

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC WORKSHOP

REVIEW OF REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

Chairperson: Ms Sibylle Krieger

Held at the Comfort Inn Gemini  
201 Banna Avenue, Griffith, NSW

On

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1 THE CHAIRPERSON: There may be a couple of people yet to  
2 come, but we will make a start. I'd like to welcome you to  
3 this public workshop being conducted by the Independent  
4 Pricing and Regulatory Tribunal as part of a review of the  
5 revenue framework for local government.

6  
7 First of all, I'd like to introduce myself. I am  
8 Sibylle Krieger and I am one of the three members of the  
9 tribunal. With me today are members of IPART's  
10 secretariat, including Mr Michael Seery, who is the program  
11 manager, for the local government review, and up the back,  
12 Ms Joyce Tapper.

13  
14 The former premier requested IPART to undertake a  
15 review of the revenue framework for local government. The  
16 premier requested that the review consider three terms of  
17 reference: first, an appropriate intergovernmental and  
18 regulatory framework for setting rates and charges that  
19 facilitates the effective and efficient provision of local  
20 government services; second, a role for IPART in setting  
21 rates and charges in future years; and, third, a framework  
22 for setting the charges levied by certain public  
23 authorities, such as Sydney Harbour Foreshore Authority,  
24 Redfern Waterloo Authority, Sydney Olympic Park Authority,  
25 and the Growth Centres Commission, to enable these  
26 authorities to recover costs for the provision of services  
27 that are normally provided by local government. That third  
28 term of reference will not be of any interest to people  
29 here today.

30  
31 In undertaking this review, IPART is also to have  
32 regard to a range of matters including the role and the  
33 financial position of local government, revenue sources  
34 available to local government, scope for efficiencies,  
35 social economic impacts of rates and charges, differences  
36 between councils across the state.

37  
38 In addition, IPART is to have regard to the findings  
39 of other recent reviews of local government and the matters  
40 that are set out in section 15 of the IPART Act.

41  
42 This workshop is part of the tribunal's public  
43 consultation process for the review. Last Monday, we held  
44 the first workshop in Sydney and we will be holding  
45 workshops in a number of other regional centres over the  
46 next six weeks. The workshop today will address the first  
47 two terms of reference. As I mentioned, the third term of

1 reference is of particular reference to only a small number  
2 of Sydney councils.

3  
4 As part of this investigation, IPART released, back in  
5 July, an issues paper which set out the key aspects of the  
6 review process. The issues paper outlined some of the  
7 matters which IPART considered important to this review and  
8 a timetable for the review.

9  
10 In the issues paper, IPART called for submissions from  
11 interested stakeholders by 29 August. To date, IPART has  
12 received 64 submissions, which are all up on the IPART  
13 website, and available for viewing. IPART would like to  
14 thank those who have taken the time to make a submission.  
15 All of the submissions received will be carefully  
16 considered and taken into account in reaching our  
17 conclusions on the framework for regulating local  
18 government revenue.

19  
20 Some of the organisations which have made submissions  
21 to the review will be participating here today. I would  
22 like to thank all of those who have agreed to participate.  
23 From IPART's perspective, this is a very important part of  
24 the overall investigation.

25  
26 Following consideration of the matters raised by  
27 stakeholders in submissions and at the various workshops,  
28 IPART will make recommendations to the Minister for  
29 Local Government via a draft report. The draft report is  
30 due out in May and the final report is due in September of  
31 next year.

32  
33 Before we start, I want to say a few words about how  
34 we will conduct this workshop. You have available to you  
35 an agenda which indicates the discussion topic or session  
36 of the workshop. The proceedings will be divided into  
37 three broad topic areas. They focus on some of the major  
38 issues that were raised in the submissions where IPART  
39 thinks it would be very useful to hear more from the  
40 stakeholders.

41  
42 The sessions are intended to provide IPART with  
43 information to assist in its deliberations. In broad  
44 terms, the three sessions will deal with: first, the role  
45 of local government in providing services to the community;  
46 second, threats to the long-term financial sustainability  
47 of local government; third, options for a more sustainable

1 financial management system.  
2  
3 At the outset of each of those three sessions,  
4 Michael Seery, from IPART's secretariat, will make a brief  
5 presentation to introduce each item and pose a series of  
6 questions. Each panel member attending the workshop today  
7 will then be invited to express their views on the issues  
8 raised.  
9  
10 After each introductory presentation, I will ask the  
11 participants at the roundtable to respond to that issue on  
12 the basis that each roundtable participant will please  
13 limit their discussion to a couple of minutes on each  
14 topic, and no speaker will be interrupted during that time.  
15  
16 At the conclusion of each roundtable session, I will  
17 make a period of time available to people in the audience  
18 who want to express their views or opinions on the issues  
19 being discussed.  
20  
21 Today's session, as with all the other workshops, is  
22 being transcribed, as you can see, and the transcript will  
23 be available on the IPART website in about a week.  
24 For the benefit of the transcribers, please speak into the  
25 microphone and please speak clearly.  
26  
27 Finally, I should point out that while IPART is to  
28 provide a draft report to the Minister for Local Government  
29 by May 2009, IPART obviously has not determined its  
30 position. We are at an early stage in the whole process,  
31 so we are not here to give any views at this stage of the  
32 process.  
33  
34 The first thing I would like to ask you to do, for the  
35 benefit of the transcript writers, is to state your name  
36 and the organisation that you from, and then I'll hand over  
37 to Michael.  
38  
39 MR CAMPBELL: My name is Greg Campbell and I'm the  
40 General Manager of Junee Shire Council.  
41  
42 MR BILSKE: I'm Des Bilske, from the Broken Hill City  
43 Council  
44  
45 MR CHAPMAN: Chris Chapman, general manager at  
46 Wakool Shire.  
47

1 MR STUBBS: Ray Stubbs, CEO for Riverina and Murray  
2 Regional Organisation of Councils, RAM ROC.  
3  
4 MR GALLAGHER: Chris Gallagher, general manager with  
5 Lockhart shire council.  
6  
7 Session 1: Role of local government in providing services  
8 to the community  
9  
10 MR SEERY: Thank you, madam chair. We have put together  
11 three sessions based on the key issues that were set out in  
12 the issues paper. For those of you who were able to access  
13 our web site and obtain a copy of the discussion notes, we  
14 put a lot of information in those discussion notes and a  
15 number of discussion questions. We won't actually be  
16 talking about all of the discussion questions today,  
17 because there are actually way too many to discuss in a  
18 short period of time, but given the small number of us  
19 here, if you wish to address some of the issues that are  
20 not on the discussion points that I put up on the screen,  
21 then please feel welcome to do so.  
22  
23 We have three main sessions and we have a summary  
24 session at the end. For each session, I will give you a  
25 brief introduction and leave you with a screen of  
26 discussion notes or discussion points to talk about.  
27  
28 As you are all aware, councils have a much wider role  
29 now than in the past, and this has a considerable impact on  
30 council costs. We note that the Local Government Act  
31 provides councils with considerable flexibility in  
32 determining their role. In reality, a council's role is to  
33 respond to the needs of the community, and this role  
34 requires councils to provide a diverse range of  
35 infrastructure and services.  
36  
37 Over time, changing expectations in the community have  
38 created pressure for various new services. At the same  
39 time, there are constraints on the ability to raise  
40 revenue. Consequently, councils have to assess priorities  
41 in providing services and infrastructure. The key issue  
42 for IPART is how the councils determine their role and the  
43 expectations of the community and how accountability fits  
44 into that structure.  
45  
46 The discussion points for this particular session are:  
47 how does the determination of the various roles for local

1 government impact on expenditure and revenue; how do  
2 councils establish their roles and become accountable to  
3 the community; and, finally, how effective is the annual  
4 report as a mechanism of accountability to the community.

5  
6 THE CHAIRPERSON: What I thought we might do, just on  
7 the first round, is make our way around the table. Clearly,  
8 funding for councils depends, in large part, on what  
9 councils do, and what councils do seems to vary quite  
10 considerably from area to area. So in this first session,  
11 it would be useful if you could tell us a bit about what  
12 you see as the issues for councils in setting their  
13 priorities, how they determine the range of possible  
14 activities that they cover and how they get input from the  
15 local community in doing that. Would you like to make a  
16 start, Mr Gallagher?

17  
18 MR GALLAGHER: The question is how does the determination  
19 of various roles for local government impact on expenditure  
20 and the different services provided by the council.

21  
22 I have been in local government for about 30 years,  
23 and there is no doubt that over that period community  
24 expectations for different services have certainly changed.  
25 I worked in a large coastal council with a population of  
26 160,000 before coming to Lockhart, and because of that  
27 large population the expectations were certainly greater  
28 than the small rural council where I now work, which has a  
29 population of about 3,300. So I think you would appreciate  
30 the vast differences that I found in expectations by  
31 communities.

32  
33 How do councils decide on what services? It is  
34 dictated, to a large extent, by the community. Years ago  
35 I believe it was dictated a lot by the state and federal  
36 government where they offered financial incentives for  
37 councils to become involved in such things as youth  
38 centres, childcare centres, those sorts of things, which  
39 you would not, many years ago, expect local government to  
40 become involved in.

41  
42 After the subsidy grants from the higher levels of  
43 government were withdrawn, the councils were ultimately  
44 left to run the service. Councils could not withdraw those  
45 services because they were established in the community  
46 and, for that reason, money had to be found to continue  
47 those services. Even things like social workers. Social

1 workers were originally funded, say, for two years by the  
2 state government. After two years, council had to find the  
3 money for it.

4  
5 So it is a matter of expectations. I believe the  
6 community's expectations will never be satisfied. The bar  
7 will always be higher. There will always be something that  
8 local government can do to improve the services required by  
9 its community.

10  
11 MR STUBBS: I agree very much with the sorts of things  
12 that Chris has said, so I probably don't need to repeat  
13 them, other than perhaps to say that in the RAM ROC region  
14 we have 18 councils, and those 18 councils are very  
15 diverse. They range from small shires with populations of  
16 around about 1,500 through to the regional cities of  
17 Albury, which has a population of 50,000 - I used to be the  
18 general manager before I retired, so I know quite a bit  
19 about Albury - and Griffith city with a population of  
20 25,000/26,000. So the role and functions of the councils  
21 in our area vary tremendously.

22  
23 We have seen the functions of councils in the large  
24 urban areas, the regional centres, increase very much along  
25 the lines that Chris has portrayed, particularly in the  
26 soft services, with a whole range of community-type  
27 services coming in - childcare centres, community centres  
28 and all of those sort of softer services - as well as an  
29 increasing demand, probably, over the time for councils to  
30 involve themselves in a whole range of activities and  
31 infrastructure, and the demands of the communities are  
32 fairly great.

33  
34 Some examples might be the role of councils in  
35 airports, cemetery/crematoria, sailyards and abattoirs and  
36 the role of councils as facilitators of development and,  
37 indeed, their role sometimes as developers both of  
38 residential land and industrial land. So some of those  
39 urban centres are very, very diverse in their functions,  
40 far more diverse than what you would get in the capital  
41 cities where their range functions are perhaps a lot more  
42 limited.

43  
44 In the rural areas, I think there has been an increase  
45 particularly in some of those softer services as well, with  
46 demands from the community on local government to provide  
47 those services as state government services were phased

1 out. Rural areas have their very traditional role of roads  
2 and bridges, which is their main core function, and we have  
3 seen increasing costs of those services over recent years  
4 place great demands on the expenditure of councils, and at  
5 the same time we have seen the drought, over the last many  
6 years now, making it very hard on those councils to raise  
7 sufficient revenue to carry out those services.

8  
9 MR CHAPMAN: We are probably the classic rural declining  
10 shire - large area, declining population, been hit pretty  
11 hard by drought and have traditionally been a large  
12 irrigation area, also having tremendous impacts from the  
13 Commonwealth water reform program, so they are certainly  
14 challenging times.

15  
16 Ray mentioned road and bridge infrastructure, and that  
17 is pretty well our core role. Obviously being a large  
18 geographic shire, we have a vast road network and bridge  
19 network which we always struggle to maintain, let alone  
20 embellish, so one of the issues for us as a shire is the  
21 nature of that funding that we get from the feds and the  
22 state, and I guess its erosion over time. We are about a  
23 third rates and charges, a third FAGs and about a third  
24 grant income. I guess in the long term I don't see that as  
25 a sustainable future because we are too reliant on the  
26 sources of income that we can't control.

27  
28 To highlight, health is a classic issue for us. It is  
29 an area we have traditionally been in. We are trying to  
30 get out of it in a financial sense because it is not a  
31 pleasant place to be, but it is ultimately one of the  
32 number one issues for our community.

33  
34 THE CHAIRPERSON: When you say you are in health, what  
35 do you mean by that?

36  
37 MR CHAPMAN: It is more GP services and trying to attract  
38 and retain GPs. Obviously that is a challenging role for  
39 anybody, but if we don't have reliable and secure health  
40 services, then that has a huge impact on the community.  
41 We find that an area where we have no real revenue stream,  
42 and you could argue we have no real role, but it is a  
43 critical community issue, and that is a huge challenge for  
44 us. Probably the biggest surprise for me, coming into a  
45 rural shire after being in metro areas, was the amount of  
46 time and energy we have to devote to that with no financial  
47 stream.

1  
2 Those funding areas highlight the major differences  
3 between rural areas, metro areas and regional centres, as  
4 Ray said. I challenge myself in my role about "What is my  
5 role in the long term?" Is it to prolong the slow death,  
6 knowing it will be a slow death, or to make some really  
7 hard decisions that will have a huge impact on the  
8 community. I guess that is a challenge for any rural  
9 shire.

10  
11 There is the question of the ability to raise revenue  
12 to fund some of those services. If your community wants  
13 you to get into those areas, then the community should be  
14 able to decide the fees, the charges, the rates that you  
15 set to do that without the rate pegging barrier that sits  
16 on us. If you go to the community they can support it, but  
17 ultimately you have no chance of getting it through, even  
18 though that is the number one issue that your community  
19 sees. How we work through that is a key issue for  
20 local government, especially, as I said, in a rural area.

21  
22 THE CHAIRPERSON: Can you outline briefly how you get the  
23 views of the community? You and the preceding two speakers  
24 have spoken in general terms about what the community  
25 wants. Can you say something about how you work out what  
26 the community wants?

27  
28 MR CHAPMAN: Through the management planning process  
29 and also through the political process, being elected to  
30 council. We have just been through the last round of  
31 elections, and it is a timely place to review a lot of  
32 that, your direction and where you are going, through that  
33 election process.

34  
35 We are not as finessed, if you like, as the larger  
36 centres in how we engage our community, and that is  
37 something we are always trying to improve on. Ultimately,  
38 there is a whole range of mechanisms we use: the formal  
39 structures through management plans; the informal  
40 structures through community groups; going through various  
41 processes such as the LEP processes - we always try to open  
42 that beyond the narrow goals you try to set through land  
43 use planning; the health services; and also the  
44 squeaky-wheel-type stuff.

45  
46 One thing I have enjoyed about a rural shire - and  
47 I have only been there for a year or two, after being in

1 metro areas for the last 20 years - is they don't worry  
2 about the - "soft" I think was the word before, but they  
3 really do rely on the basic services and infrastructure  
4 needed to provide roads and bridges, to help those sorts of  
5 things, so we're not distracted in the way that sometimes  
6 the metro councils can get.

8 At the same time, we're really struggling to fund that  
9 infrastructure, especially the backlog we know is happening  
10 in terms of maintenance and asset renewal and those sorts  
11 of things.

13 Certainly I think the challenges for us in the future  
14 are immense. I have no doubt that we will continue to  
15 decline, that is the nature of rural areas in Australia,  
16 for a whole range of reasons. It is how we sustain that  
17 population with the level of services and how we fund them  
18 that is a really critical issue for us going forward.

20 THE CHAIRPERSON: I assume what you are saying is your  
21 population base is declining at a faster rate than any  
22 costs are declining - your costs are probably not declining  
23 at all?

25 MR CHAPMAN: You're right. Certainly for some of the  
26 services you can say the costs are declining, but at the  
27 end of the day, your road and bridge network is always  
28 there. If you are servicing a narrower and narrower  
29 population, you still need the same level of funding to  
30 maintain it, especially when you're a large rural shire  
31 where you have a lot of regional networks as well. So that  
32 is certainly an issue for us.

34 We are always reapportioning our rate base across our  
35 existing ratepayers. Just recently, the state government  
36 acquired Yanga Station, which is now a national park. That  
37 was our largest ratepayer, so that revenue was lost. That  
38 has a huge impact on a small shire. In a quantum sense, it  
39 is not big dollars when you look at it on a regional level,  
40 but for a small shire that only pulls in a couple of  
41 million dollars in rates, that has a huge impact, and then  
42 services need to be cut back.

44 MR BILSKE: I agree with what has been said before, but  
45 there are a few other things that should be added. Some of  
46 the drivers for what is provided by way of services from  
47 local government are impacted on by things such as the

1 degree of remoteness; the topography of the shire itself;  
2 the economic drivers within that shire; and whether or not  
3 they are a service centre to surrounding communities.

5 Broken Hill is a little bit unique in the sense  
6 that we only have a very small geographic area - only  
7 175 square kilometers - yet we service a very large area  
8 that is outside of the shire. There is not a large  
9 population there, but we actually service into communities  
10 in South Australia as well as into the bottom part of  
11 Queensland.

13 Once something has been provided, the community will  
14 demand that it continues to be provided, regardless of  
15 whether it has been provided by private enterprise. We are  
16 still maintaining infrastructure that was provided under  
17 the old RED scheme, the rural economic development scheme,  
18 by the Commonwealth. The mining companies provided a lot  
19 of infrastructure - a lot of halls and a lot of sports  
20 grounds - and the community expects, now that the mining  
21 companies have withdrawn from those, that the councils or  
22 local government will continue to provide that level of  
23 service.

25 In order to get information regarding what the  
26 community actually wants, we run community satisfaction  
27 surveys. We run a number of questions within those surveys  
28 to try to identify priorities in the provision of service.  
29 We ask questions around whether or not they see that the  
30 rationalisation of the number of halls and the number of  
31 sporting grounds is important, whether we should maintain  
32 them all, or whether the provision of additional services  
33 at our airport is a greater priority.

35 THE CHAIRPERSON: Do you get community involvement in  
36 your management planning process, or do you not get much  
37 uptake of that?

39 MR BILSKE: We always invite the community to be involved.  
40 Unfortunately, community participation in management  
41 planning processes is very limited, so we take a different  
42 approach to that in the sense that we try to identify  
43 organisations that communities are involved in, such as the  
44 service clubs - Lions and Rotary - and we go out and  
45 actually address them at a regular meeting, so we get  
46 feedback through that process.

1 THE CHAIRPERSON: Rather than waiting for them to come  
2 to you.

3  
4 MR BILSKE: Yes. If we wait for them to come to us, one  
5 or two people who are interested in a particular issue will  
6 come along and comment on that issue, but they don't  
7 comment generally, whereas if we go out to the service  
8 clubs, we get a very good cross-section of the community  
9 and get very good comment back through that.

10  
11 THE CHAIRPERSON: Have you seen the same sort of  
12 phenomenon that other speakers have referred to, the  
13 increase in expectations of the human services or the  
14 so-called soft services over and above straightforward  
15 infrastructure maintenance?

16  
17 MR BILSKE: Broken Hill is a little unique in the sense  
18 that in soft services we provide disability services into  
19 the community. We have an organisation called Film Broken  
20 Hill where we facilitate bit-part actors and provide  
21 assistance in filming projects that happen around the area.

22  
23 We fund a grants officer in the regional development  
24 organisation and we are involved in quite a range of other  
25 services - we have an arts centre, an entertainment centre,  
26 we have a museum, we provide assistance into heritage of  
27 the general aesthetics of the community as well as all of  
28 the other soft services that are generally provided by  
29 councils.

30  
31 THE CHAIRPERSON: It sounds as though you are in the  
32 unusual position where the cost shift to your council is  
33 not just from other levels of government, but also from the  
34 receding private sector?

35  
36 MR BILSKE: Especially the receding private sector.  
37 The recent announcement of 440 jobs lost from our biggest  
38 employer locally has had a huge impact directly into  
39 local government. Expectations are that we pick that up.  
40 We provide assistance with resume writing and job  
41 application processes for people who are actually displaced  
42 out of the previously private enterprise.

43  
44 MR CAMPBELL: I sort of parachuted into Australian country  
45 local government about eight and a half years ago. It was  
46 an entirely new environment for me. I assessed it as being  
47 somewhat directionless, very conservative and really a

1 whole bunch of councils fighting for their very existence.

2  
3 Our council area is a peculiar one. It is a railway  
4 town surrounded by relatively affluent rural land,  
5 broadacre farming. It has the advantage and disadvantage  
6 of being only 40km away from Wagga Wagga.

7  
8 We have chosen to aggressively spend our way into  
9 survival, if that makes sense. Our choice of  
10 direction didn't come from the community, because the  
11 community didn't know what it wanted. It had been  
12 dominated by spending on rural roads for so long that it  
13 had forgotten what its expectations were. So we just went  
14 ahead and spent on what we thought was needed to bring the  
15 town alive for its very survivability, because a declining  
16 population is a ghastly sort of vicious downward circle  
17 that is very hard to get out of.

18  
19 We spent on recreation centres, we spent on improved  
20 town scape, we spent on doctors, we spent on doctors'  
21 housing, we spent on a medical centre, with precious little  
22 help - well, none - from the state government and not much  
23 from the federal government either, and we have been able  
24 to secure ourselves an existence there.

25  
26 We are actually maintaining our population and even  
27 slightly growing it, so we think we are in the  
28 survivability mode. The trouble is that our rates are  
29 about 15 per cent too low - they are actually about  
30 25 per cent too low, but in cash terms, we can stay in the  
31 black if we have a 15 per cent increase next rates year,  
32 but it ought to be 25 per cent if you need to follow all of  
33 the requirements of the code of accounting, and so on.

34  
35 THE CHAIRPERSON: We will get to the detail of financial  
36 sustainability later on, but just while you are on this, do  
37 you think that you are in a position where your local  
38 community would accept an increase of 25 per cent, or would  
39 that not be acceptable?

40  
41 MR CAMPBELL: Let me go back a bit. In 2006, we thought,  
42 "We'd better stop this and find out just what our community  
43 thinks," so we used the same survey that Professor Allan  
44 used in his study, the IRIS study, and did it on ourselves  
45 using IRIS to do it. We found that we rated above the  
46 median, or above the average, for councils of our type and  
47 that the community liked what they had seen, they told us

1 what was important, they told us how satisfied they were  
2 with the various things, and generally speaking - in fact,  
3 with one exception - we were right above the average, and  
4 so we felt very pleased with ourselves. We had got it  
5 right for the community. The community was happy.  
6  
7 We also asked them would they accept an increase in  
8 rates to maintain the same level of service - we didn't say  
9 how much - and they said, "Yes, we would." We asked the  
10 converse, would they accept a decreased level of service if  
11 we maintained the same rates, and they said no. So we  
12 assume that they will accept something, we just don't know  
13 what it is.  
14  
15 We happen to have an imbalance between farmland rates  
16 and residential rates. Farmland rates need to come up,  
17 but we haven't been able to do it because of the drought.  
18 So there are all sorts of complicating factors.  
19  
20 THE CHAIRPERSON: Did that feedback extend beyond  
21 ratepayers to users of services who may not be ratepayers?  
22 Did it bring in the views of people who don't pay council  
23 rates but who use services and pay for council-provided  
24 services as users?  
25  
26 MR CAMPBELL: It was simply a random selection of  
27 telephone numbers throughout the shire.  
28  
29 THE CHAIRPERSON: So it wasn't specifically directed to  
30 ratepayers only.  
31  
32 MR CAMPBELL: Not just ratepayers; people who rented  
33 accommodation, and so on.  
34  
35 THE CHAIRPERSON: Okay.  
36  
37 MR CAMPBELL: The situation has got to the point where  
38 people think that we are responsible for hospitals. The  
39 state government's reach into the community is so pathetic  
40 that local government is seen as responsible for  
41 everything. It is a question of how you define it at the  
42 local level, which becomes the problem. We think we've got  
43 it pretty much right, but we didn't do it with community  
44 consultation because, as I said, the community didn't know  
45 what it wanted. It didn't know what it could have until it  
46 got it.  
47

1 THE CHAIRPERSON: This is something that we heard at the  
2 workshop in Sydney also; namely, the uncertainty on the  
3 part of the community as to who is responsible for what,  
4 and, in fact, some uncertainty among the councils as well  
5 as to who is responsible for what and who is responsible  
6 for what in different layers of government; and situations  
7 on occasion where a local council has lobbied for  
8 improvement in services which are a state government  
9 responsibility only to find that the community is then  
10 holding the local council responsible for those services  
11 because it has taken an active role in seeking their  
12 improvement.  
13  
14 While there do seem to be very significant differences  
15 between urban, urban fringe, regional and small towns in  
16 regional areas, some of the themes are the same. Councils  
17 generally are doing their best to try and get feedback from  
18 the community as to what the community wants. The  
19 community desires and demands, of course, always need to be  
20 qualified by who pays and what it costs.  
21  
22 It is interesting to hear that you have asked the  
23 question you have - "Are you prepared to pay more for  
24 better services? Would you accept lesser services at the  
25 same rates?" - and to have got the responses you received.  
26  
27 MR CAMPBELL: It's not better services; it is to maintain  
28 the present level of services because we have an  
29 infrastructure backlog of \$900,000. That figure keeps on  
30 coming up. We are probably underspending on maintenance  
31 and renewal by about \$400,000 and \$500,000 a year, so that  
32 backlog is steadily growing. We most emphatically need  
33 that increase, and the present regime certainly won't give  
34 it to us.  
35  
36 THE CHAIRPERSON: Thank you very much. One of the issues  
37 that was raised in the previous workshop last week was the  
38 fact that, because the human services are more visible to  
39 people, there is a strong and quite vocal demand for those  
40 services and that sometimes councils succumb to providing  
41 those services at the expense of the less visible roads,  
42 bridges, maintenance and traditional council services. Is  
43 that something that you have encountered where a council is  
44 under pressure to continue to provide those human services  
45 even possibly at the expense of the some of the others?  
46  
47 MR STUBBS: Perhaps I can give you an example. Back in



1 the 1980s, we had the Albury-Wodonga Development  
2 Corporation. They were trying to develop satellite centres  
3 on both sides of the border at the expense of orderly urban  
4 expansion. In some of those satellite cities, they were  
5 creating neighbourhood houses, all sorts of recreation  
6 facilities, great wide landscaped road reserves, and  
7 whatever, and no-one was paying any rates on all of their  
8 undeveloped land, which was costing the council a lot of  
9 money.

10  
11 Gradually the council overcame some of those things by  
12 way of some joint enterprise and residential development  
13 with the corporation - ways of generating growth within the  
14 city proper. But when the corporation's role in land  
15 development and planning phased out in due course, and  
16 quite properly so, all of these facilities were left for  
17 the council to run. Those neighbourhood houses that had  
18 been created, the tennis courts and the small swimming  
19 pools and that sort of thing all came with a financial  
20 responsibility. There was no way that you could move away  
21 from providing those services. That is an interesting  
22 example of the sorts of pressures that can come onto a  
23 council.

24  
25 THE CHAIRPERSON: In a sense, it's another example of cost  
26 shifting, isn't it?

27  
28 MR STUBBS: Very much so.

29  
30 THE CHAIRPERSON: Does anyone else have anything to say  
31 on this first topic before I ask anyone in the audience  
32 whether they have anything to say about this?

33  
34 MR STUBBS: Des talked about getting out there with the  
35 management plan. My experience was that when we would  
36 have a new council, we would review all of our functions and  
37 say: "What are our core services? What are our non-core  
38 services? Should we be in this? Should we be in that?  
39 What aren't we in that we need to be in?" That's where you  
40 get the pressure coming up, particularly from newly elected  
41 people who are reflecting the wants of the community. You  
42 don't get a lot of response to the management plan, as Des  
43 said. You don't really get a lot of good feedback even at  
44 your strategic planning level, although you do get some. A  
45 lot of the councils now are finding that they need to go  
46 out and talk to their community at probably senior officer  
47 and councillor level. This should happen not only when you

1 are doing your management plan. I think it is an ongoing  
2 process and your general manager and his senior staff, and  
3 perhaps the mayor and some of those councillors, need to be  
4 out there getting that one-to-one feedback from service  
5 clubs, education, schools and the like.

6  
7 THE CHAIRPERSON: And in a smaller community, it might  
8 be easier to do that.

9  
10 MR STUBBS: Yes.

11  
12 MR CAMPBELL: Madam chair, you asked about this demand  
13 for medical services, for human services. Yes, if you don't  
14 meet it, your community is sort of almost condemned. It is  
15 something you simply cannot do without. There's only one  
16 level of government that is going to provide it and that's  
17 local government.

18  
19 In respect of communication and ascertaining the views  
20 of the community, we have come to the view that surveys are  
21 the most effective way of doing it rather than town hall  
22 meetings, or any other meeting of that sort, for that  
23 matter.

24  
25 THE CHAIRPERSON: Thank you.

26  
27 MR GALLAGHER: This is a big issue. I think it is a  
28 disgrace that local councils should have to attract and pay  
29 for doctors to come to their specific areas. Some councils  
30 build new homes for doctors. They build surgeries for  
31 doctors. In some instances, they give them a car to come  
32 to their town. That's a disgrace for the local ratepayer,  
33 I believe. That firmly has to be a state government or a  
34 federal government action. Ratepayers should not have to  
35 pay just to get a local doctor to come to town

36  
37 MR CHAPMAN: I reiterate that comment. Also the other  
38 thing for rural shires, in particular talking about the  
39 health services and human services, is the ageing  
40 population, and the demography that Des touched on before.  
41 That is something which I don't think local government, and  
42 certainly state government, have got their head around in  
43 terms of the impact that will have. In rural areas, there  
44 is a stronger ageing proportion, if you like, than the  
45 average across society.

46  
47 In terms of the pressure to get more involved in that

1 aged care supporting services for a growing and ageing  
2 population, I think it will put a huge pressure on local  
3 government's services and you will be forced to decline to  
4 provide or withdraw from some of the other services, some  
5 of your traditional services and also some of your new  
6 services, the employment type opportunity where you are  
7 trying to retain that younger population. Again that issue  
8 will emerge across rural New South Wales and Australia in  
9 the next 10 years, and I don't think anyone is well  
10 positioned to fund it at the moment and we will be asked to  
11 do the lion's share of that.  
12  
13 THE CHAIRPERSON: It is a double whammy, isn't it? On the  
14 one hand, you have more services that need to be provided  
15 to an ageing population. At the same time that same ageing  
16 population qualifies for discounts on rates and so an and  
17 is contributing less to the dollars required to fund that.  
18  
19 MR CHAPMAN: That's right.  
20  
21 THE CHAIRPERSON: Before we close this session, is there  
22 anyone in the room who is not at the table who would like  
23 to comment on this first issue of services provided by  
24 councils and how councils decide what services to provide  
25 and how they consult?  
26  
27 MR CONDON: My name is Tom Condon. I am from the New  
28 South Wales Farmers Association. My comment relates to the  
29 amount of services that local government pays for in that  
30 the income to local government is fairly unequally sought.  
31 In some farming areas, it can fall upon landholders to pay  
32 a much larger proportion of lots of items such as bringing  
33 doctors to the area. All sorts of services are getting a  
34 long, long way from roads, rates and rubbish.  
35  
36 It would seem to me that there is no reference at all  
37 to income. A lot of these things should be done by the  
38 taxpayer rather than somebody who happens to be on a farm,  
39 but whose next door neighbour sold out to a horticulture  
40 growing, and whose rates valuation has therefore suddenly  
41 doubled. There should be more done by the taxpayer which  
42 actually represents income.  
43  
44 MR BATCHELOR: John Batchelor, from Leeton Shire Council.  
45 The shire has a fairly young population. It is not a big  
46 shire. It is about 1,100 square kilometres, with a  
47 population of 12,000. Demographically there is a great

1 demand on youth services and also child care. We find that  
2 needs to be provided as well as aged care. We have both  
3 ends of the spectrum. In terms of child care, we have one  
4 child care centre which is on council land. We provide the  
5 building. It is an incorporated body at this stage, but  
6 they have over 100 on their waiting list at the moment.  
7  
8 From our perspective, we need to do something at that  
9 level because, to bring people and professional people to  
10 the area, you need to provide a range of services, whether  
11 it be for children, education or health, and that has  
12 already been spoken about. We are entering into an  
13 arrangement with Wollongong University to provide places  
14 for medical students. With that goes accommodation and  
15 those sorts of things. That sort of got away a little bit,  
16 I suppose, from our traditional role, but we see those  
17 sorts of unit services as being critical to providing what  
18 the community needs.  
19  
20 THE CHAIRPERSON: Thank you very much.  
21  
22 DR THORPE: I am Dr Leon Thorpe. I came here in the first  
23 half of last century, so I think that makes me almost a  
24 local. I didn't realise I had to wear a suit. I'm very  
25 sorry about that. It's just the pressure of all the rates.  
26 I would be able to afford a suit otherwise. Even these  
27 jeans I have on, my family gave to me at Christmas, as a  
28 Christmas present, so I do apologise for not wearing a  
29 suit.  
30  
31 I do support the idea that the role of local  
32 government is raising rates, garbage, water, looking after  
33 the potholes, and all that sort of thing. If a council can  
34 do that right, it will always get re-elected. So, guys,  
35 don't worry about anything else.  
36  
37 In relation to the role of government, I think we have  
38 been pressured by the other levels of government. As one  
39 gentleman suggested, there has been a creep for us to take  
40 on a lot more of the other roles that state government and  
41 the federal government previously had traditionally taken  
42 on, particularly in the social outreach areas. Say, the  
43 first two years the social worker is being paid for, but  
44 then when we come to needing the social worker after the  
45 two years, we are stuck with having to pay the cost of that  
46 social worker.  
47

1 This is not just an isolated thing. It is happening  
2 in just about all the local government departments.  
3 Consequently we have middle management salaries for jobs  
4 which, in my view, and I'm probably too tough, would be  
5 substantially clerical type jobs. We have this level of  
6 middle management and we have clerical type jobs coming out  
7 the other end, which, to me, is not symbolic of the way  
8 local government should be going.

9  
10 In relation to Griffith specifically, we have a  
11 population of 25,000 and we are currently providing  
12 services to 50,000 because, particularly west of here,  
13 there are another 25,000 people. Consequently, in relation  
14 to such things as the regional theatre, sports ovals,  
15 swimming pools, we are providing those sorts of services  
16 for double our population even though we have only half the  
17 rate base to provide these services.

18  
19 What is the solution for that? Perhaps it is Griffith  
20 taking over that local government area which is a feeder  
21 base for Griffith. Perhaps that is one solution and then  
22 we could get the rates off them. I am sure it is not an  
23 easy solution but it is something that should be addressed,  
24 because we are providing services to twice the population  
25 that we have in Griffith.

26  
27 In relation to the role of government, it is important  
28 to have good staff. In some areas, we do have a  
29 significant turnover of staff. Griffith is probably the  
30 smallest city in New South Wales. Guys manage to get a  
31 toehold in the local government administration in Griffith,  
32 a city, and then they have a springboard to go to other  
33 cities - Shepparton, Wagga, Wollongong. We do have a  
34 problem with retaining good staff. I am sure in some  
35 respects some members of staff at Griffith have used  
36 Griffith as a springboard to something else. It is not  
37 just changing the guy at the desk. It probably costs us, I  
38 would suggest, \$100,000 to change a person in middle  
39 management or above at local government. If you look at  
40 the cost of chasing up, advertising, consulting,  
41 interviewing and then when the person arrives, it takes a  
42 while for them to get onto the job, to get the feel of the  
43 place, it will probably cost more than \$100,000. The role  
44 of local government is to have good staff. Perhaps there  
45 might be a solution there, but it is certainly a  
46 significant problem.

1 I think local government should not be everything to  
2 everybody. There are a lot of groups that want this, want  
3 that, and it is unfortunate. At home we have to save up  
4 for things. We have to prioritise. With the pressure of  
5 the ratepayers and the voters, some councillors bend very  
6 easily and we go into significant costs because this group  
7 of basket weavers, or some similar group, has to have a  
8 hall. Mind you, my mother is a basket weaver, but it is a  
9 rather small group.

10  
11 I think it is important that we prioritise and go with  
12 what is significantly needed and concentrate on roads,  
13 garbage, potholes. Do that well and you will get  
14 re-elected, guys. Thank you very much.

15  
16 THE CHAIRPERSON: Thank you. Mr Moffitt from Jerilderie  
17 has come in at the tail end of this first session.

18  
19 MR MOFFITT: My apologies.

20  
21 THE CHAIRPERSON: That's all right. I wonder whether you  
22 would like to add anything? We have spent the last hour  
23 talking about the range of services which local government  
24 provides and how local government establishes what its  
25 particular community wants and the change in those services  
26 over time from the more traditional local council services  
27 to a broader range, particularly in the area of human  
28 services.

29  
30 MR MOFFITT: I am at a loss to add to anything, as I  
31 wouldn't want to repeat what has already been said. The  
32 one peculiarity of Jerilderie Shire Council is the very  
33 large proportion of private works that we have become  
34 involved in over the many years. With the drought and the  
35 downturn in the rural economy that we have all experienced  
36 but which still lingers with our area, we have seen a  
37 massive downturn in that area of our operations. That is  
38 one thing that has undermined our survival. It was there  
39 primarily for the survival of the shire, because it has  
40 allowed us to have probably a better fleet of vehicles and  
41 equipment than we might otherwise have had. We have been  
42 very active with the Roads and Traffic Authority single  
43 invitation contract system. That is an ever-changing  
44 minefield that we are involved with.

45  
46 We are finding it very difficult in current times to  
47 be all things to all people. I heard the last

1 presentation. It is a common problem where we are trying  
2 to be all things to all people. Whilst we might put a lot  
3 of barriers on ourselves, or might attempt to, there are  
4 other levels of government which are forcing us into  
5 situations, for survival purposes, not least of which is  
6 the medical situation, which you have heard a bit about  
7

8 THE CHAIRPERSON: We have heard a number of people talking  
9 about the developing situation of local government needing  
10 to subsidise doctors to keep them in regional towns. Just  
11 to clarify one thing you were talking about, when you were  
12 talking about private works, what did you mean by that?  
13

14 MR MOFFITT: Part of our plant fleet is involved in  
15 private works on farms - earthmoving. We also, in our  
16 vernacular, term the RTA's special invitation contract as  
17 private works. It is a special contract with the state  
18 government to look after their roads. That is continuing,  
19 although in a new form this year, and it is putting a lot  
20 more onerous tasks on us for reporting and so on.  
21

22 The other thing we do is build truck bodies in our  
23 workshop. That has developed over time with some very  
24 good capacities that we have. It involved winning contracts  
25 from the government and they have been primarily for the  
26 government, because, at the outset, the council didn't want  
27 to compete against local businesses. It sort of developed  
28 out of necessity again and it became quite a lucrative  
29 process, but that has had its own downturn for other  
30 reasons. All of that has strengthened the council over  
31 many years but with the downturn, it now undermines our  
32 ability to continue doing the things we do.  
33

34 There is probably something I should add, and it may  
35 be peculiar to Jerilderie or a little bit more prevalent in  
36 Jerilderie. Because it is on a highway and it is a small  
37 town, the local Apex years ago raffled trucks and  
38 aeroplanes and made a huge amount of money out of that  
39 process, which was fabulous. They gave the money back to  
40 the community by building a sports centre and so forth. It  
41 is now up to us to maintain all that infrastructure. We  
42 have the infrastructure on top of what the town can really  
43 afford and we are expected to maintain that as well. The  
44 situation is starting to develop where we just can't  
45 maintain the infrastructure; in fact, some of it needs  
46 replacing, so that has its own problems.  
47

1 THE CHAIRPERSON: Presumably things like sports fields  
2 can't be funded on a user pays basis; they can't reasonably  
3 be funded by passing all of the costs of maintenance  
4 through to the users.  
5

6 MR MOFFITT: No, they can't, and being a very small  
7 community in numbers - we are only a 1,700 population with  
8 a town of 900 - we have terrific facilities, but for that  
9 community to pay for those sorts of things on its own, it  
10 won't happen. It has been happening, but it won't happen  
11 from here on.  
12

13 THE CHAIRPERSON: Thank you very much. I think we have  
14 probably used up the time for that first session. What I  
15 will do is ask Michael Seery to introduce the second  
16 session. We will aim to take that through until about  
17 12 noon and then we will have a break.  
18

19 MR GALLAGHER: Madam chair, could we just talk a bit  
20 about the annual report the last question prior to that?  
21

22 MR CAMPBELL: The effectiveness of the annual report.  
23

24 THE CHAIRPERSON: Certainly, if people would like to  
25 comment on that briefly. I will just tell you in summary  
26 the feedback we were getting at the first workshop in  
27 Sydney, which was that, as a community consultation tool,  
28 the annual report was considered pretty useless.  
29

30 MR GALLAGHER: Absolutely.  
31

32 THE CHAIRPERSON: It was too late, already out of date by  
33 the time it went out, and there was almost uniform  
34 agreement about the fact that it didn't really serve a  
35 useful role.  
36

37 MR GALLAGHER: From my point of view, I totally agree.  
38 That's all I wanted to comment on. The amount of time that  
39 our staff spend on preparing an annual report for the use  
40 that's made of it is just a waste of time and resources.  
41 We have better things to do than produce something like  
42 that which nobody reads.  
43

44 THE CHAIRPERSON: That was the general theme of what we  
45 were hearing. We will pick up this question of layers of  
46 reporting in the third session about looking forward on  
47 questions of how you reform the current framework.

1 Certainly we were left in no doubt that, as a consultant  
2 tool, the annual report just doesn't cut it. I didn't  
3 intend to omit that, but if people here agree with that  
4 position, then we won't spend much more time on it.  
5

6 MR GALLAGHER: I certainly agree  
7

8 MR CHAPMAN: Universally agreed, madam chair.  
9

10 MR CAMPBELL: Unanimous.  
11

12 MR STUBBS: Can I add to that - and the GMs know better  
13 than me - that it is not only the annual report that is  
14 useless; I think it is a whole lot of other reporting that  
15 councils have to do.  
16

17 THE CHAIRPERSON: We got that flavour as well. We will  
18 pick up this question of multiple reporting in the last  
19 segment, because the focus there will be what are the  
20 alternatives, what alternative structures can you have? A  
21 number of people in Sydney were talking about the new  
22 integrated reporting structure that is being introduced and  
23 whether in fact these layers upon layers of other reports  
24 need to coexist with that. We will get to that after the  
25 break.  
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1 Session 2: Identification to the long term financial  
2 sustainability of local government  
3

4 MR SEERY: The next session is about the threats to  
5 long-term financial sustainability of local government. I  
6 have heard a few people here today so far speak about that  
7 in perhaps a little bit of a quiet sense, but we would  
8 appreciate your comments in a bit more detail in this  
9 session.  
10

11 Before we started, I thought we would reflect on what  
12 we mean by the term "financial sustainability". I  
13 paraphrased from a number of sources the definition to  
14 suggest that as: services and infrastructure levels and  
15 standards are delivered according to a long-term plan  
16 without the need to substantially increase rates or  
17 substantially reduce services. That is a fairly vague  
18 definition, but it certainly picks up the flavour of where  
19 we are heading. A number of reviews have been conducted  
20 that have looked at this issue, in particular the one that  
21 was referred to earlier that Percy Allan did in 2005, and  
22 also the Productivity Commission report that was conducted  
23 earlier this year.  
24

25 A number of the submissions to our review have  
26 identified various threats to financial sustainability, not  
27 surprisingly, you would probably say. Chief among these  
28 has been rate pegging as an issue. The other one was cost  
29 shifting which, in some sense, was discussed this morning.  
30

31 Areas where IPART requires further information  
32 include: how adequate has rate pegging been? If rate  
33 pegging is good, and it has been in place since 1977, it  
34 hasn't been changed, what is there about it that would say  
35 keep rate pegging - and you may have a view on why we  
36 shouldn't keep rate pegging - or what could we do as an  
37 alternative to provide a better system?  
38

39 People may say, "Well, your rates are pegged each  
40 year, but you have the capability of applying for a special  
41 variation. Doesn't that provide councils with sufficient  
42 ability to go outside of the annual rate cap that is being  
43 set?" As an example, it was suggested by Mr Campbell that  
44 a council required a 25 per cent increase in rates.  
45 Couldn't you just apply for a special variation to gain  
46 that 25 per cent increase in rates and then move on from  
47 there? I would appreciate an answer to that question from

1 your perspective.  
2  
3 How are revenue and expenditure aligned? I appreciate  
4 the information we have suggests that, in the country areas  
5 or rural areas, the level of rates is considerably lower,  
6 the rate per lot or per property is substantially lower  
7 than what they would be, say, in the metropolitan area.  
8 That, in effect, is a problem with rate pegging. That is  
9 what we were led to believe last week.  
10  
11 What is the scope for greater efficiencies? Have  
12 councils reached the limit of productivity involvements or  
13 are there capabilities to improve, or are you limited by  
14 the legislative requirements - for example, occupational  
15 health and safety requirements - from having too many gains  
16 in efficiency?  
17  
18 These are just some general comments that we picked  
19 out of the submissions to date and some issues that have  
20 been raised. Turning to the discussion points for this  
21 session in the discussion paper, as I mentioned earlier, we  
22 raised a number of points for discussion. We have limited  
23 it to three main points to focus on during this session.  
24 As I mentioned, a number of councils have claimed that rate  
25 pegging is not good for councils as it restricts their  
26 level of income and ability to fund services. However  
27 IPART has to consider a number of issues before it can come  
28 to a view on the financial sustainability of councils.  
29  
30 To assist us, we will be undertaking a small number of  
31 case studies over the next few months and we will be asking  
32 councils to participate in those case studies. We will do  
33 a bit more detailed analysis of the financial position of  
34 the issues related to a particular council. We are in the  
35 process of defining who those councils might be and we will  
36 be approaching the councils in the coming month. If we  
37 approach you, we would be grateful if you would assist us  
38 by participating. If you don't want to participate, we  
39 will understand because, like all those sorts of things,  
40 they do take up your time and resources.  
41  
42 The issues that we would like to consider in regard to  
43 financial sustainability are; how effective is rate pegging  
44 and what are the implications for councils and ratepayers?  
45 For example, does rate pegging effectively constrain the  
46 level of rates and total revenues of council; what  
47 practices are used by local government to achieve greater

1 efficiencies and what else could be possible; and what are  
2 the constraints on councils making greater use of debt  
3 finance to fund services and infrastructure; and what is  
4 the attitude of councils, particularly in your area,  
5 towards debt funding?  
6  
7 THE CHAIRPERSON: Before we start this discussion, I will  
8 just give you an idea of some of the points that were  
9 raised in the group last week, keeping in mind that they  
10 were pretty much all metropolitan councils; so, as we  
11 understand it, the proportion of rates in their total  
12 revenue is very likely higher than yours. There were a  
13 range of views. Some councils said that they had well and  
14 truly got used to living with rate pegging and that they  
15 could manage within that framework. Others said that rate  
16 pegging was making life impossible for them and that they  
17 were effectively just covering their operating expenses  
18 with an ever-increasing backlog of infrastructure that was  
19 growing year by year and that was not ever going to be  
20 covered out of pegged rates.  
21  
22 There was a range of views as to rate pegging itself,  
23 and the cap that it provides. There was a range of views  
24 about special applications, whether it's a useful process  
25 or not. There was a fair bit of agreement that the actual  
26 number which is decided by government each year for the peg  
27 is too late in the day in terms of its coming too late in  
28 the budgeting process and is disruptive as a consequence of  
29 that. There was a range of views about efficiencies to be  
30 gained, different views about the possibility of  
31 outsourcing, whether there would or would not be extra  
32 efficiencies or it was possible and who decided whether it  
33 was possible.  
34  
35 Finally, on the question of debt, again there were a  
36 range of views about debt. Most of the participants were  
37 very much in favour of keeping debt low. There was not a  
38 great deal of appetite for councils to go out and borrow.  
39 There were not many in favour of the idea that if you  
40 borrowed for major infrastructure, you would get a closer  
41 alignment between the people who will get to use that  
42 infrastructure over its life and those who are paying for  
43 it - the so-called intergenerational equity issue. So  
44 there was not much being said in favour of significant  
45 borrowing. We would be very interested to hear what you  
46 think about this. We might start with Mr Campbell this  
47 time.

1  
2 MR CAMPBELL: Are we going to do the lot at once or one at  
3 a time?  
4  
5 THE CHAIRPERSON: You are most welcome to address all of  
6 them, if you like. If you would like to hear what everyone  
7 has to say and come back, that's fine as well.  
8  
9 MR CAMPBELL: I'll attempt the lot, if I may. I believe  
10 that the origin of rate pegging is not the rosy view that  
11 we would read in the issues paper about making local  
12 government more efficient. I believe that it was put in  
13 place way back to exert state government control over local  
14 government, and successive governments have not taken it  
15 off because they would be seen to be letting local  
16 government off the leash, as it were.  
17  
18 THE CHAIRPERSON: I'm loath to interrupt you, having said  
19 nobody is to be interrupted, but I think where we got to in  
20 the discussion was that there probably isn't much to be  
21 gained from speculating as to whether the original reasons  
22 for imposing rate pegging were good, bad or indifferent.  
23 It has been a fact of life now for a long time.  
24  
25 A lot of people wanted to talk about whether the  
26 original purposes of rate pegging were still being  
27 observed, but it is almost impossible to discern what the  
28 original purposes were and what the current purposes are,  
29 so it is probably better to focus on just accepting rate  
30 pegs as a fact of life.  
31  
32 MR CAMPBELL: In that case, you raise another point, which  
33 is a sort of little footnote somewhere in the discussion  
34 paper which says, "Oh, and by the way, the Minister for  
35 Local Government says that rate capping is here to stay."  
36 That leads one to think, "Why are we going through the  
37 exercise?"  
38  
39 This is just a prelude to saying that I do not think  
40 that rate pegging is effective. I just believe that, in  
41 our case, it has simply exacerbated a situation. We  
42 started low. We got caught with a low rate base and that  
43 has now been entrenched over however many years rate  
44 pegging has been in place. All it has done is forced us to  
45 get leaner and leaner and leaner. It has forced us to make  
46 cuts which are probably inefficient in the long run.  
47

1 We have done everything we can in the way of resource  
2 sharing. We don't believe that going bigger is the way to  
3 go, because we are consistently doing things better than  
4 our larger neighbour, so we don't regard ourselves as  
5 inefficient. But we are now left with a situation where we  
6 believe that in order to stay in the black in cash terms,  
7 we need a rates increase of 15 per cent next year, and to  
8 conform with accounting standards and balance the budget in  
9 operating terms, we need 25 per cent. I talked before of  
10 the backlog of \$900,000 and continuing shortfall of  
11 \$400,000 for infrastructure.  
12  
13 THE CHAIRPERSON: Has your council ever made one of  
14 those special applications to --  
15  
16 MR CAMPBELL: No, we haven't, and we have deliberately  
17 put it off because of the drought. We have missed three years  
18 now when we wanted to, but the time wasn't right. Rate  
19 capping is a crutch for councillors who want to avoid  
20 making hard decisions and that is its biggest deficiency of  
21 all.  
22  
23 As to what best practice is, we have done it all in  
24 terms of reducing our workforce, buying bigger equipment,  
25 doing the resource sharing, cooperating with our  
26 neighbours. We have done all of that. We don't think  
27 there is too much else in the larder as far as we are  
28 concerned for that sort of thing.  
29  
30 With funding, we are something of an anomaly for a  
31 rural council. First of all, we spent our reserves down,  
32 so we maintain just enough to cover our restricted assets.  
33 We are a reasonably heavy borrower in relative terms with a  
34 present debt to service ratio of 5.7 per cent or so, and we  
35 are a firm believer in the principle of intergenerational  
36 equity. We think it is economically inefficient to use  
37 sinking funds and the like and to save up to undertake  
38 projects which never get done.  
39  
40 In simplistic terms, I believe that rural councils  
41 that have money in the bank and things to do are doing  
42 their communities a great disservice. We have used debt  
43 servicing somewhat liberally compared with our  
44 counterparts, and I think we will continue to do so.  
45  
46 Although there is no real problem, there are no real  
47 restrictions on it, you get the feeling that if you do too

1 much of it, you will be picked on by the department because  
2 you're sort of breaking away from the flock, you're not  
3 doing things in a sort of orderly way. However, as we say,  
4 we are firm believers in borrowing and we will continue to  
5 use it as far as possible.

6  
7 THE CHAIRPERSON: That's interesting, thank you.

8  
9 MR MOFFITT: Mr Campbell has stolen a fair bit of the  
10 thunder that would come from Jerilderie because the  
11 parallels are quite interesting. When I arrived at the  
12 council four years ago, they had very large reserves, which  
13 they were starting to spend down to replace infrastructure,  
14 and very minimal borrowings. As we stand now, I am  
15 encouraging borrowings for the reasons we have just talked  
16 about, and the council is warming to that idea, but very  
17 slowly.

18  
19 The reason for that is, over very many years, it has  
20 been primarily run by a long-standing farming community  
21 group, which was very conservative. They had good reserves  
22 and not much town infrastructure. Typical of a farm I  
23 might add, where you don't look after the house because it  
24 doesn't earn money, but you have very good equipment.  
25 That's basically how it has been, but that is turning  
26 because tourism is now seen to be one of the very big  
27 industries that we can capitalise on thanks to Ned Kelly.

28  
29 From the point of view of the way the council is  
30 thinking, I agree with Mr Campbell. I think the council  
31 uses rate pegging as a crutch, which absolves them of  
32 making those very hard decisions they should be making. In  
33 fact, the town rate is the lowest in the state or it is  
34 very close to the lowest in the state. I have encouraged  
35 it to grow to a more realistic level and that has been well  
36 received in the chambers.

37  
38 We have a situation where there have been good  
39 reserves which are now being spent down to replace  
40 infrastructure in the towns. There is very good  
41 infrastructure in the rural areas, and that's a credit to  
42 the last council. Rate pegging is, to some extent, a  
43 little bit irrelevant, because it is such a small portion  
44 of our income. It might make the difference, in due  
45 course. I believe that we are starting to talk seriously  
46 now about making applications for greater than the rate  
47 pegging increases in the future, because I think that's

1 something that really has to come to grips with. We  
2 certainly have been left behind with the level of the rates  
3 we charge.

4  
5 THE CHAIRPERSON: When you say that rate pegging is  
6 largely irrelevant to you, roughly how does your revenue  
7 break down between rates, grants and other sources?

8  
9 MR MOFFITT: Rates is about a third of total income.  
10 Grants is bigger than a third. I can't quite remember the  
11 exact proportions, and then private income from the private  
12 services makes up that gap.

13  
14 The same thing applies, as has been said with Junee.  
15 In terms of efficiencies, our neighbouring councils relate  
16 to us in different aspects around sharing, cost sharing and  
17 sharing services. It really has gone to the limit. The  
18 big example I would like to make is the zoning of Rural  
19 Fire Services. In our particular district, that has been a  
20 total disaster; in fact, it is costing us now a lot more  
21 for Rural Fire Services than it ever did before. Much more  
22 staff were put on. It is out of our control and it is not  
23 well run because it is run by a larger bureaucracy which  
24 doesn't subscribe to the efficiencies that we are all  
25 looking for. That's an example of how sharing can be  
26 disastrous. I think we have just about reached the end of  
27 the possibilities there.

28  
29 I think I should paint a picture a little, though,  
30 because I'm talking about one of the smallest councils in  
31 New South Wales. We have 47 staff. We have 12 indoor  
32 staff. There were about 15 indoor staff when I arrived,  
33 and the senior level has been depleted because that's  
34 the way I designed it. That has saved a lot of money,  
35 but we really are stretched to the limit all the time in  
36 every aspect. I just cannot imagine any way that we could  
37 be more efficient, and certainly not by sharing in whatever  
38 way, be it amalgamations right down to having the accounts  
39 done offshore somewhere. I don't know how we could make  
40 ourselves any more efficient than we are now because  
41 everybody in my organisation right from top to bottom is  
42 multi-skilled.

43  
44 I wanted to mention debt quickly. I think we are  
45 going into a stage now as a council where we will be  
46 increasing our debt levels to try to replace some of the  
47 ageing infrastructure that simply has to be attended to or



1 shut down or locked away. This is something my council  
2 would be very loath to do. We are just building a new  
3 library and that has been substantially funded by external  
4 sources, namely, a grant from New South Wales, plus a grant  
5 from the federal government.

6  
7 Because of the drought, we haven't even contemplated  
8 any rate increases, other than the maximum allowable.  
9 Again, that is about three or four years of holding back  
10 off people who really can't afford to pay any more, so rate  
11 pegging is irrelevant in that sense, I guess, and we will  
12 be going into higher levels of debt.

13  
14 MR BILSKIE: I agree generally with what Mr Campbell and  
15 Mr Moffitt have indicated, but as far as rate pegging is  
16 concerned, I don't see it as being an effective tool in  
17 driving efficiency. Limitations or restrictions of income  
18 don't necessarily lead to efficiency gains. I think quite  
19 often it actually leads to inefficiencies.

20  
21 One of the major impacts with rate pegging is the  
22 limitation to the notional general income, rather than just  
23 having a restricted percentage increase in rates in  
24 general. If it wasn't just a limitation to our notional  
25 general income, if we could take account of the increases  
26 in the valuation of property and use that as part of the  
27 gains in our income and have our rate in the dollar or our  
28 ad valorem rate increased by that restricted amount, that  
29 would be more generally accepted as a method of having  
30 some control in the processes and people would understand that.

31  
32 At the moment, we have a restriction on our notional  
33 general income which varies the rate in the dollar because  
34 your property valuations are increased every three or four  
35 years, so people don't understand what is actually  
36 happening to their rates, and especially on a year when you  
37 have a rate increase and a property valuation increase at  
38 the same time.

39  
40 In regard to best practices, generally, as staff turn  
41 over in councils there is a range of efficiency gains from  
42 people bringing in new ideas and new business practices and  
43 a range of expertise - lessons learnt in other areas they  
44 have actually worked in.

45  
46 One of the things we are doing in Broken Hill is we  
47 are actually introducing the Australian Business Excellence

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1 Framework as a method of reviewing our total operations.  
2 That will increase our efficiencies to a point where we  
3 will be comparable with most private enterprises anywhere  
4 in Australia. Once we have that introduced, I don't think  
5 there will be many other things we could do to improve  
6 efficiencies across the board.

7  
8 Historically, our council has not used debt as a  
9 method of funding operations, but we are one of the  
10 councils that is unsustainable into the future financially  
11 because of our financial position. While we're under  
12 administration, debt is being seen as a legitimate source  
13 of funds because of the need for intergenerational equity.  
14 We need to maintain some investments to meet our ongoing  
15 obligations, such as staff leave, liability, and things  
16 like that, we need to maintain some financial assets to  
17 cover those. I think it is very important councils  
18 never get to a point where they cannot meet their  
19 obligations under the requirements of normal accounting  
20 standards.

21  
22 So debt financing is a way for the future, and we just  
23 need to make sure that we can actually service the debt and  
24 do that with some sort of efficiency. If not, we need to  
25 reduce services or opt out of services that we can't  
26 provide.

27  
28 MR CHAPMAN: In terms of the overarching goal of long-  
29 term financial sustainability, I find it hard to rationalise.  
30 If you accept that we have an increasing infrastructure  
31 renewal task and challenge in front of us and declining  
32 recurrent funding in real terms, in terms of FAGs,  
33 RTA block grants and those sort of things, and then put  
34 rate pegging on top of that, I don't see you can form a  
35 view that our organisations can be financially secure in  
36 the future. Either one of those areas has to change, or  
37 desirably all three. With that mix on top of us, I think  
38 we have some huge challenges.

39  
40 In terms of rate pegging, our shire received the  
41 second highest this year, in 08/09, in terms of all the  
42 local governments across the state. I think we were behind  
43 Willoughby. That was an extremely difficult decision for  
44 us politically, and I will give some context to the  
45 background which shows the challenges that we have.

46  
47 We picked up a huge amount of federal funding for some

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1 road networks - road and bridges. We have a large timber  
2 bridge network on our regional roads, so we certainly  
3 picked up a lot of funding from the state government  
4 through that. To put it into context, these projects need  
5 about \$23m or \$24m over the next two years and we usually  
6 have budget of about \$8m or \$9m, and this is just roads and  
7 bridges we are talking about, and we have obligations to  
8 meet out of that as well. So about \$16m is funded through  
9 both the federal and state governments for those  
10 infrastructure upgrades, and we have to find about \$8m  
11 ourselves. We are doing that through a mixture of debt,  
12 pulling back parts of the organisation and obviously the  
13 rate increase. So that was the mix we put to the minister.  
14

15 If the minister hadn't supported us, we knew we were  
16 probably gone. So having gone to our community to  
17 demonstrate, in the back end of a pretty severe drought -  
18 I hope it's the back end - that we're going to increase  
19 their rates over 10 per cent to do road and bridge  
20 infrastructure that is critical for us, and knowing at the  
21 end of the day that the minister could have gazedumped us,  
22 was quite threatening. Ultimately the minister had no  
23 option but to support us because of the case we put  
24 forward, but it shows how councils can't take control of  
25 their future, even when they have gone to their community  
26 to argue quite comprehensively as to why a 10 per cent  
27 increase in rates, and a fixed charge at that, on an  
28 agricultural community that is suffering is a good thing.  
29 It was a lonely task.  
30

31 So in terms of rate pegging, we were certainly  
32 successful this year and we will be going for it again next  
33 year, because we still have to maintain our financial  
34 commitments to match that commonwealth and state funding,  
35 but I don't think it is a way to manage an organisation in  
36 the long term.  
37

38 The reason we accepted that money - and we had a long  
39 discussion about whether we could even accept that money -  
40 is it was going to bring forward that road network by about  
41 30 years, we estimated, and we're talking sealing roads and  
42 replacing timber bridges that are well and truly past their  
43 economic life. So we certainly see debt as a major part of  
44 our strategy going forward.  
45

46 In terms of efficiencies, there is always room for  
47 efficiencies, but I don't think rate pegging is the way to

1 drive that. It certainly has; in answer to one of the  
2 questions, rate pegging has effectively constrained the  
3 level of rates and our revenue. It has done that, there  
4 are no two ways about that, but I don't think it has been  
5 to the betterment of those communities and good resource  
6 allocation for infrastructure, I think it is too crude a  
7 tool.  
8

9 THE CHAIRPERSON: One of the views expressed at the  
10 workshop last week was that, over time, councils have  
11 become significantly more businesslike in their management,  
12 in their budgeting, in their general approach to running  
13 councils on a businesslike basis, and that, at least in the  
14 early years, rate pegging may have had a positive role to  
15 play in that. Nobody was saying that rate pegging has  
16 caused the more businesslike management of councils, but  
17 the view was expressed that, whatever the situation there,  
18 it's run its course, it's had whatever benefit it was ever  
19 going to have, and it was seen as not having a continuing  
20 benefit in the councils running their business on a  
21 businesslike basis.  
22

23 MR CHAPMAN: I think rate pegging - and some of the other  
24 speakers touched on this - is sometimes an easy cop-out.  
25 For us, the easy decision was to stick to rate pegging and  
26 not go beyond it, because of the pain involved, but that  
27 wasn't the right business decision for our organisation.  
28

29 I know recently we have gone for no increase, trying  
30 to reflect the needs of our community, but at the moment  
31 local government is becoming more businesslike. We are  
32 multi-million-dollar businesses delivering a range of  
33 services for an ever-changing community, and that will be  
34 the case going forward, quite clearly. Our communities and  
35 councils are making decisions for the long-term interests  
36 of those businesses, and I think our example is a  
37 demonstration of that. The easy solution would have been  
38 not to go for it with the drought upon us, but that was the  
39 wrong decision for the long-term interests of our shire in  
40 securing our core transport routes through road and bridge  
41 upgrades.  
42

43 MR STUBBS: Can I make a couple of comments about  
44 financial sustainability, first of all, and some of the  
45 challenges that are coming in on top of the challenges that  
46 are already there and have been over the years.  
47

1 Down in our region I think we have had some  
2 significant challenges for councils in the water reform  
3 process. Firstly, the separation of land and water title.  
4 Once water came out of the valuer general's valuation of  
5 land, it reduced very substantially the valuation of  
6 properties within the council area, and in fact has created  
7 the need to shift the rate burden from irrigated properties  
8 onto dry-land farmers, causing additional stress. In  
9 Hay shire, for example, when one very large irrigated  
10 property was revalued with the water removed, I think  
11 nearly 95 per cent of the land value disappeared. So that  
12 was a challenge.

13  
14 Another couple of challenges on the horizon, again in  
15 water reform, are going to be the state government review  
16 of whether local government should maintain the control of  
17 its water and sewerage services. For local government to  
18 loose water and sewer is going to be a very significant  
19 threat to the long-term financial sustainability because  
20 in a lot of rural councils staff are shared between the  
21 general fund and the water and sewerage funds. As a  
22 typical example, an HR manager would be spread across the  
23 whole of the council's functions, and to remove water and  
24 sewerage would mean that you might only need half of that  
25 person, or so. That extends into payroll, engineering and  
26 right across the board. So that is going to be a very  
27 significant challenge if, in fact, it is lost to local  
28 councils. On top of the fact that you would lose jobs,  
29 that impacts on population decline, that impacts on  
30 the ability of the council to raise revenue from its  
31 community.

32  
33 We are trying to come up with some innovative ways  
34 to respond to the state government now as to how we can  
35 meet the state government objectives of first-class water  
36 and sewerage service to the communities but at the same  
37 time retain those jobs and as much local control as  
38 possible.

39  
40 Very quickly, we are proposing an alliance structure  
41 that would report directly to the government and meet all  
42 the government's objectives, in other words, an overarching  
43 entity responsible to government, but maintaining the  
44 day-to-day control at the local government level with those  
45 councils entering into a service agreement to provide that  
46 service. That keeps the jobs and whatever.

1 The third one that is going to impact is the federal  
2 government's \$3.1bn water buyback program and its national  
3 Water for the Future plan. The threat there is going to be  
4 that a whole lot of water out of our region in the  
5 irrigation areas is going to be sold up - probably sold to  
6 other areas or sold to the government for the  
7 ever-increasing environmental demands. That is going to  
8 cause a loss of jobs; a loss of food production in the  
9 regions; there will be an effect on businesses in those  
10 communities; there will be a population decline. So that  
11 is going to be a very big challenge, and we are trying to  
12 see how we can respond to that, because a very large part  
13 of our area is irrigation-based. So they are just some new  
14 challenges that will come on top of the day-to-day  
15 challenges.

16  
17 We have had rate pegging for 30 years. Over those  
18 30 years, it has eroded the base of councils. It hasn't  
19 kept pace. It has very much been geared to the CPI, which  
20 hasn't reflected the real increases in council costs in  
21 fuel and a whole range of other things. We are now facing  
22 an infrastructure backlog because the base has been eroded.  
23 In fact, the base is pretty faulty because it started off  
24 based on something down here, and 30 years later that base  
25 is very faulty. But it has become politically entrenched,  
26 so the thing is what do we do about it, because I don't  
27 think either political party is going to remove it.  
28 My suggestion is that we need to go to a better system.

29  
30 IPART could provide a role that is non-political and  
31 take into account a whole lot of factors so it is a lot  
32 more independent. I am not suggesting that IPART should  
33 set the figure, I think councils really should set the  
34 figure, but that IPART might have some sort of monitoring  
35 role, and I think that figure has got to be lifted more  
36 than just the CPI. I think there has to be a fair thing,  
37 and anything over that perhaps IPART might have a role.  
38 But if IPART replaced the state government, and therefore  
39 created some independence, that would be better than the  
40 political system that we have at the present time. As you  
41 mentioned before, it comes out just before management plans  
42 are about to be done - far too late. So that is on rate  
43 pegging.

44  
45 THE CHAIRPERSON: We will get to all of that in the third  
46 session, including some other views that have been  
47 expressed about not using the mainstream CPI, but having a

1 local-government-specific price index, and some other ideas  
2 that we might talk about after the break, so we will come  
3 back to that in greater detail.

4  
5 In terms of IPART's role, I can assure you that IPART  
6 will not be setting rates for 152 councils, so it will have  
7 to be something other than that.

8  
9 MR STUBBS: Yes, we will come to that, because I think  
10 3.2 per cent this year barely covered the cost of wages,  
11 or it might have been wages plus a couple of other things,  
12 and then it was gone.

13  
14 It was convenient for the state government to have  
15 this control, but there is no control over what they are  
16 doing, and the election costs are a prime example.  
17 The election costs in our region doubled from the 2004  
18 costs, which were a bigger increase on what it had been  
19 before. There is no accountability from the Electoral  
20 Commission as to those costs in a lot of cases, and no-one  
21 wants to make them become accountable. I think the  
22 Local Government Association even tried to refer it to  
23 IPART, but that was blocked by the state government as  
24 well.

25  
26 Efficiencies. I agree with what has been said by  
27 everyone: opportunities for resource sharing;  
28 multiskilling of your staff; training your own staff.  
29 Trying to get staff that you can retain and train at the  
30 same time is getting more difficult over the years, so  
31 councils have to be innovative and see what they can do.

32  
33 Debt funding. I have always believed that debt  
34 funding ought to be restricted to your major infrastructure  
35 projects, be that water and sewerage or libraries or  
36 whatever. I certainly don't favour debt for the sake of  
37 reducing the backlog of roads or for day-to-day operational  
38 or short-term projects. I think that is only making a rod  
39 for your own back further down the track.

40  
41 MR GALLAGHER: As far as sustainability goes,  
42 one of the biggest things that is facing all  
43 councils is the backlog identified in the Percy Allan  
44 report, the millions and millions of dollars that is  
45 required to bring our infrastructure up to an acceptable  
46 standard. How can we achieve that when rate pegging is  
47 three-point-something per cent?

1  
2 The infrastructure backlog has been accumulating over  
3 nearly the last hundred years. If we are running a  
4 business, as businesses do, you put money away for asset  
5 replacement. Local government has not done that, for a  
6 variety of reasons, including political. If something came  
7 up in the past which council decided was a good idea on the  
8 day, they would take the money out of the reserves for  
9 asset replacement. It is part of local government's fault,  
10 but it has been industry wide.

11  
12 So without an injection of funds from the federal  
13 government - probably federal, given the state government  
14 hasn't got any - the infrastructure backlog cannot be  
15 achieved if councils are constrained by a  
16 three-point-something per cent increase each year. It is  
17 physically impossible.

18  
19 So how effective has rate pegging been? It has been  
20 very effective, I believe, resulting in councils - forcing  
21 councils - streamlining what they are doing and looking at  
22 every efficiency gain they possibly can.

23  
24 A number of things have been mentioned by the other  
25 guys here today, including partnership splits, looking at  
26 outsourcing, contracting out. We have been through  
27 exercises where you say, "How much can private industry do  
28 this for compared with our guys?" Most councils have been  
29 through that - some have contracted them out, some haven't.  
30 Of course it has impacted on the revenue.

31  
32 As elected people by the communities, why is local  
33 government constrained by rate pegging? What is wrong  
34 with the democratically elected people deciding what rates the  
35 community should be paying. If the community doesn't like  
36 it, they will vote them out. That is part of democracy.

37  
38 Rate pegging will not leave. We will always have some  
39 form of rate pegging. I know you don't want to go back to  
40 the reasons. My belief, and my knowledge, is that when  
41 councils, rightly or wrongly, before rate pegging were  
42 raising their rates 15, 20 per cent, the complaints to the  
43 Department of Local Government and the local politicians  
44 blew us out of the water. It was our own fault.

45  
46 The Department of Local Governments, the  
47 director-general at time, said, "We love it because we're

1 not getting complaints." There were millions of complaints  
2 from all over the state, and the politicians were getting  
3 them as well. As I say, we were our own worst enemy - not  
4 all councils, but that was a problem where our councils  
5 went over the top.  
6  
7 Has it affected or limited our revenue? No two ways  
8 about it. Rate pegging has caused us to streamline our  
9 operations. Efficiency gains have been fully looked at by  
10 all local government authorities. Obviously there would be  
11 minor areas of efficiencies where things can happen, but we  
12 have had to go through that exercise. Maybe in the first  
13 10 years it didn't excite us too much, but in the last  
14 15 to 20 years, it is a matter of, "Well, hang on, our fuel  
15 costs may have gone up 10 per cent, this has gone up  
16 10 per cent, but the rate pegging limit is  
17 only three-point-something per cent." You have to become  
18 more efficient. You're forced to it. It certainly has  
19 made us a lot leaner.  
20  
21 Going on to the debt funding, yes, there are certainly  
22 arguments for and against debt funding. I can argue both  
23 ways. I can accept intergenerational loans. IPART have  
24 been through it with the water and sewer operations in the  
25 councils. At the time, they always pushed for "you need  
26 more debt, you need more debt". Then the treasurer would  
27 come out and say, "Limit your debt," or whatever, things  
28 like that. So there was always that contradiction, I  
29 believe, about which way one should go.  
30  
31 I believe the attitude of councils is conservative.  
32 I think the rural councils are more conservative than the  
33 coastal councils in that in the rural areas we do have very  
34 conservative farmers generally on our councils.  
35  
36 For those who are of a reasonable age, you can  
37 remember when loan interest rates were 18 per cent. Nobody  
38 wants to go back to that stage again where we as a council  
39 or an individual might get caught with that sort of  
40 interest rate. So I think that is why councils,  
41 particularly in the rural areas, aren't too keen on debt.  
42 Personally, I don't have a problem with it. There is a  
43 need for it. At times it is essential and you can't get  
44 away from doing it, but from a lot of councils I think there  
45 is a warm fuzzy feeling to say, "Our debt ratio is nil.  
46 We don't have any debt." When you go to the community,  
47 there is a warm fuzzy feeling about "We know how

1 to manage your money, we don't have any debt". It might  
2 not be the right way to do it, but I think it is part of  
3 the problem.  
4  
5 THE CHAIRPERSON: I don't think that is limited to rural  
6 and regional council. There are a number of the  
7 metropolitan councils who said it had become almost a badge  
8 of honour to say that you had no debt, whereas it may or  
9 may not make sense on a business analysis.  
10  
11 We might now go to the people in the room who are not  
12 at the table, if you would like to comment on this part of  
13 the discussion.  
14  
15 MR BATCHELOR: Just following on, Ray made a couple of  
16 comments there in relation to irrigation. At Leeton  
17 council, 95 per cent of our farmland properties are  
18 irrigation and 5 per cent are dry land, so separation of  
19 land and water is a real issue for us, to the point where  
20 farmland capping is an issue too, because farmland property  
21 could go up more than 20 per cent. We still have  
22 situations there where some of those properties are still  
23 subject to that 20 per cent capping, so, in effect,  
24 for those properties, the rate pegging side of things, it  
25 certainly does come into play for them.  
26  
27 In terms of debt, our auditors are suggesting and  
28 promoting that councils reduce debt as low as they can and  
29 really only borrow for income-generating projects. I don't  
30 have a problem with that, but I can also see the issue  
31 where you have developing regions and councils who have  
32 pressure on them to provide infrastructure where they are  
33 not actually going to get any income generation back. So  
34 there are those sorts of situations where borrowing is a  
35 necessity, but perhaps it is not seen to be the right thing  
36 to be doing, so they are just a couple of comments.  
37  
38 THE CHAIRPERSON: Dr Thorpe, did you want to add  
39 anything on this segment?  
40  
41 DR THORPE: Perhaps I'm going to regret this, but I have  
42 made some hasty notes and I am now having trouble reading  
43 them.  
44  
45 In relation to the long-term financial sustainability,  
46 I guess what I said previously applies, so I will just try  
47 to add on to that.

1  
2 In relation to rate pegging, I submit that Big Brother  
3 does have his issues and that rate pegging is a vital  
4 filter for council and also the ratepayers. If council  
5 feels that it is vital to have an increase in rates beyond  
6 what the local government department provides, they have  
7 the option to put their argument before the department and  
8 the trained economists in Sydney, so I don't see that as a  
9 problem.  
10  
11 The problem is that there are a lot of calls,  
12 particularly around Griffith, for important issues to be  
13 funded. For example, we have a very multi-cultural society  
14 here. We have had a significant increase in ethnic groups  
15 and all these individual ethnic groups need help or  
16 financing somehow or other, so the pressure is continually  
17 on to increase the rates to try to help meet the needs of  
18 people.  
19  
20 Retaining rate pegging would be very helpful to  
21 councillors, because they have always got someone to  
22 complain about. If they can't finance a particular issue,  
23 they can always say, "Well, we have got rates pegged and we  
24 don't have the money." I am sure that that argument has  
25 been used in this local government district, and I think it  
26 is quite a valuable argument for the councillors to use,  
27 and it is certainly true.  
28  
29 Not everyone who is a ratepayer is cashed up. There  
30 are battlers who have to go into debt to pay their rates.  
31 Further, rates that are charged to landlords have to be  
32 paid by the tenants. With respect to some of the  
33 councillors, they seem to think of their own family  
34 perception when they think of families' ability to pay  
35 rates, and they do not see the perception beyond that,  
36 that paying rates is a struggle for a lot of people.  
37 I think it is important that we continue to have  
38 Big Brother rate paying help them out in that area.  
39 It has worked, in my view, over the last third of a  
40 century. I can't see why it shouldn't stay.  
41  
42 As regards other avenues for funding, I suggest that  
43 council stay on roads, garbage, water, tar roads, that sort  
44 of thing, and if they want more money, they should be more  
45 business-oriented. They can go into, say, land  
46 development. There would be the knowledge and ability in  
47 the council structure, with the program almost probably on

1 the table, to go into such a business as land development.  
2  
3 They should be lobbying for a greater share of the pie  
4 that is delivered by the state government. I really  
5 haven't noticed any strong lobbying for a greater share of  
6 the state government pie on a state basis. I am sure that  
7 individually councils are doing that, but I would suggest  
8 that there could be a combined effort that hopefully would  
9 be more successful.  
10  
11 In relation to the overall structure of government,  
12 at this stage we have three levels of government taxing the  
13 taxpayer. Having the rate pegging at least controls one of  
14 the levels of government. I don't think we can have three  
15 levels of government going their own way and continuing  
16 with their own taxes, so I do see Big Brother and rate  
17 pegging as a significant advantage at that point.  
18  
19 I would request that if IPART really wants to go down  
20 the road of no rate pegging, at least please recommend a  
21 plebiscite to see if that is what the people want locally.  
22  
23 Madam Chair, thank you very much for listening.  
24  
25 THE CHAIRPERSON: Not at all. I should reiterate at this  
26 stage that IPART, as a tribunal, has not reached any views  
27 at all. This is very early days in the overall process.  
28  
29 DR THORPE: Yes, I was foreshadowing that, Madam Chair.  
30 Thank you.  
31  
32 THE CHAIRPERSON: Just one final thing which you might  
33 wish to comment on, because you have raised this idea of a  
34 greater share of overall available public revenue going to  
35 local government, one of the views that we have heard is  
36 that local government revenues have not kept pace with  
37 growth in GDP or GSP, for that matter, gross state product,  
38 and that what local government needs is a greater share of  
39 growth taxes, such as the GST. Is that effectively what  
40 you are talking about when you refer to lobbying for a  
41 greater share?  
42  
43 DR THORPE: That is certainly one of the suggestions,  
44 Madam Chair.  
45  
46 THE CHAIRPERSON: Thank you. I think that brings us to  
47 a close of the second segment of the discussions today.

1 We are running a little bit over time, but not by very  
2 much. We will take a break now until 12.45. When we come  
3 back, we will talk about developing a more sustainable  
4 financial management system and the various alternatives.  
5  
6 To give you some ideas to think about during the  
7 break, there were a couple of key issues that came out of  
8 the discussion a week ago. One was that if rate pegging is  
9 to survive in some form, there was an emphasis on the need  
10 to make rate pegging a far more transparent process and to  
11 bring it forward in the sequence of events to deal with the  
12 problem that is faced that it is announced very late.  
13 There was quite a body of opinion wanting to do away with  
14 rate pegging altogether, but there was a level of  
15 acceptance that some form of rate control would probably  
16 persist in the long term. That is generally what people  
17 expected would happen.  
18  
19 There was discussion about developing a price index  
20 and possibly having a price index developed by IPART to  
21 take account of the way local government costs increase at  
22 a rate differently from the mainstream CPI. There was also  
23 a suggestion of a kind of a default system, if you like,  
24 where an overall benchmark might be set that councils could  
25 manage below, and it would only be the exceptions seeking  
26 to increase above that benchmark who would need some  
27 further form of approval or consultation.  
28  
29 So these are all the sorts of ideas that you might  
30 want to comment on when we resume. We have now run a bit  
31 over, so we'll resume at 10 to 1.

32  
33 LUNCHEON ADJOURNMENT  
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47

1 UPON RESUMPTION:  
2  
3 THE CHAIRPERSON: This third session looks at options for  
4 change and I'll ask Michael Seery to introduce this as  
5 before.  
6  
7 Session 3: How an a regulatory framework for local  
8 government revenue recognise diversity across local  
9 government areas?  
10  
11 MR SEERY: In the issues paper, we identified five options  
12 for regulating local government revenues. These options  
13 that were put forward in the issues paper are not  
14 necessarily the only five options available - there could  
15 be others - but we thought these were some that explored  
16 the range of options that could be potentially available to  
17 regulate local government.  
18  
19 Interestingly, there were not that many submissions  
20 that provided any alternatives. The range of options  
21 suggested in the submissions was not that much different  
22 from what was put forward in these five options. Most  
23 councils supported a self-determining role for rates and  
24 were therefore pretty much in favour of option 5.  
25  
26 Option 5 involved removing the mandatory rate cap, but  
27 to have a default cap. That meant that councils could have  
28 the freedom and flexibility to choose their own level of  
29 increases in rates. However, if things were not working  
30 out for them or if they were starting to run out of  
31 control, they would then come under a default cap which  
32 would be pretty much similar to rate capping, but everyone  
33 else would have their opportunity to set the rates at  
34 whatever level they would like.  
35  
36 I should stress something that madam chair mentioned  
37 earlier today, and that is that IPART has no intention of  
38 setting rates for 152 councils in New South Wales. What we  
39 would do at most under these arrangements would be to  
40 determine a maximum cap, similar to what we do for a lot of  
41 our regulated entities at the moment.  
42  
43 The other option that was acceptable in submissions  
44 was option 4, which would exempt councils from a rate peg  
45 subject to meeting criteria. So where they met a  
46 particular benchmark, they would be able to move away from  
47 a rate-pegging arrangement. The other three options had

1 little support in submissions.  
2  
3 Some of the considerations that need to be taken into  
4 account in establishing a regulatory framework are,  
5 firstly, the objectives for a regulatory framework. In the  
6 issues paper, we listed a number of objectives. In the  
7 discussion paper that was made available for today's  
8 workshop, there were a number of issues such as financial  
9 sustainability, its linkages with rate seeking and costs,  
10 efficiency, prudent use of borrowings, accountability,  
11 openness, transparency and the like. They were put forward  
12 as things that needed to be considered in establishing a  
13 regulatory framework.

14  
15 One area that had a lot of discussion, particularly  
16 last week in our Sydney workshop, was recognition of  
17 diversity. The issue here is that, across the state, there  
18 are a number of different outcomes or situations that need  
19 to be catered for and how could or should the regulatory  
20 framework deal with those outcomes. In this case, perhaps  
21 one single approach may not suit everybody, but I guess  
22 here on the reverse side, you are not going to set 152  
23 rates or provide 152 caps across the state. At what stage  
24 do you acknowledge that perhaps one cap or one rate, one  
25 regulatory framework has to accommodate everybody?  
26

27 The discussion paper also identified a number of  
28 governance issues; namely, accountability to the  
29 community, which we spoke briefly about this morning; best  
30 practice financial benchmarking, effectiveness and  
31 efficiency, which again we spoke with this morning; and  
32 other corporate governance measures.  
33

34 The discussion points for this afternoon are: are  
35 there any other objectives other than the ones put forward  
36 in the papers for today that should underpin a regulatory  
37 framework for local government revenues? Which of the  
38 options - options 1 to 5 - or any alternatives meet the  
39 objectives? How could these options improve the  
40 accountability of councils? How can we move forward with  
41 those regulatory options and are they an exclusive set or  
42 are there some other options that we could think of? What  
43 role should IPART play in setting local government rates?  
44 Mr Stubbs made a brief mention of that this morning. It  
45 would be good to get some expansion of people's thoughts on  
46 that role.  
47

1 In the submissions, some people have suggested that  
2 IPART should not have a role at all; whereas others believe  
3 that there is a role for IPART and it is important that the  
4 regulation of rates be moved away from government to a more  
5 independent approach.  
6

7 There has been discussion in the recent past about  
8 IPART determining a cost index different from the CPI.  
9 Some people have suggested that IPART should set a  
10 maximum or an overall maximum that everyone should  
11 achieve. Others have suggested that IPART should just have a  
12 watching brief.  
13

14 Should we provide scope for diversity in the  
15 regulatory framework? If so, how can we incorporate  
16 diversity in such a framework? For example, can we base a  
17 regulatory system on a number of subcategories based on  
18 location, size or some other factors? Thank you.  
19

20 THE CHAIRPERSON: In taking this part of the discussion  
21 forward, you are all aware, no doubt, that councils are  
22 classified for various purposes by the department, and we  
23 floated at last week's discussion whether those  
24 classifications would provide a useful input in developing  
25 a regulatory framework. If there was any consensus around  
26 that, it tended to be that, they all thought, no, the  
27 classifications or categories applied by the department  
28 would not provide a useful framework to treat categories of  
29 councils in a different way and that a lot of energy would  
30 be spent trying to move from one category to the other  
31 depending on what is perceived as advantageous. We would  
32 be interested to hear your views about that.  
33

34 Quite a number of people were firmly in favour of  
35 abolishing rate pegging altogether. As we have mentioned  
36 in the issues paper, nothing is a foregone conclusion, but  
37 the minister has expressed a desire for some sort of  
38 capping or control to remain in place. While you might  
39 strongly hold that view, it would be useful to us if you  
40 could also address what you would do if you couldn't  
41 abolish rate pegging altogether if abolition is your  
42 preferred position. Could we start with you, Mr Gallagher.  
43

44 MR GALLAGHER: What are the objectives which should  
45 underpin a regulatory framework for local government  
46 revenue? I believe it is enough funds for a council to be  
47 able to achieve the objectives that the community requires.



1 I don't think it's anything more than that. Council is  
2 required to provide certain services which the community  
3 requires. If the community requires that, surely the  
4 council must be able to raise sufficient funds from those  
5 ratepayers to provide those services. That, to me, is  
6 fair enough.

8 What options for regulating? Given my comments about  
9 yes, I believe rate pegging should be abolished - however,  
10 it won't be, in my opinion, I don't think politically that  
11 will happen - but on reading through the various options, I  
12 tend therefore to favour option 4 because it provides the  
13 council with the ability to demonstrate that it can in fact  
14 run its own operations. If those checks and balances are  
15 achieved in there, there is no reason why the government  
16 should not provide probably what it has now, with the  
17 ability to raise rates above the statutory limit.

18  
19 The only thing I would object to, I suppose, with  
20 regard to IPART's role is setting local government rates.  
21 If you try and get true information out of the Department  
22 of Local Government by asking, "How did you come at 3.2 per  
23 cent for last year?", they umm-and-ah around, but you never  
24 get a straight answer, in my opinion. There is no set  
25 criteria, I think, that is auditable by local government  
26 practitioners. All we do is cop a 3.2 or 3.5 increase. We  
27 have to accept it, without asking, "Would you mind  
28 justifying that?" It doesn't happen.

29  
30 I would have concerns with IPART being involved with  
31 the setting of fees and charges. For example, from a small  
32 council's point of view, our major revenue from fees and  
33 charges is basically the section 603 certificates and  
34 section 149 certificates. They are set by the state  
35 government - statutory. IPART could have an involvement  
36 with them, but I'd prefer not to. However, as far as fees  
37 and charges go, I believe the councils should be able to  
38 set the limits of what they believe the community can  
39 afford.

40  
41 I don't know if the tribunal is considering that  
42 councils, apart from their rates and their grants and other  
43 bits and pieces, can make up additional large amounts of  
44 money from their fees and charges. Some councils can - for  
45 example, Sydney councils might have parking meters. We  
46 don't have that in the country. There is no way known that  
47 we can, say, increase our revenue by 5 or 10 per cent to

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1 offset some of our costs.

2  
3 We talk about photocopying charges, minor things  
4 which, as I say, in a large city council, yes, they have  
5 the ability to offset. Therefore we are certainly in a  
6 different category from the larger councils. Some councils  
7 make money out of their aged care facilities, for example,  
8 and we don't have one of those. If you make a profit,  
9 that's going into the general fund, which is then assisting  
10 with the provision of other services. If you don't have  
11 those, you don't have that ability to raise additional  
12 revenue. That is why I say that I don't know if you are  
13 looking at increasing fees or saying that increased fees  
14 will help local government. Across the board, I don't  
15 believe it will.

16  
17 THE CHAIRPERSON: There seems to be a very great  
18 diversity of the sorts of fee for services which different  
19 councils offer in different places.

20  
21 MR GALLAGHER: Most definitely. For example, we have  
22 two swimming pools. They probably cost about \$70,000 a  
23 year to the ratepayer. If you're going to make that a fee for  
24 service, you would have to charge people \$30 or \$40 to get  
25 in. It is just ridiculous. Those are the sorts of  
26 constraints we have.

27  
28 I hear what Craig Moffitt said about his business.  
29 That's great. We are into a bit of residential land  
30 development and industrial park development. A lot of  
31 those are long term. You are not trying to make a profit  
32 out of them. You are trying to cover your costs to attract  
33 people to town rather than trying to make a lot of money  
34 out of land development. Coastal councils can, and I know  
35 they do, make a lot of their money out of residential land  
36 development. In the country, we don't have that ability.

37  
38 Should the framework provide for a diversity across  
39 councils? The answer is yes. How can that be achieved? I  
40 don't really know. The only thing I can think of is you  
41 talk about the comparative information prepared by the  
42 Department of Local Government. Given that the smaller  
43 western councils do not have that additional  
44 revenue-raising capacity, whether it's to the left of  
45 Sydney or the Great Divide, or whatever, those western  
46 councils might be able to be given the opportunity to be  
47 given, say, an additional per cent rate pegging increase

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1 because they are disadvantaged in raising revenue compared  
2 with the metropolitan councils. As I say, I have worked on  
3 a coastal council. I know where they get their revenue  
4 from and I know where the smaller country councils can't  
5 get their revenue from. The disparity is massive.

6  
7 MR STUBBS: I agree with Chris that the principal  
8 objective is to make sure that there is sufficient funding  
9 for councils to be able to perform their traditional and  
10 ever-evolving local government role.

11  
12 I want to make one point at the start. I don't think  
13 that tinkering with the rate revenue system of who controls  
14 caps, or whatever, is the solution to local government's  
15 problems. I don't see a proper solution being reached  
16 until there is a fair and equitable distribution of the  
17 total income taxation pool across the commonwealth, state  
18 and local governments. That probably requires local  
19 government recognition and some intergovernmental  
20 agreements about how that taxation pool should be shared.  
21 I don't think rates alone will ever really solve the local  
22 government sustainability problem.

23  
24 The other objectives I would probably see in that  
25 framework would be a recognition of actual increases in the  
26 setting of any cap, if we call it a cap; a recognition of  
27 any special factors that might attribute to local  
28 government that should be taken into account. They are  
29 probably the major ones that I would see.

30  
31 Of the options for regulating the current revenue or  
32 rates - rates particularly because I'll come back to  
33 charges - I would tend to favour the removal of the  
34 mandatory rate pegging with a default cap. My preference  
35 personally, and I don't represent any one particular  
36 council, would probably be for option 5.

37  
38 What role should IPART play? As I said before, the  
39 objective should be to remove the political process from  
40 the setting of any rate cap. Like it or not, many of us  
41 would like to see rate pegging or rate capping disappear,  
42 but the recognition at all levels, government level,  
43 councillor level and even community level, is that there's  
44 probably an acceptance that some sort of regulation will  
45 stay.

46  
47 We need to take the political part out of it.

1 Whether or not it should be set by IPART, that default cap  
2 percentage should take into account all of those real costs  
3 that accrue to local government, and that might be 5 or  
4 6 per cent, or whatever. If any council wanted to go over  
5 that, it would therefore have to go through some form of  
6 justification process, probably to IPART. Even though you  
7 don't want to look at 152 councils, you probably wouldn't;  
8 you'd be looking at a limited number. As long as that  
9 figure was a reasonable one in the first place, and if it  
10 were a reasonable one, most councils will live within it or  
11 their long-term financial planning will take account of it.

12  
13 I don't think IPART should play any part at all in the  
14 fixing of charges. They vary from council to council.  
15 With sporting grounds, hire of the local town hall or  
16 whatever it might be, they're all individual. I think  
17 councils need to set those charges apart from the ones that  
18 are statutorily.

19  
20 I am not sure how the framework will provide for  
21 diversity, but there are a whole number of factors that  
22 will affect rural councils as distinct from metropolitan  
23 councils. I am not sure how that would be done, but  
24 probably in setting that default cap some sort of  
25 recognition might be taken into account for the varying  
26 factors. Trying to box councils or groups of councils into  
27 various categories is, I think, a very difficult process.

28  
29 THE CHAIRPERSON: One of the suggestions which came up for  
30 discussion last week or which evolved from the discussion  
31 last week was if you had a system where you weren't setting  
32 a cap, but you were effectively determining a price  
33 indicator or a price index that is specific to this  
34 industry, that is something which IPART could do.

35  
36 IPART does it in other areas, we set the price indices  
37 for taxi fares and a whole range of other areas where we  
38 look at the cost factors that are specific to a particular  
39 industry. That, in a sense, deals with diversity because  
40 what it caps is the rate of change from year to year. It  
41 doesn't provide an absolute number; it deals with the rate  
42 of change in costs from year to year. That rate of change  
43 would probably be reasonably uniform throughout councils  
44 even though the absolute numbers of councils or the base of  
45 each council would be different. Do you have a comment on  
46 that?

1 MR STUBBS: That is probably a workable system that could  
2 very well be applied.

3  
4 THE CHAIRPERSON: It depends a bit, of course, what use  
5 you put that index to as to whether it provides a cap or a  
6 guide or what it actually does, but in terms of developing  
7 one that is specific, taking into account the particular  
8 situation of local government, that is something that could  
9 be done.

10  
11 MR STUBBS: Yes, I think that's probably along the lines  
12 of it - some form of mechanism and perhaps that index is  
13 the way to do it. That would probably give that guideline  
14 figure on an overall basis. Most council costs, I suppose,  
15 do go up much the same. Fuel, insurances and all that sort  
16 of thing are probably a fairly fixed percentage.

17  
18 THE CHAIRPERSON: The impression we get is that none of  
19 them go up at CPI.

20  
21 MR STUBBS: No, and I think that's been shown.

22  
23 MR CHAPMAN: Can I ask a question of IPART: is it open to  
24 IPART, through its terms of reference, to make a finding or  
25 a recommendation that rate pegging be abolished?

26  
27 THE CHAIRPERSON: Yes, there's no doubt about that. In  
28 dealing with the alternatives, we are just being pragmatic  
29 saying, yes that might be the preferred position of a  
30 number of stakeholders, but please also address what  
31 happens if you don't get your first choice

32  
33 MR CHAPMAN: Thanks for clarifying that. Based on that,  
34 my view would be that in terms of any objectives, pick any  
35 objective. I guess my view is that if you were looking at  
36 revenue and putting up a barrier, then it's not going to  
37 achieve our aim. The election process and democracy, then  
38 bringing in such documents like the integrated reporting  
39 and strategic planning framework that the department is  
40 putting in should drive the framework on how we engage our  
41 communities. Through that process, through our different  
42 communities, we can then gauge how we set our rates and  
43 fees and generate revenue.

44  
45 My view would be let's give local government a bit of  
46 autonomy, like in the other states, to be accountable to  
47 their communities. I can't see how any framework across

1 the state would pick up the issues that Wakool might  
2 experience as opposed to Tweed or some of the more heavily  
3 developed coastal councils.

4  
5 I have worked in some of those councils. They have  
6 totally separate issues and totally separate pressures and  
7 totally different life cycles in terms of those  
8 communities; therefore, those communities should set where  
9 their services get delivered and what their priorities  
10 should be. Without labouring it, in my view, the  
11 accountability to our local communities should be the  
12 mechanism, through a framework, that makes us accountable.

13  
14 THE CHAIRPERSON: If you take the view that the new  
15 integrated reporting system will be sufficient for that  
16 kind of accountability to your particular community, one  
17 thing that would also be worthwhile is for you to identify  
18 other reporting structures currently in place that you  
19 think would be obsolete or superfluous once that takes  
20 effect. A number of the councils have said that the  
21 duplication and triplication of reporting requirements is a  
22 significant cost to them and that the new integrated  
23 reporting system ought not only provide the accountability  
24 mechanism to the community, but also make a whole raft of  
25 other reports unnecessary

26  
27 MR CHAPMAN: I agree on that. I am supportive of the new  
28 process the department is trying to bring through. I think  
29 it is a great initiative. It sets up nicely for this rate  
30 pegging debate as well. It provides that framework and  
31 that accountability back to your community and we can be  
32 judged that way. Then that community has its own issues,  
33 and I think that's healthy.

34  
35 THE CHAIRPERSON: A number of people who have ended up  
36 supporting option 4 think that that framework would make an  
37 option 4 a viable outcome.

38  
39 MR CHAPMAN: For sure, but I think option 4, hopefully,  
40 would be an interim type solution. Then ultimately, once  
41 those cultures have developed in all councils across the  
42 state, you could then deal with rate pegging, and that sort  
43 of safety net from a state government viewpoint can then  
44 disappear.

45  
46 THE CHAIRPERSON: Thank you.

47

1 MR BILSKÉ: As an objective, for funding of local  
2 government, there has to be adequate funding for timely  
3 provision of the required services to the community. It is  
4 as simple as that. I think that "timely" a key issue in  
5 that as well. It is no good dragging provision of services  
6 on and on over a period of time and just telling the  
7 communities that they can't have services that other like  
8 communities are being provided with somehow or other  
9 through different funding models.  
10  
11 If we have to have rate pegging, as I indicated  
12 previously, I think that the rate pegging should be not as  
13 a limitation on the total notional general income of  
14 councils, but it should be pegged as a percentage increase,  
15 in the rates themselves so that you can then utilise the  
16 increases in property valuations as one of the drivers of  
17 your economic viability of your community as a bit of a  
18 base and also as a reason for increasing of your income as  
19 well.  
20  
21 As an example, if we take Broken Hill at the 2007  
22 valuations, we had property value increases of in excess of  
23 1,000 per cent in portions of Broken Hill and 600 per cent  
24 in other areas. The reason for that is that Broken Hill  
25 property values have lagged for quite some time behind  
26 those of other communities. However, when you have a  
27 major in increase like that, you are not able to increase your  
28 earning capacity and match the expectations of people with  
29 property values that have gone from about \$5,000 up to in  
30 excess of \$70,000. Their expectations go up quite a bit in  
31 that regard.  
32  
33 IPART could play a role. If they set a maximum rate  
34 increase and if any council wanted to go above that rate  
35 increase, they would need to apply to the Department of  
36 Local Government. Say you wanted a rate increase, which  
37 may not necessarily relate to CPI but relates to a cost  
38 index of some description, or if any council wished to  
39 increase rates over and above that particular level, they  
40 would need to make an application to the department for  
41 approval to do that. That way they would have justify it  
42 not only to the community but to the department as well.  
43  
44 One of the things that we have not taken all that much  
45 regard of is the need for local governments to have a  
46 strategic plan and a long-term financial strategy.  
47 Councils could be measured on their performance related to

1 each of those plans, and each of those plans could be  
2 reviewed once within each term of an elected council and  
3 have their performance measured back against the target set  
4 within those.  
5

6 As an example, in Victoria, they measure the  
7 percentage of the capital projects that are completed in  
8 each year and that has to be reported as one of the  
9 mandated reporting areas. In any capital project that is  
10 re-voted from year to year for funding purposes, it gives  
11 you an indication of the stability of the decisions of the  
12 council. I think that is one of the things that local  
13 communities tend to look at when they are looking at  
14 whether or not a council is efficient.  
15

16 THE CHAIRPERSON: A number of councils seem to do that  
17 already as a self-imposed discipline.  
18

19 MR BILSKÉ: That's correct. A number of them do and it is  
20 something that is very easily done. You have to have robust  
21 reporting mechanisms to be able to do that. As indicated,  
22 there are a number of councils that do that already. They  
23 look and see what other states are doing and impose those  
24 conditions upon themselves.  
25

26 In general terms, funding for local government and the  
27 rate in a sort of capping would be forgone a fair amount if  
28 we had an equitable distribution of the taxation that is  
29 available. Over the years, the distribution of taxation  
30 from the federal level to councils has actually been  
31 decreasing significantly.  
32

33 I know the Local Government and Shires Association is  
34 looking for a one per cent distribution of the available  
35 federal tax to councils, and that would increase the  
36 financial assistance grants quite significantly. Under the  
37 existing FAGs formulas, I think that would take account of  
38 all of the disability factors of every one of the smaller  
39 councils and the communities therein. They can always be  
40 reviewed and continually reviewed by councils making  
41 submissions on those formulas at any one time.  
42

43 MR MOFFITT: One of the things that concerns me about  
44 all of this is the "one size fits all" syndrome. In my  
45 37 years of local government, and I have spent about half  
46 of that on the coast of New South Wales and the other half  
47 out west, there is no question in my mind that they are

1 totally different. You could split the state into two  
2 halves and talk about two totally different industries in  
3 many ways. Certainly "one size fits all" should be avoided  
4 at all cost.  
5  
6 If I can be forgiven for drawing an analogy, what we  
7 seem to be doing here is something like tampering with the  
8 electronic ignition on a motor car when the petrol tank is  
9 nearly empty and petrol rationing is on, when we should  
10 really be looking at the engine and how we can modify it to  
11 cope with different fuel, and that is what worries me about  
12 rate capping.  
13  
14 In terms of my council and many like ours, rates are  
15 probably the second or third portion of our income. The  
16 big portion is FAGs grants. There is no question we should  
17 be, in local government, getting some share of the growth  
18 tax such as GST, a fixed share, and having those  
19 accountability mechanisms in place that we have talked  
20 about today, like the integrated reporting mechanisms which  
21 I also support, and we should get away from this blunt  
22 instrument which is the rate capping.  
23  
24 If you're going to have rate capping, if it is going  
25 to continue for political purposes, at least make it based  
26 on some realistic mechanism such as you suggested with  
27 price indices and so on. In our case, grants and business  
28 activities are the things that keep us alive and rates are  
29 a third cousin in that sense. I know that's not the case  
30 on the coast; it is a different story.  
31  
32 Fees and charges have been mentioned. Fees and  
33 charges are such a small portion of our income. The  
34 realistic issue is that we cannot charge higher prices  
35 because people won't use what we are trying to provide for  
36 them.  
37  
38 As per the example given at Lockhart, if we were to  
39 charge higher returns for the swimming pool, people just  
40 couldn't use it. They simply couldn't be there, and our  
41 motive is to teach kids to swim. That's why we have the  
42 swimming pool, so it's basically free. We charge a very  
43 modest entry. That is typical of the whole service level.  
44 We have a very large hall and we hire it out for weddings  
45 and functions and regional local government activities, and  
46 the rates are very modest because we are trying to get the  
47 people into town and to use the other services in town. I

1 don't think that you can miss the point of how different we  
2 are from the coastal councils.  
3  
4 I want to mention categories too. When the FAGs  
5 grants are distributed, they use a mechanism which does not  
6 take account of all the different sorts of councils.  
7 For instance, to give \$3 a head per head of population to  
8 run a library when you only have 900 people doesn't make  
9 any sense. That is an example to show that there need to  
10 be minimums in there to make a realistic contribution to  
11 any one given council for that level of service.  
12  
13 MR CAMPBELL: When I look at those discussion points,  
14 my first instinct is to put number 4, the framework for  
15 diversity, up to the top because, to my mind, that is what  
16 it is all about.  
17  
18 I agree with the consensus that appears to have come  
19 thus far, that the present categorisations in themselves  
20 are not enough. I'm curious to see the federal  
21 categorisation of 22, but unfortunately I have been too  
22 idle to look them up and see exactly what they are.  
23  
24 My point would be that within, say, the  
25 rural/agricultural medium, there are probably three  
26 categories of council - those are that are in decline,  
27 those that are holding their own and those that are in  
28 growth - and there needs to be an allowance for the point  
29 of evolution that they are in so they can then set their  
30 objectives, which then comes next, and I wholeheartedly  
31 agree with Mr Chapman on that point, that councils have to  
32 be free to set their own objectives, and it goes to this  
33 business of whether they believe they are growing or  
34 whether they believe they are just holding the fort while  
35 the council goes quietly out of existence, as some are, and  
36 we should recognise that.  
37  
38 What role for IPART is the one I would take next.  
39 Here I have to disagree wholeheartedly with Mr Stubbs when  
40 he said that the index is more or less the same. In fact,  
41 it is completely different for different councils depending  
42 on the length of road that they have got because petrol,  
43 fuel, bitumen, and so on, are large components of our  
44 costs. If you have 900km of road and two-thirds of them  
45 are tar sealed, then you have got a severe bitumen problem,  
46 for example.  
47

1 My strong preference would be for IPART to set several  
2 indices around the state, and people would roughly group  
3 themselves into each of the indices. That is simply  
4 IPART's role: they set the index and it is there for  
5 accountability against. This goes then to the next point,  
6 which is we have a strong preference for option 5;  
7 in other words, we simply work in relation to that index  
8 which, after all, in our case, is only a third of our  
9 income anyway. It has to be thrown into the mix and  
10 churned out and we have to test it against FAGs and  
11 prospective income from grants, and so on.

12  
13 So that is the way I would see it, very much more  
14 open, in the sense that there would be freedom for councils  
15 to act - not freedom to act irresponsibly, but freedom to  
16 act in relation to rising costs, and if it were perceived  
17 they were going over the odds, they would have to justify  
18 themselves to somebody, probably the Department of Local  
19 Government. Thank you.

20  
21 MR BILSKE: Madam Chair, I seek your indulgence to make a  
22 couple more comments. One is in relation to rate pegging.  
23 My understanding is that land tax is not actually pegged,  
24 and that is based on property valuation as well. I think  
25 there is more revenue raised for the state out of land tax  
26 than what is actually raised by all local governments out  
27 of rates across the states. I may not be correct on that,  
28 but I know that at one stage that was actual fact.

29  
30 One of the other issues, I suppose, is the things that  
31 will impact on any index that you might calculate at some  
32 place. If we take the example of Broken Hill, I talked  
33 before about the degree of remoteness: our next regional  
34 centre is Mildura, which is 300km away; the nearest  
35 township to us of any significance is 200km away, which is  
36 Wilcannia; the regional centres in New South Wales that are  
37 closest to us are Dubbo and Griffith, both being around  
38 750km away; Adelaide is actually closer - it is only 500km  
39 to Adelaide; it is 800km to Melbourne; but it is 1300km to  
40 Sydney. So all of those things actually impact on where  
41 people go for services, et cetera, so we are dealing more  
42 with South Australia and Victoria than we are with  
43 New South Wales with lots of the provision of services into  
44 our community.

45  
46 THE CHAIRPERSON: I would like to ask whether the members  
47 of the audience would like to comment on this part of the

1 discussion?

2  
3 MR CONDON: I am sorry, I have missed most of the  
4 conference. I only heard about it yesterday. On an  
5 ABC memorandum it said that it was to do with rate pegging,  
6 so this morning I wrote out a small submission on rate  
7 pegging.

8  
9 I would like to say that rate pegging should be kept  
10 in place while there is such an unequal way of setting  
11 rates. In Griffith, 5 per cent, who are the farmers, pay  
12 20 per cent of the rates, and that particular 5 per cent  
13 doesn't have any income these days because it has no  
14 irrigation water, virtually.

15  
16 I understand that other councils aren't nearly as  
17 severe as that, and Griffith missed out on the opportunity  
18 to take up differential rating about 30 or 40 years ago,  
19 and it didn't do much after the Oakes report came out,  
20 which gave it the option of a base charge of up to  
21 50 per cent, I think it was. The Oakes report recommended  
22 a compulsory basic charge of 60 per cent, so Griffith has  
23 gone up to 30 per cent.

24  
25 What I'm saying is that an increase in rates is bad  
26 enough at 3 and a half per cent, or whatever - that means  
27 your rates double every 20 years or so - but that extra  
28 bit, when councils ask for exemptions, and it might call  
29 for 8 or 10 per cent or so, falls very unequally on the  
30 citizens. Of course these days council spending is much  
31 more on people matters than it is on material matters, such  
32 as roads coming in from farms. In any case, of course  
33 towns equally benefit from the roads as the farmers do,  
34 because no roads, no town - all the produce comes in and  
35 the goods go out.

36  
37 I will just read part, if I may, of the last two or  
38 three paragraphs of my submission on rate pegging. I don't  
39 know whether any reference has been made to the method of  
40 rating that is set in rural areas where it is just such a  
41 mess with such different amounts everywhere. I realise  
42 that the government will say it is up to the council to set  
43 that and councils are democratically elected bodies, but  
44 when you represent only 5 per cent of the community paying  
45 rates, the democratic answer is, "You pay and the majority  
46 benefit". It is a bit like asking a group of bus  
47 travellers whether the driver should pay for the trip.

1  
2 An application by rural council for exemptions from  
3 rate pegging should be refused where that council has a  
4 rating structure in which the average rates charged to a  
5 large area subcategory is more than double that of the  
6 average urban residential amount. Alternatively, a council  
7 may obtain extra funds required by making a flat charge  
8 over all ratepayers.  
9  
10 The 19th century rating system, based almost entirely  
11 on ad valorem, has been out of date for at least 60 years.  
12 I refer you to the Oakes report - I don't know whether that  
13 has been mentioned, but it should have been - of about  
14 20 years ago. From memory, one conclusion was that -  
15 I didn't have time to find the exact sentence this  
16 morning - any system in which virtual neighbours can be  
17 charged twice or more for the same council service is  
18 grossly unfair. Thank you.  
19  
20 DR THORPE: Thank you, Madam Chair. I do congratulate  
21 your committee on the considerate and polite way that you  
22 suffer our suggestions. I think it is a credit to them and  
23 also a credit to you. So, guys, thank you very much.  
24  
25 Sustainable financial management. I am still very  
26 doubtful about removing rate pegging. I still see that we  
27 cannot have all our needs or wants settled immediately, as  
28 some councillors see as important, or have all that which  
29 the ratepayers as important. So, really, we are faced with  
30 a never-ending list.  
31  
32 I have almost reached the stage where I live in fear  
33 of our local councillors coming up with another good idea,  
34 because it only means another levy or increase in rates for  
35 that other good idea. I live for the time when they come  
36 up with an idea that we won't have to pay rates for.  
37 I think it would be great if we could concentrate more on  
38 good ideas - and I'm sure there are a lot out there - that  
39 don't need rates or levy increases.  
40  
41 I can understand the situation where councillors feel  
42 they must get their project up and running during their  
43 particular four-year term of office; they have got to be  
44 seen as performing and the pressure is on them.  
45 I understand that. But to look at it from another point of  
46 view and help the council and the councillors in relation  
47 to this pressure, perhaps we should go out of the square a

1 little bit and look at staggering the elections of  
2 councillors so that we have a system similar to the  
3 commonwealth senate, where we have 50 per cent retiring and  
4 the other 50 per cent continuing. I can see that there  
5 would be advantages in that approach. I think we should  
6 have all options on the table, and that would be one of  
7 them.  
8  
9 With respect, we were told a little while ago by one  
10 of the members that if a council charges too much in an  
11 open-rates situation where there is no pegging we can vote  
12 the councillors out. With great respect, I would suggest  
13 that this is very simplistic. By the time you vote them  
14 out, the money is spent and the debt is there. Certainly  
15 it is shutting the gate after the horse and the costs have  
16 bolted. So I really don't think that that is a valid  
17 option, guys.  
18  
19 In our house, as in most homes, we save up and  
20 we prioritise. I do not recall council putting forward  
21 a complete and orderly list of priorities for any  
22 period.  
23  
24 In relation, briefly, to some ways forward in relation  
25 to sustainable financial management, I would, again,  
26 suggest that we look at the amalgamation of shires,  
27 particularly shires in western New South Wales. You heard  
28 me mention that this local government area of Griffith  
29 has 25,000 people, but, really, we are catering for  
30 50,000 people because the people in the west come here to  
31 enjoy our art gallery, enjoy our regional theatre, enjoy  
32 our ovals, and so on. They are always welcome, but it is  
33 costing local folk. So we should look at the idea of  
34 amalgamating shires in western New South Wales.  
35  
36 The other item, the one I mentioned just briefly, is a  
37 senate-type staggering of re-elections might have some  
38 worthwhile advantages. Madam Chair, thank you very much.  
39  
40 THE CHAIRPERSON: Thank you, Dr Thorpe. I should just  
41 mention that a couple of the ideas that you have raised may  
42 very well be good ideas but fall outside the terms of  
43 reference that we have been given.  
44  
45 DR THORPE: As long as we keep them in mind, Madam  
46 Chair. Thank you.  
47

1 MR CONDON: Madam Chair, may I just add a little bit?  
2 Dr Leon has mentioned councillors being voted out. That  
3 reminds me that about 20 years ago when the opportunity  
4 was given for councils to set a flat charge, a base  
5 charge, anywhere between zero and 50 per cent, the  
6 Farmers Association pushed for a 50 per cent base charge,  
7 which would have meant a reduction in the subsidy that was  
8 going from the small group of farmers to the large numbers  
9 of urban residents. Two councillors voted for 50 per cent  
10 and had their names in headlines the next day and after the  
11 next election they were gone.

12  
13 That is simply the natural reason, because if there  
14 are only 300 people, or 5 per cent, paying 20 per cent of  
15 the rates, the large majority would like that situation to  
16 continue, of course, so when you have an election, that is  
17 what will happen. Thank you.

18  
19 THE CHAIRPERSON: To wrap this up, it might be useful to  
20 have the discussion we had at the Sydney workshop, which is  
21 almost to pick up one of Dr Thorpe's points. We all have  
22 wish lists, but if you needed to reduce them to  
23 two priorities, what are the two most important things that  
24 you would like to see changed as a result of this exercise  
25 in the current framework that governs local government  
26 funding?

27  
28 MR CAMPBELL: Can I have three, seeing as I'm first?  
29 The third is just a throw-away. The matter of the  
30 pensioners rebate and the "ability to pay" principle, and  
31 so on, is mentioned in the issues paper as if somehow this  
32 was part of our rate-setting process. It is not. This is  
33 a mandated rebate that we, the council, has to provide, and  
34 then they only provide us with about 50 or 40 per cent, or  
35 something, as a recompense for it. So we finish up paying  
36 a very substantial amount, tens of thousands of dollars,  
37 for a transfer cost which is rightly a state or federal  
38 government charge, not one of ours.

39  
40 Getting back to what you mentioned, I would go back to  
41 the categorisation and the recognition of diversity among  
42 the councils and the fact that there would be a need for a  
43 different index for each sort of category and that those  
44 categories should recognise the aspirations of the council  
45 in terms of growth and survivability and, on that basis,  
46 option 5, if indeed we have to have anything at all, but it  
47 is a sort of open-ended option 5, as it were.

1  
2 MR MOFFITT: In simplistic terms, I think the two most  
3 important things are that the grants coming from the  
4 federal government be a realistic portion of a growth tax  
5 and give local government some certainty about the future  
6 and ability to continue; and, secondly, that the controls  
7 that are placed on local government be based on realistic  
8 indices and not totally out of touch with reality.

9  
10 MR BILSKE: I agree completely with Mr Moffitt on the  
11 percentage for financial assistance grants coming from a  
12 growth tax at a set percentage so we have some surety of  
13 the income stream that is coming from the financial  
14 assistance grants and that they are relevant to all  
15 councils.

16  
17 Most rural areas have an increasing ageing population  
18 as a percentage, and the rebates and their ability to pay  
19 actually decreases as the population ages. In a place like  
20 Broken Hill, in the next 10 years, more than 50 per cent of  
21 the population will be over the age of 60, and the ability  
22 to pay and the rebates and the revenue generated in local  
23 government will be substantially reduced. That is one of  
24 the factors that I think is not necessarily considered in  
25 the initial financing of each council, but it is something  
26 that you have to put up with after you have structured your  
27 finances, so I think that is something that councils really  
28 need to take care of. In remote communities, with the  
29 relocation of communities from the really small communities  
30 into the regional centres, it becomes a bigger burden as  
31 well.

32  
33 MR CHAPMAN: Madam Chair, I will reiterate the first one,  
34 about the share of growth tax. That is a key priority for  
35 local government right across the country.

36  
37 In terms of the second priority, I think we have the  
38 focus wrong. I think we need to put a framework in place  
39 that makes us accountable to our communities and not  
40 frameworks that make us accountable to the state  
41 government. Through that process, we will get cultural and  
42 generational change in local government.

43  
44 THE CHAIRPERSON: Can I take it from the comments you  
45 made earlier that you think the new integrated reporting  
46 system is adequate to deal with that community accountability?



1 MR CHAPMAN: It will evolve over time, but it is a great  
2 starting point for sure, Madam Chair.

3  
4 MR STUBBS: Sorry to be repetitious, but I think the  
5 national fair and equitable funding of commonwealth, state  
6 and local must be achieved. In achieving that, by way of  
7 distribution of those moneys to local government, we may  
8 solve a lot of the inequities and special factors that come  
9 into play, such as what happens if you lose a lot of your  
10 land valuation because of water moving out of your area.  
11 It is unfair for that to be a burden on the remaining small  
12 number of ratepayers. So I think that is a top priority.

13  
14 The second one is I would prefer rate pegging to be  
15 gone and rely on the factors that Chris Chapman is talking  
16 about with integrated planning. I think that is sufficient  
17 governance on the councils, but if we must have some sort  
18 of capping, it has to be based on realistic costs and  
19 indices, and I think a good start on that would be for  
20 IPART to review a lot of the state government charges that  
21 are hoisted onto local government and get them justified.

22  
23 MR GALLAGHER: I have three positive statements, so I will  
24 be brief: out of this, I would like to see a recognition  
25 by the state government that local government is a  
26 legitimate level of government and that it be treated that  
27 way by the state government; two, recognition that local  
28 government itself cannot solve the backlog of  
29 infrastructure problems, given the existing financial  
30 arrangements; and, three, recognition that there is a  
31 significant distinction between rural and metropolitan  
32 councils in revenue-raising capacities.

33  
34 I have a brief comment on the integrated reporting  
35 framework prepared by the Department of Local Government:  
36 in that document, they continue to talk about the community  
37 determining what their priorities are, yet the four main  
38 headings are set and have been set by the department.  
39 Surely different communities have different requirements  
40 that they require on their reporting, and that is what  
41 I object to. It is not really a community document. It  
42 has been prepared by the community, but it has been set by  
43 somebody in the Department of Local Government, which I  
44 think is wrong.

45  
46 THE CHAIRPERSON: Do you accept any sort of need for  
47 comparability among councils? Presumably consistency of

1 some areas of reporting, requiring all councils to report  
2 against certain criteria, is for ease of comparability of  
3 performance. Do you think that is not a legitimate aim?

4  
5 MR GALLAGHER: Why do we have a reporting system? If  
6 the answer is it is to advise our community how we have  
7 performed on the objectives that the community wish us to  
8 achieve, can that be statewide? The answer is no. We are  
9 individual communities. Our communities have different  
10 needs, they have different expectations. I know it is  
11 very, very difficult to overcome and I don't know how you  
12 actually do it or if it can be done, but, to me, a  
13 "one size fits all" isn't relevant to the community that  
14 I represent or am involved with.

15  
16 THE CHAIRPERSON: Are there any further comments from  
17 our audience participants?

18  
19 DR THORPE: I still support rate pegging and wish that to  
20 continue. In relation to the reforms, I would suggest that  
21 local government attach itself to a growth tax, say, the  
22 GST, or petrol tax - something like that. It doesn't have  
23 to be one tax.

24  
25 If I could take that a step further, and I apologise  
26 if it's not within the frame of reference, local government  
27 has to be regarded as the third and significant portion of  
28 government in Australia. I aspire to the time when, when  
29 the prime minister and state premiers sit down to talk  
30 money, local government will also be represented at the  
31 table. So, brothers and sisters, let's all work towards  
32 that. I think we have to go forward and this should be one  
33 of our goals. That's the first item.

34  
35 Secondly, I do most sincerely support an amalgamation  
36 of local government areas particularly in New South Wales.  
37 Thank you very much.

38  
39 THE CHAIRPERSON: That brings today's proceedings to a  
40 close. As I mentioned at the outset, this is the first of  
41 six workshops. There will be one each week for the  
42 following five weeks after this one. Then there will be a  
43 special gathering with the Sydney Harbour Foreshore  
44 Authority and those other organisations which I mentioned  
45 at the beginning which is a much narrower scope of  
46 interest.

47

1 All of this information will be digested and  
2 considered together with the written submissions which have  
3 been put in to date, and the tribunal will put out a draft  
4 report which is due in May of next year. There will be a  
5 further opportunity to comment or say anything that you  
6 would like in response to that draft report. That draft  
7 report will really be the indication of the tribunal's  
8 thinking on all this, having reviewed the submissions and  
9 listened to what people have had to say. The final report  
10 will then be due in September next year.

11  
12 For those who have taken the time to come along today,  
13 thank you very much indeed. Please give us any further  
14 views that you have and please also take the trouble to  
15 look at the draft report when it comes out and give us your  
16 views on that, thank you.

17  
18 AT 2.05PM, THE TRIBUNAL ADJOURNED ACCORDINGLY

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