will move in the direction of a system
46 where councils are at liberty to determine their taxes
47 without being reassured that there is a strong form of

1 accountability as a counterpart of that.
2
3 I was really interested in your perception that the
4 rate peg sets a standard by which citizens can judge
5 councils. That is an interesting suggestion, because I
6 guess I would be approaching the question from a somewhat
7 different perspective. As you have said, other councils
8 and other states don't have rate pegging and they have not
9 increased their revenue any faster either. What we have is
10 taxpayer resistance.
11
12 If we look at each level of government in Australia in
13 the last 30 years, there was a big increase in the 1960s,
14 and even into the early 1970s, at the federal level with
15 the Whitlam government. Since the Whitlam government, the
16 federal government's level of expenditure on revenue as a
17 share of GDP has stayed fairly constant. This is true
18 equally of the states and this is true equally of local
19 government, including all those other states that don't
20 have rate pegging.
21
22 We now have the perception that while people are
23 demanding more services in terms of expectations, the
24 political judgment that has been made by governments
25 collectively in Australia is that people are not prepared
26 to pay for more. In that sense, that leads to the
27 question: does rate pegging actually add anything?
28 Generally the experience of councils is that they can't
29 afford to increase their rates or indeed any other taxes
30 too much. I was interested to hear that you felt rate
31 pegging did affect people's perceptions. I suppose the
32 alternative view is that people are just not willing to
33 change taxes.
34
35 MR O'LEARY: I think it was more on the negative side,
36 that if you have a need to go above that, you mustn't be
37 managing very well.
38
39 THE CHAIRMAN: I understand the point, but generally it is
40 pretty hard to convince the public that you have such a
41 need in a way that they will come to the party.
42
43 MR O'LEARY: That's right.
44
45 THE CHAIRMAN: The one caveat I am aware of is we have
46 a hypothecated tax. I think you gave an instance earlier,
47 Paul, where you had got people to agree to paying a tax

1 which was hypothecated. In that situation, you can often
2 get some reaction where they can see how the money is going
3 to be used.

4
5 MR O'SULLIVAN: Sascha used the term "unintended
6 consequences". There is one thing which rate pegging does
7 which I would suggest is inequitable. The way in which
8 rate pegging is applied, it is applied to the gross
9 collections by the council; it is the quantum, the total.

10 On the ground, that does not convert to the same answer to
11 the individual, when you are talking about the community.
12 That can have some particularly undesirable consequences
13 when there are re-evaluations.

14
15 In our area, there are the old parts of Lismore and
16 there are the new areas of Lismore. In the new areas of
17 Lismore, the values are growing quite considerably. The
18 older areas are stagnant, so what you get is a big shift.
19 Councils have the opportunity to make a decision about the
20 way in which they rate and the rate per dollar, but to try
21 and keep things on an even keel, you get some quite
22 outlandish outliers for high-valued property in those
23 circumstances. In the older part of Lismore, which is the
24 CBD - highly valued relatively speaking; the money
25 circulates there - their rates go down. That is
26 undesirable.

27
28 I know in one of our neighbouring councils they have a
29 coastal town, a coastal village - high value; they have a
30 traditional town inland - stagnant. The rates just went
31 through the roof on the properties on the coast. The
32 outrage from that community was palpable. In fact, that
33 resulted in a big turnover of councillors, yet that was
34 virtually out of their control. That is not a desirable
35 consequence of rate pegging because of the way in which it
36 is actually applied.

37
38 THE CHAIRMAN: I have seen that at Eurobodalla too.

39
40 MR O'SULLIVAN: Well, somebody should challenge it.

41
42 THE CHAIRMAN: Are there any other comments from the
43 panel?

44
45 MR O'LEARY: Could I raise one point? I am not sure
46 whether it is appropriate at this point or later. I
47 haven't seen the stats on the councils that are seeing rate

1 increases. I dare say a lot of those would be the country
2 areas which, as Paul said, have scraped the bottom of
3 barrel and have gone past cutting to the bone with
4 efficiencies.

5
6 There is the question of the alternative sources of
7 income. In our case, and I know for a lot of others in the
8 country, rates are our major source of income. North
9 Sydney Council, for instance, has 11 square kilometres, but
10 3.2 per cent is worth probably \$2 million. 3.2 per cent to
11 us is \$600,000. They have something like \$15 million to
12 \$20 million in parking revenue. We earn just enough in
13 fines to pay for a third of a parking officer.

14
15 Those alternative sources of income don't appear to
16 come anywhere into the rate pegging formula that is
17 utilised or they don't seem to be recognised anywhere. I
18 am not sure whether this is an appropriate spot or where
19 whether we will deal with it later, but it certainly is
20 different between many councils in the state and the
21 metropolitan areas as to what other alternative sources you
22 have - even charging for your sporting facilities. We
23 can't do that in our area because we are trying to
24 encourage people to play sport. It costs you more to do it
25 than what you get out of it. You can get away with it in
26 the city because you are generally not charging your
27 ratepayers; you are charging the other people who come into
28 your area.

29
30 THE CHAIRMAN: On your comment, Keith, at other
31 roundtable workshops, one of the issues that was being
32 explored was if rate pegging continued, should IPART, in
33 effect, produce an index which was particular to local
34 government to try and assess the costs of local government?
35 That could be used as the basis for the rate pegging as a guide.
36 If we didn't have rate pegging, you could use the index as a
37 guide. If you did have rate pegging, it could be used to
38 determine rate pegging. In that case, however, should we
39 break councils up into groups?

40
41 I don't think we should have a different index for
42 every one of the 152 councils but should we have, say, half
43 a dozen groups of councils? There would always be an
44 argument, I suspect, as to whether council A should be in
45 group 1 or 2, but we could have, say, half a dozen indexes
46 which reflected different weights - the nature of that
47 group of councils, cost structures, demographic profiles

1 and things like that. So the weight of the different
2 component indexes would vary according to the nature of the
3 council group.

4
5 MR O'LEARY: To my way of thinking, if rate pegging was to
6 continue, that would be a sensible way to go about it,
7 quite honestly, rather than one blanket.

8
9 THE CHAIRMAN: It would be an index which would reflect
10 the sorts of costs which local government faces. There is
11 a fair amount of evidence around the world that service
12 industries tend to have higher price rises than the CPI.
13 The CPI is, of course, both goods and services.
14 Historically, productivity increase have been bigger for
15 goods than they have for services; hence there is a
16 relative price shift over time in where services go
17 relative to goods.

18
19 MR RYAN: And construction costs as opposed to general
20 goods also.

21
22 THE CHAIRMAN: Yes, that is true, but I am less confident
23 of that. Construction costs are more volatile. If I took
24 a 20-year or 30-year period, it is less clear that
25 construction costs have risen relative to the CPI or the
26 GDP.

27
28 MR RYAN: But that wouldn't stand the test over the last
29 five years.

30
31 THE CHAIRMAN: But when you get a strong upswing,
32 construction costs go up faster.

33
34 MR RYAN: Correct; therefore that should be represented.
35 If you wanted to stick to a base rate, that should at least
36 be represented in the figure.

37
38 MR O'SULLIVAN: I support the idea of an index. First, I
39 have the confidence that IPART can bring the independence
40 to that type of approach that doesn't exist now in terms of
41 the rate cap. I was going to reinforce the point about the
42 construction index. That is the thing that has put the
43 most pressure on our council in the last five years.

44
45 THE CHAIRMAN: It has been a very long boom.

46
47 MR O'SULLIVAN: True, and of course the bottom line is

1 that for us it is a huge part of our budget; there are
2 roads that everybody wants - we have just got less done
3 because we have not been able to keep accelerating the
4 relative budget allocations in that area.

5
6 If there were some index, it would capture the
7 reality, whatever that may be, because that CPI does not do
8 that now. I would have some confidence that IPART could in
9 fact get their hands around that idea. I think our
10 submission inferred that we would be comfortable with the
11 idea of IPART setting the guidelines and the criteria and
12 making some determination.

13
14 As to your suggestion about a range of indices to suit
15 maybe like councils, or whatever the range would be, I
16 would support that approach.

17
18 THE CHAIRMAN: Is that generally agreed? We might now ask
19 people from the floor if they want to comment on what we
20 have been discussing under this general broad topic.

21
22 MR BURGESS: I have a couple of points to make. It is
23 very hard to go to a community and ask, "Will you support a
24 rate increase which is simply an increase in your taxation
25 level?" Particularly, as Keith says, if you put it in
26 percentage terms, it conjures up huge amounts of money
27 when in reality it isn't, for a normal valuation anyhow.

28
29 I know you have to consult. Regardless of the system
30 that is brought into place, you need to consult, but if you
31 consult and say that you want a rate increase for a
32 specific piece of infrastructure, you are likely to get
33 support. If you say you want it for a range of issues,
34 maintenance based or whatever, the community just can't
35 conjure up that an increase is necessary for those
36 particular purposes. They tend to say, "Well, become more
37 efficient and pay for it that way."

38
39 The other point is that the opposition to a rate
40 increase is usually a vocal minority of people. The
41 political decision is made on the whims of that vocal
42 minority. You can get 400 or 500 people, or whatever
43 number, writing in to the minister objecting to the rate
44 increase. A lot of those letters will be form letters
45 anyhow; they have been organised by that community. A
46 decision will be made, because of community opposition to
47 the increase, that the request be denied.

1
2 If you have 500 people putting in their opposition to
3 this increase and you have 20,000 ratepayers, no
4 consideration is given to the other 19,500 who have not
5 opposed the rate increase or who have been too lazy to
6 oppose it. So a decision is made according to the whim of
7 small vocal minority, which I don't think is right
8
9 MR COLREANY: The third question there is about attitudes
10 to debt and funding. A lot of councils have reduced their
11 debt to very low levels. Bellingen Council is one that has
12 done that. I would like to support what Paul said. The
13 constraint to going into debt funding becomes such that the
14 debt has to be repaid, and it has to be repaid from some
15 recurrent sorts of funding. Unless you have free funds to
16 repay the loans or unless you have been in debt and loans
17 have been discharged and that gives you the capacity then
18 to take on new loans to repay the debt, the problem for a
19 council that has been debt free or relatively debt free is
20 the repayment. That is a significant barrier to taking out
21 loans.
22
23 My council, for example, wanted to take up a loan for
24 the project I referred to earlier, but it has to be repaid
25 from a source, and that becomes the barrier.
26
27 THE CHAIRMAN: Of course, you may not have any debt, but
28 where you take debt on to finance an income to produce a
29 venture so that it can stand on its own merits, you may not
30 have the same challenges.
31
32 MR RAY: I don't think anyone would agree or would approve
33 the idea that rate increases are subject to the whim of a
34 minister in Sydney. That is really a nonsense. While I
35 have said it was a failsafe system, I regard that as an
36 outrageous proposition. I don't think there is any logic
37 to some minister making some totally unscientifically
38 balanced judgment with a bunch of political advisers
39 sitting around him saying, "The press is screaming for
40 blood." That should go by the board.
41
42 Having said, that you have to be careful that you don't
43 jeopardise the standard 3 or thereabouts per cent increase
44 that comes every year anyway because if it were all to be
45 brought back to council, you might find n opposition over
46 that as well. That is one point.
47

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1 From a business perspective, and I am here to speak on
2 behalf of the Woolgoolga business community anyway, we are
3 not opposed to rate increases at all. We understand the
4 difficulties that council has. All we have ever asked was
5 that they sit down and talk to us about what increase was
6 reasonable and what could be managed.
7
8 Woolgoolga is screaming out for work to be done by
9 council and we want to work with them in a cooperative
10 sense to get those things done. That takes money and we
11 know we are going to have to contribute to that process.
12 What we don't like is being treated like a mushroom. That
13 is really the issue. I don't have to explain that
14 principle to you, I am sure. But there does need to be a
15 safeguard measure.
16
17 From what I hear from the kite that I suspect you are
18 flying, Mr Chairman, it sounds reasonable to me. We just
19 need a safety valve for the moment. If the councils can
20 prove that they will not lose efficiencies and will not
21 ride roughshod over ratepayers in the medium term, maybe
22 that in itself can be reviewed again.
23
24 THE CHAIRMAN: Thank you. We will get to some specific
25 options in the next session. Is there any more on what we
26 have just said? If not, we will break to have a cup of
27 tea. We will resume in a quarter of an hour.
28
29 SHORT ADJOURNMENT
30
31 SESSION 3: OPTIONS FOR A MORE SUSTAINABLE
32 FINANCIAL
33 MANAGEMENT SYSTEM
34
35 THE CHAIRMAN: We will resume and I will ask Michael
36 Seery to introduce this session.
37
38 MR SEERY: Thank you. In the issues paper we identified
39 five options for regulating local government revenue.
40 These options are not necessarily the only options
41 available but they are ones that we thought at the time we
42 were drafting the issues paper were worth exploring.
43
44 In the submissions there were few alternatives offered
45 to these options and the five options, just running through
46 them, option 1 was to retain rate pegging with
47 modifications, and really this is about tinkering around
the edges.

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1
2 Option 2 is a disaggregated form of rate pegging,
3 which was aimed at addressing the issue of the diversity
4 across the state. This gave opportunities for different
5 councils to have a different rate peg so that a particular
6 group say of councils in the outer fringe or in regional
7 areas would have a different rate cap.
8
9 Option 3 basically was removing capital expenditure or
10 the revenue that was to be used for capital expenditure for
11 rate pegging and only have the rate pegging apply to the
12 operating side of the revenue equation.
13
14 Option 4 was to exempt councils from a rate peg subject to
15 them meeting certain criteria. In this option everyone
16 would be under a rate cap peg arrangement but some
17 councils would be exempt if they met certain criteria. The
18 final option was where every one is outside of rate pegging
19 and only those councils which were determined needed to be,
20 would be included in the rate peg, and in this circumstance
21 there would be a default cap that would apply to those
22 particular councils.
23
24 In the submissions most councils - I guess it also
25 has happened in previous workshops - have supported a
26 self-determinatory role, but if there was to be rate
27 pegging they had a leaning towards option 4 because option
28 5 is pretty close to being a rate peg free environment.
29
30 THE CHAIRMAN: It is worth saying that if there were to be
31 rate pegging with exceptions, both the submissions and
32 other round tables have tended to a view that an IPART
33 index would be a good idea, either to determine the rate
34 peg or to set a benchmark. That could be done like option
35 2 was up there, where you have half a dozen or so indexes
36 which would be applicable to six groups of councils.
37
38 MR SEERY: I have just put up a slide on the
39 considerations in establishing a regulatory framework.
40 Some of those considerations are the objectives for the
41 regulatory framework. In the issues paper we listed a
42 number that I will not go through today.
43
44 In the discussion paper there were a number of issues
45 such as wages sustainability, the linkage of rate setting
46 and costs, efficiency, the prudent use of borrowings,
47 accountability, openness, transparency and similar

1 objectives.
2
3 There is a need to recognise, or there may be a need
4 to recognise the diversity across the state and recognise
5 that a single approach may not necessarily suit everybody.
6 At the same time the chair mentioned earlier today IPART is
7 not able to set a rate for 152 councils individually.
8
9 The discussion paper also identified some governance
10 issues, accountability to the community, and I think moving
11 forward regardless of whether rate pegging is to continue
12 into the future, it is important that we have an improved
13 accountability framework. Also best practice and financial
14 benchmarking, effectiveness and efficiency and other
15 governance measures.
16
17 The discussion points for this particular session: In
18 the discussion paper we circulated there were a large
19 number of points but we thought we would try to bring it
20 down to four to focus the discussion.
21
22 What objectives should underpin a regulatory
23 framework? Do the objectives set out in the discussion
24 paper adequately cover the field or should some other
25 objectives be included? Which of the options on the
26 earlier page, or any alternatives, meet these objectives?
27 How could these options improve the accountability of
28 councils? How can we move forward with these regulatory
29 options, whether they are an exclusive set or are there
30 others we have missed out on?
31
32 What role should IPART play in setting local
33 government rates and charges? As the chair mentioned, some
34 people have suggested that IPART should have a role in
35 determining a cost index. Others have suggested that IPART
36 should not have a role at all, that it should be left to
37 government to deal with particular issues.
38
39 An alternative view has been that IPART should set a
40 maximum overall level. Others have said that, rather than
41 setting a maximum increase, IPART should have a watching
42 brief on the increases that councils make.
43
44 Should we provide scope for diversity across councils?
45 Having said that it is good to recognise diversity, is it
46 appropriate to incorporate some form of diversity into the
47 regulatory framework and, if so, how could we go about

1 doing that?
2
3 THE CHAIRMAN: Thank you, Michael.
4
5 MR O'SULLIVAN: One of the objectives that I think has to
6 be taken on board is that local government suffers from not
7 having what I would call a growth tax. In the context of
8 rate capping, definitely not, so you are not able to move
9 with the growth of valuations. I don't know if you want me
10 to go here but the rating system itself is an anachronism.
11 Shall I leave that alone or are you interested in hearing
12 my view about that?
13
14 THE CHAIRMAN: You go on. The question is whether we
15 have a rates system.
16
17 MR O'SULLIVAN: But that is part of the problem because
18 you have got values, they change, whether they go up or
19 down they change, and then you fit a rating dollar around
20 to get whatever the outcome is. But it is not a fair and
21 equitable system.
22
23 You have heard it, I am sure, and if you have not I
24 will tell you, that particularly pensioners, people who are
25 on fixed incomes, through their lifestyle choices, life
26 choices, find themselves, many people, in an unaffordable
27 environment in terms of their charges, their rates, because
28 they own property that is highly valuable.
29
30 That happens quite a bit on the North Coast, around
31 here too I am sure, and they have lived there all their
32 life but suddenly values go through the roof and they are
33 pinged for these rates where there are still getting the
34 same level of service they had 15 or 20 years ago and they
35 can't afford it.
36
37 That is part of the problem of the rating system, that
38 it is not a fair system. It has nothing to do with their
39 ability to pay. The Local Government Act was changed a bit
40 to allow councils to identify a fixed charge for identified
41 services which councils were able to make a determination
42 on, what are the common services for everybody, but it
43 frankly does not go far enough to deal with that issue
44 where people are still subject to the vagaries of the
45 valuation of their properties.
46
47 What I am saying is that the system that we collect

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1 our, in a local of councils' cases, the majority of their
2 revenue is flawed because it really is not a fair system.
3 I think I am hearing you say leave that alone so I will say
4 no more.
5
6 THE CHAIRMAN: It is outside of our terms of reference,
7 but an observation is you have the ability to in effect
8 offer them a loan and they pay it back.
9
10 MR O'SULLIVAN: Unfortunately they do that, but I think
11 you also understand that people don't like to be put in
12 that position, older people.
13
14 THE CHAIRMAN: That is changing more and more. There
15 are any number of people of my age who are voluntarily
16 borrowing money against their property to finance an
17 overseas trip and they understand well it is reducing their
18 children's inheritance.
19
20 MR O'SULLIVAN: That is an interesting way of putting it,
21 but I accept that point.
22
23 To go back to my initial point, one of the objectives
24 ought to be, no matter what the outcome is, there has to be
25 some growth mechanism here for local government because
26 otherwise we are just on the same roundabout. It does not
27 matter what the index says, councils in growing areas need
28 access to growth funds and a growth tax or growth fund.
29 The government gets it, all levels of government, through
30 their various taxes. It is a tax raised through a tax and
31 it does not have the growth when you have a cap on it.
32 That is a basic flaw in the system.
33
34 Having said that, coming back to the options, I
35 support the approach where, and my council submission
36 supports this, rate pegging does have a place, it just
37 needs to be realistic. And you have a couple of options, I
38 am not sure which one fits in with your index, whichever
39 one.
40
41 THE CHAIRMAN: You can have an index under any option.
42 Under option 5, where most councils don't have rate
43 pegging, you can still have an index where the citizens
44 will say the council has increased rates by 7 per cent but
45 the index only went up by 5, for example.
46
47 MR O'SULLIVAN: I strongly support IPART being the monitor

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1 of that. I think it does need to be involved. I don't
2 think standing back and having a watching brief is
3 adequate. At this stage, going from where we are now to
4 the next phase, having IPART make a determination,
5 identifying the criteria, receiving submissions, coming to
6 some conclusion, I think would be better received by the
7 community generally and I support that quite strongly.

8
9 MR O'LEARY: Can I just add along the same lines as Paul.
10 I should mention the issue is beyond rate pegging. The
11 issue we have all got with infrastructure maintenance is
12 beyond the level of ratepayers to fund under the present
13 system. I know we can't change that at the moment but we
14 had a financial analysis done on our organisation by
15 Percy Allan and it showed we have a backlog of \$26 million
16 and we need an extra \$6 million a year to actually
17 basically maintain where it is. So even without rate
18 pegging, I have always said it is beyond the capacity of
19 ratepayers presently to fund that. You could start
20 chipping away a little bit only.

21
22 The future, it is outside this, as Paul said, unless
23 local government can obtain a share of a growth tax or GST,
24 and hopefully the federal government is starting to
25 acknowledge that.

26
27 I always thought rate pegging should go so that
28 accountability goes back to our community and not onto the
29 state government. I am realistic enough to know after
30 31 years it is difficult to do that because there is a
31 public perception.

32
33 I certainly support IPART being involved along the
34 criteria as said. You can't do it individually but should
35 have categories of councils which recognises our different
36 abilities to raise revenue, alternative sources of revenue
37 to rates. I think most people would appreciate that.

38
39 To my way of thinking I have always thought it could
40 have gone to where there was some sort of safeguard in the
41 system, whether IPART overseeing the process and requiring
42 rate justification if someone was seen to be doing the
43 wrong thing on some councils. Generally the system should
44 work the way a democratic system works, that people elect
45 their representatives and if they are not happy with the
46 process, or what they have achieved for them, they can
47 address that at the ballot box. And what we spoke about

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1 before, I am realistic enough to know anything would make a
2 huge difference and improvement to what we have got at the
3 moment.

4
5 THE CHAIRMAN: I need to make sure I have clarified one
6 thing about IPART's role. IPART can readily produce cost
7 indexes. That is what we do, whether it be for railways or
8 water or electricity or whatever, we look at how costs have
9 arisen and then work out the price implications of that.

10
11 We do not envisage IPART having a role in monitoring
12 the performance of local government or any council. We can
13 advise the government of what, if you like, the performance
14 measures ought to be, but it will be the role of the
15 department to advise the minister as to whether a
16 particular council is performing adequately or not and
17 therefore should be released from the rate pegging or
18 brought back into rate pegging. It will not be IPART's
19 role to do that. We would have a continuing role in what
20 are the cost increases that underpin a rate increase.

21
22 MR O'SULLIVAN: Can I just ask on that, when it comes to a
23 service or resource such as water, is that the type of role
24 that you undertake there?

25
26 THE CHAIRMAN: What we do with water, well, a lot of water
27 is not regulated. For example, we have a methodology that
28 when you set development charges you have to follow our
29 methodology. In the case of urban water, or bulk water for
30 irrigators, we actually determine the price and we do that
31 on the basis of our determination of costs.

32
33 MR O'SULLIVAN: Why I ask that was I thought you had a
34 front row role in virtually the outcomes. I took it from
35 what you said in terms of rating that you probably won't be
36 that far forward, it will be more to provide some material.

37
38 THE CHAIRMAN: With a water authority, for example, take
39 Sydney Water, we work out the cost of the desalination
40 plant, putting in the system, and work out a price
41 structure to recover that cost at the time. We did not
42 make the decision whether they should put the desalination
43 plant in.

44
45 MR ALLEN: I support all the speakers and yourself in
46 terms of how the rate pegging limit could be set but I
47 think there needs to be some sort of acknowledgment that

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1 most councils in the state are unable to meet their
2 infrastructure requirements and that needs to be built into
3 the system. The question is whether you would do that by
4 something like allowing, say, a maximum of 2 per cent per
5 annum fully supported by public consultation and perhaps
6 other aspects, is allowable on top with some degree of
7 responsibility to report on that to ensure that that
8 expenditure on an ongoing basis is actually going into
9 infrastructure so that in fact councils can start to and
10 not only realistically meet their current costs, and costs
11 that are shifted on to them, but also to start chipping
12 away at infrastructure backlogs and problems with
13 infrastructure.

14
15 If we are going to come up with some sort of a
16 realistic method of local government operating, we have to
17 get away from the need of councils to constantly make
18 applications for rate variations which are causing great
19 angst amongst communities and amongst councillors and
20 councils. Such a system as that would go a long way to
21 eliminating rate variation applications.

22
23 THE CHAIRMAN: Can I just tease this out a bit further.
24 Classically what we have done in these situations is said,
25 how much has the cost gone up for an existing range of
26 services. What you are saying is that that is insufficient
27 because there is a backlog and that should be factored into
28 the answer as well?

29
30 MR ALLEN: That is right. A council like Coffs Harbour is
31 probably no different to most councils in the state. The
32 operational revenue is virtually offset by - the income is
33 virtually offset by operational expenditure. There are no
34 funds to start chipping away at backlogs or to undertake
35 new capital audits, revenue funds, and that is an area that
36 has to be addressed in terms of what we are trying to do
37 here so that councils can return to a touch of viability
38 and catch up on infrastructure.

39
40 THE CHAIRMAN: I will try to operationalise this concept.
41 If we had six groups of councils hypothetically, what we
42 would ask - this backlog component - we would probably
43 want to set a five-year price path, it is too intensive for you,
44 and for us, otherwise. We would get a submission on behalf
45 of each group of councils as to, if you like, what they
46 need over and above inflation components, say every three
47 or four years, so we are factoring in an extra 1 or 1.5 per

1 cent a year.

2
3 MR ALLEN: That would certainly be one way to do it. The
4 other way would be to set it a little higher and make it
5 optional within each council.

6
7 THE CHAIRMAN: It has always been optional in the sense
8 that IPART only ever does maxima. Any council is at
9 liberty to go under. It would have to justify to its
10 ratepayers that it took the IPART facts.

11
12 MR ALLEN: That is one way, or to set the level, say it
13 was 3.5 per cent, as being the inflation factor if you
14 like, and setting a clearly identifiable another factor,
15 which might be 2 per cent, which each individual council
16 would have to justify to their community.

17
18 THE CHAIRMAN: We can break it up for each group. What I
19 am suggesting is that it is 2 per cent for the fact of the
20 infrastructure backlog, for each of the six groups, and
21 whereas the inflation component would be done annually,
22 because inflation bounces around, the real component would
23 be done every three years or four years.

24
25 MR ALLEN: Fine.

26
27 THE CHAIRMAN: That would help.

28
29 MR O'LEARY: We have that problem, a \$26 million backlog
30 and so \$6 million per year under budget, so out of bounds
31 no matter what we do, and just to have something that takes
32 into account inflation is not going to be sufficient. I
33 dare say everybody is in the same boat.

34
35 MR O'SULLIVAN: The discussion paper made the point that
36 this infrastructure backlog will run down and councils
37 should ideally be funding their equivalent depreciation.
38 Would any council do that for their general fund? Their
39 water and sewerage fund would be different. As Keith said,
40 it will not go away, it will get worse. There has to be a
41 solution. When talking about the viability and
42 sustainability of local government, that is the biggest
43 issue. If you let it go the way it has been going for
44 another ten years, we will all be out of business. Then
45 what has the community got? A mess.

46
47 MR COLREANY: My council has a \$10 million backlog. A

1 one per cent variation rate for us represents in round
2 figures around \$50,000, so you can see if we have
3 provisioned for the backlog it will still take a long time
4 to bring the assets up to standard. My experience of
5 working, presenting budgets and management plans to
6 councils over many years is that the councils I worked for,
7 quite a number, approach those plans with a considerable
8 degree of responsibility. I have not struck a council that
9 would, if it could, just jack the rates up by ridiculous
10 amounts because effectively the councillors know they will
11 be answerable to the community for doing this and generally
12 they are responsible.

13
14 I do not think this should be approached in an
15 atmosphere of concern about some of the discretions left to
16 council about what the levels should be. I think there is
17 room for IPART to calculate an index, for that to be
18 promulgated out as the level of inflation plus backlog that
19 councils should be striving to work towards. It can be
20 broken down into the six group type formula. But at the
21 end of the day my council would support an arrangement
22 where ultimately it is discretionary to the council to
23 adopt that or not. If the index is there, the community
24 can see what is a reasonable level of increase and if the
25 council is departing too far from that reasonable level
26 then the ballot box should take care of that.

27
28 MR MOEGE: Can I just, I have said it before, express a
29 concern from our point of view about IPART's involvement in
30 rate pegging, which comes from an accountability and
31 governance point of view, because I think there is a
32 concern if an independent body either is to determine how
33 much the community should spend for all the public services
34 it wants, because it affects the local choices, that the
35 community can make, that if you want to enhance
36 accountability really you need to let the democratically
37 elected body make the choice and determine the level of
38 taxation. It is about taxation, so it is a tax, which is
39 not necessarily an income for a particular service but
40 rather provides a range of public services and functions
41 council has to fulfil as well and it cannot be linked back
42 to the charge that has been placed upon individuals.

43
44 I am having concerns and we support really a position
45 of rate pegging and support a strong accountability
46 mechanism and I want to come to that because the first
47 issue there is the objective of the revenue framework. If

1 you look at that revenue framework it should facilitate
2 that kind of role for local government and enable local
3 government to make these local choices.

4
5 Firstly I want to say in that regard that we need an
6 accountability mechanism for that but most important for
7 accountability is that councils are elected by communities,
8 then an additional accountability mechanism is the
9 consultation phrase, which we support as well, which is a
10 sophisticated framework that requires councils to do asset
11 management, exhaustive strategy management.

12
13 The third point really is what I want to say in terms
14 of the objectives of the regulatory framework. It can't be
15 in isolation from the role of local government, you need to
16 have a mechanism in place to elevate functions and
17 correspond with funding or income raising capacity with
18 other levels of government.

19
20 There are a few things that an objective of the
21 framework would facilitate the making of local choices,
22 having an allocation of responsibilities between levels of
23 government, and making sure that councillors, who are
24 democratically elected and accountable, will determine the
25 level of taxation.

26
27 THE CHAIRMAN: Can I just clarify one element. I think I
28 understand your concern about democratic accountability and
29 that it is not compatible fundamentally with a regulator
30 determining taxation. I understand that point. However,
31 democratic government and accountability of a democratic
32 government, as you have acknowledged, depends on a
33 system whereby people are informed and there are various
34 forms of consultation, which we have discussed previously.

35
36 What I want to clarify with you is, is there a role
37 for IPART in publishing an index on how costs have gone up
38 that does not necessarily predetermine whether local
39 government is to spend more than the costs gone up, or for
40 that matter less, but is there a role in informing the
41 public of how costs have gone up?

42
43 MR MOEGE: I don't think that we have a firm policy
44 position on it but we would in a sense agree with that. It
45 is being done in other states, the Municipal Officers
46 Association in Victoria publishes a cost index about local
47 government and publishes a media release that tells the

1 public how council rates have increased and it relates to
2 the cost index. I think it will be a good tool as long as
3 it is a guide for councillors.

4
5 THE CHAIRMAN: Your objection is to it being mandated as
6 distinct from it being a guide?

7
8 MR MOEGE: However, in a political sense it might be
9 difficult to distinguish that in the perception of the
10 community. You need to be careful how that is put to the
11 public in a sense. It would be worthwhile for councils to
12 know that that is something that has been done in Victoria,
13 maybe a financial sustainability for councils, and councils
14 have access to that. But it is not necessarily made
15 public.

16
17 THE CHAIRMAN: I do not think IPART is a body that
18 operates on the basis that we don't make what we do public.
19 It is very important to us as an independent body that we
20 have complete transparency in everything that we do. That
21 is why we have transcribers here now.

22
23 MR COLREANY: The index would be a useful tool for council
24 management. It would be a good thing, not as a mandatory
25 price increase but as a tool for councils to understand
26 what the benchmark should be from year to year and also for
27 their communities to understand how far from that
28 benchmark the council is operating.

29
30 MR RYAN: I would support the comments of my four
31 colleagues here and Sascha's as well in terms of the
32 principles applied. Potentially the real-world solution
33 might be something closer to 4 where councils earn their
34 stripes prior to being given the freedom to self determine.
35 Under 5, I don't have much of an issue with that. The
36 issue I have is how you then roll out these sort of almost
37 motherhood principles of financial accountability and
38 governance and financial sustainability, what they actually
39 mean on the ground, how you put an objective system in
40 place that allows the councils to then tick those boxes,
41 earn their stripes and then move on and be accountable for
42 their constituents, which they should be.

43
44 I support the principle of number 4 - if we don't get
45 number 5 up, I should say, which potentially, we won't -
46 but I have concerns about the process of rolling out that
47 system and what these things actually mean. Who will be

1 making the determinations in regard to a council being
2 financially sustainable or having good financial
3 governance? Those are the reservations I have.

4
5 THE CHAIRMAN: I can give you a bit of guidance. First of
6 all, I appreciate that the devil is in the detail, but the
7 framework that we would envisage will be in our draft
8 report, so you will have plenty of opportunity to comment
9 on where you think that is wrong before it can be
10 fine-tuned, and perhaps more than fine-tuned.

11
12 The eventual operation of the system, if we pursue
13 option 4, for those who have earned their stripes, will be
14 done by the department, I imagine, or the minister on the
15 department's advice. However, we hope that when we set up
16 the framework, we will sufficiently spell out the criteria
17 that would be used to make that assessment if it was
18 released from the regulatory system and that it would be a
19 clear and transparent process.

20
21 MR ALLEN: If rate pegging is destined to stay, I think
22 the government should rely on the IPART determination of
23 what that base increase should be. I believe that there
24 still needs to be that acceptance of an amount up in order
25 to start addressing the infrastructure backlog, properly
26 supported, as I said, by public consultation and so on.

27
28 THE CHAIRMAN: That is the system for those who stay
29 subject to rate pegging. What I understood Shane to be
30 raising is how do you get out from rate pegging under
31 option 4?

32
33 MR RYAN: Yes, how do you get out from it.

34
35 MR ALLEN: If we can't get out from rate pegging, I think
36 that is the sort of situation we need.

37
38 MR O'SULLIVAN: I would have thought the department,
39 with its better practice review process, could be adapted to
40 actually address that issue and be performance based. They
41 do a pretty good job when they do those best practice
42 reviews in a relatively short period of time in assembling
43 information and evaluating it. I would think they ought
44 to be able to do it, even if it means they have to be
45 better resourced. The department is not all that well
46 resourced. That would be a worthwhile enterprise as well
47 to have them as the gatekeeper for people escaping. If

1 they were geared up to do that, that would be an effective
2 way to deal with it.

3
4 THE CHAIRMAN: What I would envisage that report doing
5 is lining out the criteria and so on that the department would
6 then use to assess best practice. The department will have
7 ample opportunity, like the rest of you, to make
8 submissions to us about those criteria.

9
10 THE CHAIRMAN: Are there any comments from the
11 audience now regarding these questions?

12
13 MR RAY: It is a classic dilemma, isn't it? In principle,
14 everyone would like to be able to say, "Get rid of the
15 rate pegging and let the democratic process work." In
16 reality, that is an impracticality for a number of reasons,
17 not the least being the fact that there is no party
18 structure for local government. It is about voting for
19 personalities. It invariably gets down to voting for
20 personalities rather than platforms. There is no way for
21 people to make sensible judgments about how the system
22 would work. Anyway, that is a great big long discussion in
23 itself.

24
25 The reality is that everyone accepts that councils
26 have to have a certain level of rate increase. I share the
27 view of the gentleman down at the end of the table that
28 there needs to be a growth tax of some sort, but that opens
29 up a whole new area too. Let us look at the way the states
30 have exploited and wasted the growth tax they have been
31 handed. It is a dilemma.

32
33 I still think that councils need to consult more with
34 the community and community leaders about paving the way
35 for rate increases over and above those that are set by
36 whoever, in other words, the rate pegging, but there needs
37 to be sensible consultation rather than dictation.

38
39 THE CHAIRMAN: Thank you. Unless there are other
40 comments, we might get Michael to ask our last question.

41
42 FINAL SESSION: PRIORITIES FOR REFORM

43
44 MR SEERY: This last session is fairly short. We have
45 found it in the past to be a useful way of summarising the
46 discussion. We have heard this morning a very large amount
47 of useful information. I must say from my own perspective,

1 the amount of information was inversely proportional to the
2 number of people here. Even though there is a small
3 representation here from the councils, we had a very good
4 and solid discussion and it was well worthwhile.

5
6 To sum up, we would like to give everyone at the
7 table, and then people in this audience, the opportunity to
8 indicate what they see as the two key priorities if we were
9 to reform the local government revenue framework in New
10 South Wales.

11
12 MR MOEGE: That is probably easy enough to answer. The
13 first priority is probably the abolition of rate pegging
14 and the corresponding introduction, as discussed, of the
15 strategic planning framework. The second priority really
16 is a bit unrelated, but I think there should be more local
17 government revenue with more adequate funding as well
18 from the commonwealth and the states that are linked to
19 growth, for instance.

20
21 MR O'LEARY: I agree with Sascha. As I said before, the
22 critical problem facing local government at the moment is
23 beyond the ratepayers to completely fund. The rate pegging
24 issue is a massive problem. It is probably a big part of
25 why we are in the problem we are in. The capital
26 assistance grants or state and federal government
27 assistance in some regard has to come in, if not a growth
28 tax down the track somewhere. As Paul has raised before,
29 the rating system is a very unfair system. It is probably
30 one of the most controversial taxing systems around because
31 of the coverage it gets. The fact it comes out in one lump
32 sum is something the community responds to, and that
33 concerns me.

34
35 I know I came in late but there was an issue earlier
36 where we were talking about putting the Rural Fire Service
37 on there and whether it is payroll tax. It is all very
38 well to say we are going to get the leeway to add that on
39 to rate pegging, or whatever, but the fact remains that
40 those people are getting the bill in the end and they like
41 to have that money, or whatever it is, spent in their area.
42 It does make that rate bill larger for them. Anything that
43 does have to come up later as a realistic sum in terms of
44 trying to address the infrastructure process is much more
45 difficult to achieve and it is much more difficult for
46 those people to accept.

47
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1 I know I got off the track a little, but certainly
2 with the rate pegging issue, we need some sort of realistic
3 workable means. As Dale mentioned, it needs to have
4 something built in to try to address the backlog that
5 everyone has without having to go through the controversial
6 means of making late applications that are costly, time
7 consuming and resource hungry, and perhaps there needs to
8 be some assistance from outside - state and federal
9 government assistance

10
11 MR COLREANY: It is pretty much the same for me. The two
12 priorities are the removal of rate pegging and seeking a
13 fairer share of the commonwealth tax or a fairer share from
14 commonwealth and state levels and especially during boom
15 times when the economy is on fire. We are just moving out
16 of that now, but a great opportunity has been missed there.
17 Those priorities are ultimately there to enable councils to
18 deliver the services that are expected of them, not
19 necessarily with any frills attached, and to maintain their
20 infrastructure and address the backlog.

21
22 MR ALLEN: Without getting into additional funding from
23 other levels of government, I think the determination of a
24 realistic base rate increase is important and, as we have
25 discussed, the determination of a properly set up
26 infrastructure component on top of that.

27
28 MR RYAN: I don't have much more to offer, but I think we
29 need a planning framework that identifies what the
30 community actually needs and wants to pay for, and then we
31 need to match the cost of those services and assets to the
32 revenue streams.

33
34 MR O'SULLIVAN: On the basis that I think there is an
35 urgent need for some change to the status quo, I am going
36 to be a bit pragmatic here and support generally what has
37 been said. I do think that what IPART should focus on is a
38 short-term lifting of the rate cap. I am making a
39 presumption here that the government may not be too keen to
40 rush headlong into eliminate the cap. If there has to be a
41 cap, let us make it realistic. That is where the criteria
42 and the KPIs that IPART could perhaps develop will be
43 important; there is some basis for the cap.

44
45 That will improve things because I am certain if that
46 were done, it would lift the cap. I am certain it would
47 lift it. If you take into account the issues that you have

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1 heard about here and at every other hearing you have been
2 to, there is a case to lift the cap. That is a priority
3 for my council and, I suspect, quite a few others. There
4 needs to be some urgent action and I think that's pretty
5 doable.

6
7 The second point - I think this is also a priority -
8 is to enable the community to get on board with a change of
9 that nature, which inevitably means, I suspect, an increase
10 in rating, not extreme, but an increase. There does need
11 to be some work done to help councils to produce meaningful
12 report-back and techniques for their community. Some do it
13 well and others do not do it quite as well. It could be a
14 resource issue. Be that as it may, I think it is pretty
15 important.

16
17 The change needs to be sold. IPART can play a role.
18 The councils can clearly play a role. I think that could
19 be a priority as a strategy to take this whole revenue
20 sourcing agenda for local government to another level of
21 discussion, because this won't happen overnight. You will
22 need some transition.

23
24 The urgent things to be done are to lift the cap and
25 develop, assist, promote or encourage councils, whatever,
26 to actually sell the story in conjunction with the
27 government. We need to develop a partnership. We all want
28 to go in the same direction here instead of having what is
29 now quite a divide between the government and local
30 government. They both criticise each other and that is not
31 helpful to anybody. This is another role for IPART: get in
32 the middle there and see if you can bring the parties
33 together.

34
35 THE CHAIRMAN: Are there people in the audience who
36 want to comment?

37
38 MR PALMER: Since being elected as a councillor nine years
39 ago, I have grabbed every opportunity I can to beat my
40 chest about the fact that, in my mind, local government
41 should be getting a percentage of GST. I suppose this is a
42 bit outside of this forum, but we have to go to government
43 and say, "You have a choice. You relax the restrictions."

44
45 I am not entirely in favour of getting rid of rate
46 pegging completely because I try to think in terms of the
47 ordinary ratepayer as well as thinking of how we are going

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1 to achieve something in council.
2
3 Coming back to the GST, that is Local Government
4 Association policy - I think it just sits on the shelf
5 now - that they will pursue government for a percentage of
6 GST. There has to be something that takes away the begging
7 bowl approach that we have to ask for assistance all the
8 time and lobby for assistance. It is just not good enough.
9
10 If rates had been allowed to increase in line with the
11 CPI, I think we would already be seeing a worthwhile piece
12 of revenue that could be achieving something.
13
14 The Minister for Local Government has to look at the
15 applications for rate rises and may assess them on the
16 basis that you may be seen to be too greedy. We went
17 through this experience a couple of years ago where we put
18 a proposition to the minister and we asked for too much. I
19 was nervous about it all the time. They said, "It's like
20 the unions going to the boss with an ambit claim." I
21 thought we would get something. The minister recognised
22 that we were too greedy and he said, "You will get
23 nothing." As a result, we lost 12 months of possible
24 increase in our revenue. Then we tried the other approach
25 and we have an increase.
26
27 In going to the community and saying, "We want an
28 increase of a certain level in one year", we are seen to be
29 greedy. If we go for a little increase in each year, we
30 are not seen to be so greedy and we are in with a chance of
31 getting it and the community can gradually get used to
32 having to pay a little bit more.
33
34 It has been told to me by our finance fellows that, in
35 this city alone, more money leaves the city in stamp duty
36 than we collect in rates. It seems so wrong that the state
37 government can hive off all of these things all the time
38 and just give us back the crumbs.
39
40 MR RAY: I have one other observation. I have already
41 said that I agree with that growth thing. The point was
42 made a minute ago - I think it is a very telling point -
43 about the way the council bills for rates. It is a lump
44 sum payment. That is really difficult thing for people to
45 deal with. It hits you right in the face and lump sum
46 payments are never welcome. Perhaps there could be some
47 other system of imposing rates or billing for one's rates.

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1 That probably gets down to some other form of taxation that
2 is less visible, but that's one of the biggest hurdles that
3 councils face.
4
5 CLOSING REMARKS
6
7 THE CHAIRMAN: In closing the meeting, I might make a few
8 observations. I would like to thank you very much for your
9 contributions. I think I have said to a few of you -
10 perhaps I have not said it on the record - that coming to
11 the last of these roundtables, it was inevitable we would
12 hear some of the things more than once. On the other hand,
13 it would be very difficult if each roundtable contradicted
14 the other one in terms of writing a report. To get a sense
15 of reinforcement is actually important.
16
17 We have had a significant reinforcement of views;
18 nevertheless, I think there has been at least one very
19 significant issue that we have carried forward today. That
20 is particularly the proposition that if we had an index and
21 we had rate pegging - I understand some people say we
22 shouldn't have rate pegging - if we had a system of rate
23 pegging built around that index, then we should build in
24 some way of an allowance for backlog of expenses.
25
26 We should not be looking at how much the cost of
27 existing services have gone up; we should be looking at
28 some mechanism of catching up, on the one hand, or further
29 growth, on the other hand, which will not be picked up.
30 Further growth is conceptually usually allowed for by the
31 extra dwellings which go with growth, but there may be
32 reasons why that is inadequate as a measure of growth.
33
34 That would be something for local government to argue
35 at a future hearing when we are doing a price determination
36 if we have rate pegging. That is a new idea. That
37 certainly registered with us and we will think about that.
38
39 There is another thing that we need to think further
40 about. I think we are all fairly clear that democratic
41 government involves communication with the electorate so it
42 is an informed electorate. We need to think about how that
43 is best done, starting from how well it is done at the
44 moment.
45
46 I would say most people who are associated with
47 councils in one way or another feel that they are making

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1 considerable efforts to consult with the community, but we
2 have heard the opinion today from the audience that it
3 ain't working, and we will need to think about how we can
4 close that gap or improve at least on the accountability
5 mechanisms, particularly if we want to get greater freedom
6 for councils.
7

8 That is an important issue for us to explore. Of
9 course, it is not unrelated to the issues of how you earn
10 your stripes and get out of the system of rate pegging.
11

12 If I can just conclude, from the point of view of
13 people to whom we will be presenting our report, I think
14 their perception is that rate pegging is working quite well
15 within their electorate, which in a sense is your
16 electorate too. They see it as popular, so they have to be
17 persuaded that there is a better system.
18

19 That goes to the point that Paul raised, I think, that
20 the IPART report can be important in trying to test those
21 views that will educate as to how well this system can be
22 made to work without rate pegging. That will be important
23 in the sense of trying to, if you like, build up a better
24 sense of democratic accountability based on more trust and
25 less regulation.
26

27 I would like to thank you all again for your
28 contribution. It has been very helpful from our point of
29 view. I hope you don't feel that you have totally wasted
30 your morning.
31

32 MR O'LEARY: Not at all. We appreciated the invitation.
33

34 MR O'SULLIVAN: Thank you.
35

36 MS ROBSON: Dr Keating, can we thank you from this end of
37 it for allowing us to have input.
38

39 THE CHAIRMAN: It was your democratic right.
40

41 AT 12.40PM THE TRIBUNAL ADJOURNED ACCORDINGLY
42
43
44
45
46
47