

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC WORKSHOP

REVIEW OF REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

Chairman: Ms Sibylle Krieger

Held at The Bradford Conference Centre  
358 New England Highway, Rutherford, NSW

On

Wednesday, 5 November 2008, at 10am

.5/11/08 1

Transcript produced by Merrill Legal Solutions

---

1 THE CHAIRMAN: I would like to welcome you to this public  
2 workshop being conducted by IPART into the revenue  
3 framework for local government.

4  
5 First, I would like to introduce myself. My name is  
6 Sibylle Krieger and I am a member of the tribunal. With me  
7 today is Michael Seery, who is the program manager for the  
8 local government review, and Michael Solo, who is in the  
9 body of the room, from IPART's secretariat.

10  
11 The former Premier asked IPART to undertake a review  
12 of the revenue framework for local government. The Premier  
13 requested that the review consider three terms of  
14 reference: first, an appropriate intergovernmental and  
15 regulatory framework for setting rates and charges that  
16 facilitates the effective and efficient provision of local  
17 government services; second, an appropriate role for IPART  
18 in setting rates and charges in future years; and, third, a  
19 framework for setting the charges levied by certain public  
20 authorities such as the Sydney Harbour Foreshore Authority  
21 - SHFA, the Redfern Waterloo Authority, the Sydney Olympic  
22 Park Authority and the Growth Centres Commission to enable  
23 these authorities to recover costs from the provision of  
24 services that are normally provided by local government.

25  
26 In undertaking this review, IPART is also to have  
27 regard to a range of matters, including the role and the  
28 financial position of local government, the revenue sources  
29 available to local government, the scope for efficiencies,  
30 socio-economic impacts of rates and charges and the  
31 differences between councils across the state.

32  
33 In addition, IPART is to have regard to the findings  
34 of recent reviews of local government and the matters set  
35 out in section 15 of the IPART Act.

36  
37 This workshop is part of the tribunal's public  
38 consultation process for the review. We recently held a  
39 workshop in Sydney and we have been holding workshops in  
40 a number of regional centres. I went down to Griffith a  
41 couple of weeks ago.

42  
43 The workshop today will address the first two terms of  
44 reference. The third term of reference dealing with SHFA,  
45 the Sydney Olympic Park Authority, et cetera, is of  
46 particular interest to a small number of Sydney councils.

47

1 As part of its investigation, IPART released in July  
2 the issues paper which set out key aspects of the review  
3 process. The issues paper outlines some of the matters  
4 that IPART considered important to this review along with a  
5 timetable for the review.

6  
7 In the issues paper we called for submissions from  
8 interested stakeholders by 29 August. To date IPART has  
9 received 64 submissions, which are on the IPART website and  
10 available for you to review, and IPART appreciates those  
11 who have taken the time to make a submission. All of the  
12 submissions will be carefully considered in reaching the  
13 tribunal's conclusions on the framework for regulating  
14 local government revenue.

15  
16 Some of the organisations that have made submissions  
17 to the review will be participating today. Our thanks to  
18 those who have agreed to participate today. IPART  
19 considers that this is a very important part of the overall  
20 investigation.

21  
22 Following consideration of the matters which  
23 stakeholders have raised in submissions and at workshops to  
24 date, IPART will make recommendations to the Minister for  
25 Local Government via a draft report which is due next May  
26 and a final report in September of next year.

27  
28 In other words, you will have a further occasion to  
29 comment when the draft report is released.

30  
31 Before we start this morning, I would like to say a  
32 few words about how the workshop will be conducted. You  
33 have available an agenda which indicates each discussion  
34 topic or session of the workshop.

35  
36 The proceedings for the day divide into three broad  
37 topic areas. The sessions focus on some of the major  
38 issues that were included in the submissions where IPART  
39 believes it would benefit from hearing more from  
40 stakeholders. The sessions are intended to provide IPART  
41 with information to assist in its deliberations.

42  
43 The three sessions will deal with, first, the role of  
44 local government in providing services to the community,  
45 how that role is shaped and how the services are decided  
46 upon; second, threats to the long-term financial  
47 sustainability of local government; and, third, options for

1 a more sustainable financial management system.  
2  
3 At the outset of each of the three sessions, Michael  
4 Seery will make a brief presentation to introduce each item  
5 and raise a series of questions; and each panel member will  
6 then be invited to express their views on the issues  
7 raised.  
8  
9 After each of the introductory presentations by  
10 Michael I will ask participants to respond to that issue on  
11 the basis that round table participants will limit their  
12 discussion to roughly a couple of minutes on each topic,  
13 and no speaker will be interrupted on the way through.  
14  
15 At the conclusion of each session, I will make a short  
16 period of time available for members of the audience and  
17 members of the public in the body of the room to express  
18 their views and opinions on the issues being discussed.  
19  
20 You can see that the proceedings are being transcribed  
21 and a transcript will be available on the IPART website  
22 within about a week. The first time you speak, if you  
23 could please say your name, position, the council or other  
24 body which you represent, so that you can be recorded  
25 correctly on the transcript.  
26  
27 Finally, while IPART is due to provide a draft report  
28 by next May, this is the relatively early stage of our  
29 investigation so we don't have any final views on anything.  
30 So it is not appropriate for IPART to indicate any kind of  
31 view, preliminary or otherwise, at this stage.  
32  
33 So if we could just do one lap of the table, if you  
34 could please just say your name and your position so that  
35 Errol can get you on the transcript, then Michael will  
36 introduce the first session.  
37  
38 MR SMITH: Jeff Smith, acting group manager, commercial  
39 services, Port Stephens Council.  
40  
41 MR TOLHURST: Graeme Tolhurst, group manager finance  
42 administration, Maitland City Council.  
43  
44 MR DEASEY: Craig Deasey, general manager, Dungong  
45 Shire Council.  
46  
47 MR McMAHON: Michael McMahon, group manager, corporate

.5/11/08 4

Transcript produced by Merrill Legal Solutions

1 services, Newcastle City Council.  
2  
3 MR PASTERNATSKY: Nic Pasternatsky, director of corporate  
4 services, Gosford City Council.  
5  
6 MS LYFORD: Julie Lyford, mayor of Gloucester Shire  
7 Council, here as an observer.  
8  
9 MR O'LEARY: Grant O'Leary, finance manager at  
10 Muswellbrook Shire Council.  
11  
12 MR IRVINE: Col Irvine, director of corporate services,  
13 Lake Macquarie Council.  
14  
15 MR DUTTON: Darryl Dutton, general manager, Upper  
16 Hunter Shire Council.  
17  
18 MR SEERY: Thank you, madam chair. Before we start the  
19 first presentation, I would like to apologise to anybody  
20 who may not have been advised of the changed start time  
21 this morning. We initially sent out a notice to all  
22 councils indicating a 9.30 to 3.30 time. The later  
23 material indicated a 10 o'clock start, but that may not  
24 have been passed through to everybody and I apologise for  
25 that. The good news is that we are not going to 3.30  
26 hopefully. We are scheduled to finish at 2 o'clock.  
27  
28 I would ask you, at the back of the room there is a  
29 register in a blue folder, if you would please sign that  
30 with your name and details so we know, even people in the  
31 audience, who turned up today.  
32  
33 Also, there are a small number of our issues papers  
34 available if you would like to take one with you.  
35  
36 As the chair has mentioned, today we have chosen three  
37 broad topics from the range of issues that were available  
38 in the original issues paper. For these topics we would  
39 like to hear stakeholders' views today and whether you have  
40 a solution that you would like to put forward on any of  
41 those particular issues.  
42  
43 For each of the sessions I will give a brief  
44 introduction and then we will leave you with a number of  
45 discussion points that you may like to address.  
46  
47 The first topic is the role of local government in

.5/11/08 5

Transcript produced by Merrill Legal Solutions

1 providing services to the community. Councils, as you are  
2 all aware, have a wider role now than what they had in the  
3 past and this has a considerable impact on costs for  
4 councils. We have noted that the Local Government Act  
5 provides councils considerable flexibility in determining  
6 the role that they have. However, in reality a council's  
7 role is in response to the needs of a community and one of  
8 the issues that we would really like to find out about  
9 today is how each of the councils goes about determining  
10 its role and how it interacts with the community in doing  
11 so and what sort of consultation processes they go through  
12 and how you would determine your accountability to the  
13 community.

14  
15 As a result of the changing role in local government,  
16 councils have to assess their priorities in return for  
17 providing services and infrastructure.

18  
19 So, the three discussion points are, how does the  
20 determination of the various roles for local government  
21 impact on expenditure and revenue? How do councils  
22 establish their role and be accountable to the community;  
23 and how effective are the mechanisms such as the annual  
24 report in ensuring accountability to the community?

25  
26 THE CHAIRMAN: Thank you, Michael. On this first topic  
27 one of the themes which has come through the earlier  
28 sessions that we have had in Sydney and the regions which  
29 may change the third point a lot is we have had a chorus of  
30 people saying that the annual report is pretty useless in  
31 terms of accountability to the local community, it is after  
32 the event and it is not a mechanism on which people rely to  
33 any extent. That may not be your position but I just raise  
34 it because that is the theme that we have heard so far.

35  
36 What people have spoken of quite a lot, though, is the  
37 new integrated reporting framework and how they regard  
38 that as a useful tool, both in terms of planning and in terms of  
39 accountability to the community.

40  
41 If it is your view that the annual report is a useless  
42 thing in the overall scheme of things, both for planning  
43 and for reporting to the community, feel free to say so.

44  
45 So on this run, we will start with Mr Smith and lap  
46 around this way.

47

.5/11/08 6

Transcript produced by Merrill Legal Solutions

1 MR SMITH: In relation to the first point, the  
2 determination of the various roles, it impacts on  
3 expenditure and revenue fairly significantly in that, given  
4 the restraints that are placed on local government revenue,  
5 if demands exist in regards to provision of additional  
6 services that will result in additional expenditure.

7  
8 Other than applying for a special variation or trying  
9 to identify a user fee or charge that may be able to be  
10 introduced, it is very difficult to try to accommodate  
11 additional functions without impacting on other services.  
12 Whether that is a function that is shifted from a State  
13 Government responsibility to local government or whether it  
14 is a responsibility that has been driven by community need,  
15 it can be quite difficult.

16  
17 In regard to the second point around how do councils  
18 establish their role and their accountability to the  
19 community, it is important to appreciate that local  
20 government is a tier of government in the same way that  
21 State and Federal Governments are and that councillors'  
22 ultimate accountability to their community is every four  
23 years or so through the election process. So councils  
24 establish their role through a whole range of community  
25 consultation processes, be that formal community  
26 consultation or feedback, either informally to senior  
27 management or to councillors, and feedback to council in  
28 regards to proposed policies or strategic plans and the  
29 like.

30  
31 In regard to the annual report, I would agree it is  
32 probably fairly ineffective in regards to ensuring  
33 accountability to the community and I would probably  
34 support the integrated planning process that has been  
35 formulated at the moment with long-term financial plans and  
36 long-term asset management plans and four-year service  
37 delivery plans that are linked to longer term community  
38 plans. That is probably going to be a much more effective  
39 means of ensuring that the community understands what the  
40 council proposes to deliver in the future and to track the  
41 council's progress in delivering that over time.

42  
43 THE CHAIRMAN: In the early stages of strategic planning  
44 for councils how do you engage the community at that stage?  
45 Presumably you have formal mechanisms, management  
46 meetings and management plans, which are no doubt formal  
47 and also informal?

.5/11/08 7

Transcript produced by Merrill Legal Solutions

1  
2 MR SMITH: At Port Stephens we are going through that  
3 community consultation process at the moment. We call it  
4 our futures forum, and we are holding about 15 community  
5 meetings across the local government area. The first one  
6 was on Monday night. They will be held across all the  
7 various population centres in the local government area,  
8 facilitated by qualified community engagement consultants  
9 that we have engaged, trying to identify from the community  
10 itself what it sees as the future of Port Stephens, what  
11 they want the community to look like in 20 or 30 years  
12 time.

13  
14 MR TOLHURST: In relation to the first point, the  
15 determination of the role and the impact on expenditure and  
16 revenue comes basically from the elected body. We also  
17 have at Maitland an annual community survey and that is  
18 undertaken by a separate firm outside of council and it is  
19 undertaken on a cross-section of the community and that  
20 gives especially the elected body some indication of where  
21 the community sees money needs to be spent or where their  
22 views are on things like that.

23  
24 I would also say that the role of local government has  
25 increased over the years in that things such as community  
26 services I think has now a larger impact on our budget than  
27 what it had in previous years and that is through the  
28 wishes of the community, but it is stretching the budget,  
29 how we balance that out.

30  
31 How councils establish their role and be accountable  
32 to the community is basically through the community survey  
33 and through the four-yearly elections and what they stand  
34 for, what their main arms are to provide. I believe that  
35 the majority of the community is lethargic in regard to  
36 their responses, unless they have like a telephone survey  
37 or something like that.

38  
39 We have in different ways tried to engage the  
40 community in meetings and the like, especially around  
41 management plans, and we struggle to get a large number  
42 there. The only time in the past number of years we could  
43 get a large number was when we met for a separate rate in  
44 regard to increasing money for tourism expenditure within  
45 the community. That suddenly had people packing the  
46 rooms. Again, I think it is just when people have an  
47 individual view on it and it affects them. It was not a large

.5/11/08 8

Transcript produced by Merrill Legal Solutions

1 monetary effect on their rate, it was about \$5 a year, but  
2 a lot of people did not support it.

3  
4 The third item, effective mechanisms - the annual  
5 report is a bit like the annual financial statements, it  
6 needs to be done but how many people read it. It would be  
7 interesting, if somebody had the time, to review in a local  
8 government area how many people read the annual report.

9  
10 There are some things in it which are very important.  
11 We received an additional rate increase three years ago  
12 where we have to report in the annual report how that  
13 additional money is spent. I think that is important, that  
14 regardless of who reads it, that at least it is being  
15 monitored about where that money is being spent. That is  
16 important for the community.

17  
18 The community strategic plan and those other avenues  
19 that councils are now going down are more important to try  
20 to engage the community. Especially in our area we have  
21 four wards and we try to engage them on a ward basis to try  
22 to get a bit more activity from those residents.

23  
24 MR McMAHON: In response to the first one, the  
25 determination of the various roles and its impact, from a  
26 very small rural shire council's perspective every decision  
27 like this is taken with a set mind-set as regards our  
28 budget and what that impact will be, positive or negative.  
29 Generally it is acceptance that another role normally  
30 incurs additional expenditure, it does not generate any  
31 revenue for council these days it seems, and as a  
32 consequence if council wishes to take a decision along  
33 those lines it has to be prepared to make a sacrifice  
34 somewhere else in one of our service levels to the  
35 community to take that role on.

36  
37 Dungong is very finely balanced in terms of its  
38 budget, more so now than ever. It has handed over its  
39 water and sewerage operations to Hunter Water from 1 July  
40 and that has a negative financial impact on the council.  
41 The council at the time made that decision mainly so that  
42 it could get a new sewerage scheme up for one of our  
43 centres of population. The financial risk associated with  
44 that was too great for council to wear and the cost to the  
45 community was getting to be more than exorbitant should it  
46 proceed. It was not prepared to make a decision to cut the  
47 sewerage scheme so it was virtually left with only one

.5/11/08 9

Transcript produced by Merrill Legal Solutions

1 alternative. It pursued a number of different avenues of  
2 finance and restructuring but it fell away. That was a  
3 determination made by the council last year.  
4  
5 Now, that determination was made after extensive  
6 community consultation, and that is a classic example of  
7 where things go wrong in community consultation. The  
8 council undertook the community consultation with six  
9 public meetings across the shire. The best representation  
10 was in the area where they were going to receive the  
11 sewerage. The other areas, two small rural villages which  
12 were paying a higher water charge at the time, made the  
13 call that they were quite happy to jump the Hunter Water as  
14 well. And then when we came to the main centre of  
15 population, the Dungong water and sewerage scheme, which  
16 were both financially viable and were renewing their assets  
17 at a steady pace, the show up to that community meeting was  
18 about 12 members of the public, and there were more staff  
19 and Hunter Water people there than members of the public,  
20 despite extensive advertising and a lot of media beat-up  
21 about it.  
22

23 From that process we went into a survey of the entire  
24 residents of the shire. It was probably the strongest  
25 return of surveys I have ever witnessed in the shire,  
26 around a 45 per cent return rate. The outcome of that  
27 survey was people were in favour of the move to Hunter  
28 Water and council made the decision based upon the  
29 community, mindful of the fact that at the time it was  
30 flagged to the council that this decision could jeopardise  
31 the financial viability of the council in the longer term.  
32 And at this point in time that is showing to be very true.  
33

34 To comment on the annual report, from my perspective I  
35 don't believe the annual report serves its purpose well. I  
36 note the comment from Mr Tolhurst about reporting on the  
37 rate variations to our community. That is something which  
38 was flagged during some of our consultation and we are  
39 quite happy to do that and we seem to be doing that on  
40 virtually a monthly reporting basis anyhow in our reports  
41 to council, so we are sort of demonstrating that. But some  
42 of the work involved in preparing that annual report seems  
43 to be a duplication of what we have already done and also  
44 we are engaging with a number of other parties,  
45 particularly on the SOE report, which is quite an extensive  
46 document, which for a small rural area the relevance of I  
47 would question. It would be better off on a regional basis

.5/11/08 10

Transcript produced by Merrill Legal Solutions

1 than a small rural area as our impact on the environment is  
2 only minimal in comparison with what happens in the entire  
3 region.  
4

5 I will just leave my comments there.  
6

7 THE CHAIRMAN: Certainly that is one comment that we  
8 have heard before, that there are duplicated reporting  
9 requirements and that there is great scope to reduce those  
10 and even though that is not a key focus of what IPART is  
11 looking at here, it clearly has a consequence.  
12

13 MR McMAHON: I will start with the statement that  
14 Newcastle City Council strongly supports the submission of  
15 the Local Government Shires Association to IPART. In  
16 respect to the points of discussion, I would confirm from  
17 our perspective that the role of local government has  
18 dramatically increased and expanded particularly in the  
19 last decade, coming from a level of government that was  
20 initially focused on property services to one that is now  
21 increasingly focused on community services around matching  
22 community needs in terms of social and community issues.  
23

24 Local government has also been affected by significant  
25 additional legislation placing a great impost on it and  
26 there has also been well documented cost shifting on to  
27 local government which has dramatically affected our  
28 ability to meet the demands on our limited income base.  
29

30 The main consequence of this has been a significant  
31 expansion in the backlog of infrastructure works. In our  
32 own case we had a major review 18 months ago when Percy  
33 Allen followed on from his statewide review and discovered  
34 in Newcastle's case, or confirmed in our case, that we had  
35 a \$132m backlog of infrastructure works that we are now  
36 trying to remedy over a ten- to 15-year period as well as  
37 meet existing demands. Clearly our revenue base is  
38 deficient in our capacity to do that.  
39

40 In respect to understanding community needs, we have a  
41 very extensive community consultation program. We have  
42 been running community surveys now for well over a decade.  
43 We conduct workshops, community forums and round tables  
44 like this, but have discovered, though, that that does not  
45 always produce a full representative input and at the  
46 moment we have set up and will roll out a community  
47 reference panel which will initially have about 900 people

.5/11/08 11

Transcript produced by Merrill Legal Solutions

1 included on that and we will grow that to about 3,000  
2 people, similar to the model that is used at Parramatta,  
3 again designed to try get broad based input from our  
4 community.  
5  
6 It is consistent, of course, with the requirements of  
7 the integrated planning and reporting model which we fully  
8 support and which we are in the process of implementing  
9 presently.  
10  
11 In respect to the annual report, yes, it is somewhat  
12 perfunctory and delayed, although we see it as an  
13 opportunity to provide a school card of what we promised to  
14 do, so it is about completing a loop of openness and  
15 transparency and being accountable.  
16  
17 There are duplications, though, in respect of  
18 reporting, as has already been acknowledged. I think the  
19 annual report would be a much more effective tool when it  
20 is properly linked with integrated planning and reporting.  
21 We support its continuance but more sharply focused around  
22 the output of the integrated planning and reporting.  
23  
24 MR PASTERNAISKY: In terms of the roles of local  
25 government, the first point, Gosford City Council in 2005  
26 undertook a visioning exercise, in fact, to deal with the  
27 community and to get back to the community in terms of the  
28 key focus areas that we should focus on. We have kept that  
29 going because we have also got a visioning and planning  
30 committee in place at the moment so the visioning exercise  
31 that was performed does not die.  
32  
33 That identifies for council, as I mentioned, a lot of  
34 the key focus areas where the community has concerns and  
35 would like council to be aware of and actually act on  
36 behalf of community.  
37  
38 We also conduct biannual surveys with the Central  
39 Coast Hunter Research Foundation, and they also ask the  
40 community a series of questions in terms of what services,  
41 what they think of council's services, and where we are  
42 lacking in certain areas.  
43  
44 Adding onto that, every council has core functions  
45 that it must be involved with in terms of our waste  
46 management, roads and so on. We have a core function there  
47 which is pretty much identified. We have a lot of various

.5/11/08 12

Transcript produced by Merrill Legal Solutions

1 committees involved with the community we have community  
2 representatives on and those committees report back to  
3 council so council is aware of what those committees are  
4 bringing back. So we know our roles from those committees.  
5  
6 The community in Gosford is very, very strong on the  
7 coastal open space system. We are one of the few councils  
8 in the state that has a strategic objective of having in  
9 public ownership some of the environmental - some of the  
10 sensitive lands, the ridges, the tops that you see around  
11 Gosford, well, that is in council's hands and that is part  
12 of our coastal open space system which council had the  
13 vision back in the 80s to pursue and is pursuing to this  
14 day, and not just relying on zoning to keep it pristine but  
15 hold it in council and public ownership to ensure that it  
16 does remain pristine.  
17  
18 Of course, our role is affected by the various  
19 political influences, and various councillors are from  
20 various political parties and have a particular vent on  
21 things. We have the Green influence on the environment.  
22 Every council is feeling that, so that comes through in  
23 terms of the impact on our expenditure and, of course, on  
24 our revenue base as well.  
25  
26 I have covered the second point in terms of what I  
27 said on the first one, but how are we accountable to the  
28 community, well, we are accountable to the community in  
29 terms of a lot of the committees that a lot of the  
30 community representatives are involved with on various  
31 issues, they are involved and have input.  
32  
33 We have a community report which actually reports back  
34 on our previous achievements and what we want to achieve  
35 for the future, so we do that. We also have a cut-down  
36 brochure, because people may not read a report, and very  
37 few people really do, so we have a cut-down brochure that  
38 is sent out with the rate notices and so on which is a  
39 summary. I am sure every council does that.  
40  
41 In terms of the annual report itself, it is really a  
42 compliance issue. Most councils do that as a result of  
43 legislative compliance as per the act. The relevant  
44 section in the act is of course expanded or reviewed by  
45 parliament, that is added to every year, you will find new  
46 X, Y and Zs added to section 428 of the Local Government Act  
47 which outline what you need to report on.

.5/11/08 13

Transcript produced by Merrill Legal Solutions

1  
2 The other item of interest to the community now is  
3 political donations, which they can go onto the electoral  
4 funding website and have a look at their councillors, what  
5 funding they have received as part of their election,  
6 re-election and so on. That has caused interest in the  
7 community because the way we do our planning items on the  
8 agenda, we have to disclose various influences in terms of  
9 donations, so the community is aware that if you put in a  
10 submission you have also got to outline whether you have  
11 made a donation over a period of time and therefore you are  
12 not putting any undue influence on the process itself.  
13

14 We also have the financial statements that are  
15 produced, which is again a legislative requirement, not  
16 only from a Local Government Act perspective but also from  
17 the accounting standards and reporting standards that are  
18 in place that councils, like any other organisation in  
19 Australia, have to follow.  
20

21 I can say that in terms of effectiveness, well, there  
22 is a general apathy in the community to many things in  
23 terms of you ask for submissions, you have your public  
24 forums, your public meetings, but only attract a handful of  
25 people and most who are attracted are known to councillors  
26 as "the usual suspects" in many ways. That is just the  
27 nature of the beast. You don't cut out the consultation  
28 but you are just aware that you don't reach the whole  
29 community because there is general apathy out there.  
30

31 MR DUTTON: I thought I was going to have the last say so I  
32 thought it was going to be an easy job. From Upper  
33 Hunter's point of view we support much of what Michael  
34 McMahon has had to say in regard to the overall support of  
35 the LGSA submission to the IPART inquiry and the fact that  
36 the various roles and responsibilities of local government  
37 have been based more on influences outside of local  
38 government than influences from within, our statutory  
39 responsibilities, the changing in unfunded mandates and the  
40 carrot and stick approach by other levels of government to  
41 get local government involved in other issues, the movement  
42 towards more human based services rather than property  
43 based services.  
44

45 But I guess you mentioned earlier that there is no set  
46 agenda, there is nothing set in concrete, in regard to your  
47 inquiry, yet your inquiry into State Government taxes came

.5/11/08 14

Transcript produced by Merrill Legal Solutions

1 out with a final report that had recommendations contained  
2 within it that had significant impacts on local  
3 government's ability to raise revenue, in our case an  
4 approximate 30 per cent increase in our general rate  
5 required to meet IPART's final determinations with the loss  
6 of the pay-roll tax exemption issue and the funding of  
7 emergency services and fire services.  
8

9 From our perspective, we are on the end of the food  
10 chain. We cop it down the line and the process of going  
11 through an inquiry on State Government revenue and then  
12 subsequently an inquiry into local government revenue, with  
13 the former having some influences on the latter, suggests  
14 that not everything is on the table and the final report is  
15 going to have some major influence on local government's  
16 ability to raise its revenue for all of the other  
17 activities that it does.  
18

19 In our case, we are into areas where we have never  
20 been before. In the last five years we are building and  
21 maintaining medical centres for local GPs. We provide  
22 housing and accommodation for doctors to live in those  
23 towns. We are involved in providing other health-related  
24 services, aged care services; we own and operate hostels;  
25 we own and operate independent living units for aged people  
26 as well as low income people.  
27

28 We are involved in a range of areas that probably are  
29 not recognised as traditional local government fields. How  
30 did we get there? We get there because they are needs of  
31 the community being met by local decision-making based on  
32 gaps of service provision that were traditionally provided  
33 by other levels of government, and you have this issue in  
34 New South Wales of who is responsible for health, is it the  
35 Federal Government, is it the State Government, and local  
36 government ends up at the end of the food chain picking up  
37 a great deal of the tab for that.  
38

39 That takes out our ability to make decisions and what  
40 other roles and things we would like to get involved in,  
41 because we are left at the end of the food chain. Our  
42 services for our normal property based services such as  
43 road maintenance and management of those assets, roads,  
44 bridges, water supply, sewerage, have suffered as a result  
45 of us moving towards those areas. I think the chickens  
46 will come home to roost at the end if the ability of local  
47 government to get some more physical resources, either by a

.5/11/08 15

Transcript produced by Merrill Legal Solutions



1 share of the Federal Government's GST payments to the  
2 states, which happens in a number of other states, and that  
3 is not being considered as part of this inquiry, it has not  
4 been mentioned anywhere in the reports, is something that  
5 needs to be opened up and discussed.  
6  
7 Other states provide fiscal equalisation through that  
8 GST revenue to the states. Why isn't New South Wales doing  
9 the same? So I have some broader issues in regard to the  
10 inquiry that I think we need to look at.  
11  
12 How do councils establish their roles and be  
13 accountable to the community. I don't think there is any  
14 other business or government entity that has any greater  
15 degree of accountability and control and regulation put on  
16 it than local government. We suffer under that. We often  
17 fight with two hands tied behind our back because of the  
18 regulation and the structured accountability that we have,  
19 which is in addition to the accountability that communities  
20 have through the normal democratic processes.  
21  
22 Local government is a tier of government. Those  
23 people who are elected to councils are in fact representing  
24 their communities, so community consultation is already  
25 happening just through the process of an election of a  
26 council and council meetings represent the community in the  
27 decisions it makes. What it does on top of that in terms  
28 of how it formulates its community plans, its strategic  
29 plans, and report on its operational plan or management  
30 plan under the current terminology, and how it uses the  
31 surveys and the like, we are all involved in doing all of  
32 that, and some of us probably more heavily than others.  
33  
34 In our case, we report on a monthly basis to our  
35 council and our community on meeting objectives on our  
36 management plan, so under the act it is required quarterly,  
37 we in fact do that monthly, so we use that as a tool to go  
38 back to the community about how we are achieving our  
39 targets on a very regular basis and in much more detail  
40 than what happens in most other places. We think that is a  
41 good mechanism for the organisation to demonstrate that it  
42 is achieving what it set out to achieve on a through the  
43 year basis, not waiting until after the event, the first  
44 week in November when the annual report or the finance  
45 statements go in, or the end of November when the annual  
46 report goes in.  
47

.5/11/08 16

Transcript produced by Merrill Legal Solutions

1 We actually support the annual reporting process. We  
2 think it is still a useful tool. There are some  
3 duplications in reporting. There is some linking in that  
4 annual report to other reports like the state environment  
5 report that was mentioned earlier that are pretty weak and  
6 don't achieve a great deal. But unless you look back over  
7 a trend of time, and the annual statements and annual  
8 financial report provide that data for that, it is  
9 difficult to see where you are going in the future as well.  
10 So I think it is useful not to be look at them as an annual  
11 report purely for that previous year, but as a trend of  
12 what has happened over many years.  
13  
14 Much of the data that you have got in your report is  
15 based on that annual reporting over a period of time, so it  
16 is still a useful mechanism to take place. So we would  
17 support that but suggest that there are better ways of  
18 reducing the duplication that is involved in it.  
19  
20 THE CHAIRMAN: Just one comment, in relation to your  
21 comment on the review of state taxation it is often the  
22 case that one IPART review has implications for things that  
23 come up in the future but we present our reports to the  
24 deadlines that we are given and we can't hold up a state  
25 review on taxation because there is something else in the  
26 pipeline, even though there is a relationship between the  
27 two. The other point about that one is that ours were  
28 simply recommendations. As to whether the State Government  
29 picks up any of those recommendations is a matter for it.  
30  
31 MR DUTTON: I take the opportunity as part of this process  
32 to make sure that it is recorded that local government made  
33 its submissions to the state taxation review. There would  
34 not be one of us that supported it, yet it was still in the  
35 final recommendation. So this process needs to be  
36 considered.  
37  
38 MR McMAHON: Can I make an additional comment, that in  
39 our case the consequence of government accepting IPART's  
40 recommendation would be a 22 per cent increase in rates, so  
41 it is extremely problematic to the issue we are talking  
42 about today.  
43  
44 MR IRVINE: I endorse the comments of Mr McMahan and Mr  
45 Dutton in respect of the points made. In reference to the  
46 questions you asked, the way that we at Lake Macquarie  
47 determine the roles associated with our activities at the

.5/11/08 17

Transcript produced by Merrill Legal Solutions

1 highest level is through detailed community consultation  
2 for strategic issues such as land use planning, which  
3 occurred for us through 2000 to 2004 culminating in our  
4 2004 LEP.

5  
6 More recently in 2007 we did extensive community  
7 consultation around our application for a special variation  
8 in our rates and again last year we published our first  
9 ten-year community plan in an aspirational form and what we  
10 found was that the community is interested in asking the  
11 council to deliver more and better services but unable to  
12 tell you what they don't want, which is a point I will come  
13 to later on.

14  
15 THE CHAIRMAN: You mean in the sense of if something  
16 has to go if you take on a new obligation?

17  
18 MR IRVINE: Yes. The point made earlier about  
19 representation is valid. In these sorts of events you see  
20 motivated minorities or people with a lot of time on their  
21 hand, so it is questionable whether or not you are actually  
22 getting views of the community. However, motivated  
23 communities vote with their feet at the elections.

24  
25 At Lake Macquarie we are in over 100 businesses and we  
26 are geographically diverse right around a big body of water  
27 and in visiting those different townships and centres the  
28 demand for services differs greatly. In some areas there  
29 is a high demand for leisure and recreation, in other areas  
30 more basic demand such as early warning for storm events,  
31 so that forces us into a situation where we are delivering  
32 small amounts of services to small communities without the  
33 ability to necessarily determine the quality and the level  
34 of those services.

35  
36 The point I make here is that under the current  
37 regulatory environment, the community is not really in a  
38 position to determine its own future because the  
39 constraints placed upon local government in terms of  
40 revenue generation severely impairs our community's ability  
41 to engage properly with its council.

42  
43 In respect of your second question, how does council  
44 establish its role, the point made already is that every  
45 four years people vote. But more regularly than that, we  
46 deliver a works program that is in line with the strategies  
47 that we establish in consultation with those communities in

.5/11/08 18

Transcript produced by Merrill Legal Solutions

1 a more detailed way and at a more basic level again we are  
2 responsive to requests from communities. However, we have  
3 also commenced trialling a program which we are branding  
4 participatory democracy, where some of our officers are  
5 engaging with small communities to give them  
6 decision-making and authority in determining the order of  
7 services to be delivered in that community over a short  
8 period of time. We are yet to see the results of that but  
9 we are hopeful.

10  
11 The third question you asked about how effective is  
12 the annual report, I endorse the comments of others but  
13 also throw in that the state of environment report, the  
14 social plan and the statement of affairs are all of dubious  
15 value in terms of how the community actually measures our  
16 performance. The question that is not asked is does the  
17 community measure your performance based on what you  
18 report in your quarterly report or does it measure your  
19 performance on what they read in the media. I suggest it  
20 would be important for us to retain aspects of the annual  
21 report for internal reporting and possibly benchmarking but  
22 that there needs to be some work done on understanding how  
23 a community actually measures the performance of an  
24 organisation.

25  
26 Finally, coming back to a point I made earlier, at  
27 Lake Macquarie we feel the constraints of some of the  
28 regulatory framework quite deeply and we reject the ongoing  
29 paternalistic attitude of the State Government in respect  
30 of the council and its role. The community is not allowed  
31 to determine its own future and we feel that is a great  
32 shame and we hope through this review that something can  
33 be done about that.

34  
35 THE CHAIRMAN: That point will be more the focus in the  
36 second and third topics for discussion. The question of  
37 financial autonomy and so on will come up again later in  
38 the workshop today.

39  
40 MR O'LEARY: Just in regard to the determination of roles,  
41 I think what we probably all accept is that councils by  
42 their very nature will only run services that will not pay  
43 for themselves on their own. If they did pay for  
44 themselves, the private sector would run them. So when we  
45 pick up a new service or expand an existing service, given  
46 the constraints that we have on our rate income, on our  
47 other major incomes like the financial assistance grant and

.5/11/08 19

Transcript produced by Merrill Legal Solutions

1 now the impacts of being faced in relation to the  
2 investment of funds accounts, both have come from statutory  
3 and normal market things, the only way we can pick up and  
4 run these new services is to cut existing services and I  
5 think when we talk about infrastructure issues that we are  
6 facing, a lot of that has come through this.

8 With regard to the establishment of roles, I don't  
9 think there is a lot more to be said, except I would like  
10 to add the role that history has played in the roles that  
11 councils have. There has probably been a range of council  
12 services that have been provided historically. Whether  
13 those services should still be run by councils is probably  
14 up for question and I think it would be incumbent perhaps  
15 on my own council and across a range of councils to  
16 regularly review the nature and size of services that they  
17 run.

19 THE CHAIRMAN: Can you give me an example of the sort  
20 of thing that might fall into that category?

22 MR O'LEARY: As an example, back in the 1970s I believe  
23 two councils were amalgamated. A lot of the services that  
24 were run in a much smaller community, only 20 minutes  
25 away, are being duplicated in the bigger centre, so as a result  
26 we are running two swimming pools because we have always  
27 done that, or run two sports facilities, for example, even  
28 though the distance between the ones that are run in the  
29 large centre and in the small centre are quite small.  
30 There is probably a range of those examples that most  
31 councils would have.

33 We also tend to pick up a lot of roles from where a  
34 community group or a volunteer group has failed, has not  
35 been able to maintain the services. We probably picked up  
36 a lot of assets in that way as well.

38 As a person who does a lot of reporting, being  
39 involved in annual reports, annual statements, we have just  
40 had to do a grants commission return, we have done a  
41 financial data return as part of the statements, I would  
42 like to add that in addition to the general apathy that  
43 people talk about from our constituents that there appears  
44 to my mind to be a pretty good level of apathy amongst  
45 those charged with the oversight of local government. We  
46 produce all our reports and then don't seem to hear much  
47 back. There does not seem to be any change or ruling or

1 edicts that come out as a result of the reports that we put  
2 in.

3  
4 THE CHAIRMAN: Before we move to people in the room, Ms  
5 Lyford, would you like to comment on any of that?

6  
7 MS LYFORD: I guess this is my first experience and  
8 obviously I concur especially with Darryl Dutton's  
9 comments, but from a smaller rural council, and from the  
10 other side of the fence I guess, as an integrated rural  
11 community a lot of the community consultation happens as an  
12 ongoing process and most of the community members are  
13 really not interested probably in the structure and the  
14 in-depth financial situation of council. I would say that,  
15 is it apathy or is it busy lives, that people are basically  
16 getting on with what they need to do and working hard in  
17 their own areas, and the annual report does provide a good  
18 PR exercise and what level does the community want to  
19 receive in a reporting sense, I get that is probably one  
20 thing.

21  
22 With a community such as Gloucester, we have a lot of  
23 people involved on committees, they are aware of what  
24 happens within council and you are very visible, you are  
25 very exposed as a councillor, so you are accountable. And  
26 I guess it is just a continuing role, that people are very  
27 interested in what is happening.

28  
29 As fast as an intergenerational equity situation,  
30 especially with funding and grants, rate capping, et  
31 cetera, there are major issues there. And even the State  
32 Government, with bridge infrastructure, et cetera, when a  
33 community has to look at a 25-year loan, \$60,000 a year of  
34 ratepayers' money going into a regional bridge that should  
35 be funded by the state government - and in talking with  
36 Martin Ferguson when he was here, with the Rudd situation  
37 in Newcastle the other day, he said it was a disgrace that  
38 we should be paying for that and that AusLink should be  
39 looking at that. So I think there are lots of issues  
40 there. Sorry to sound so parochial and not quite as  
41 strategic as the other fellows around the table, but I am  
42 happy to put that other perspective into the mix.

43  
44 THE CHAIRMAN: Thank you. Is there anyone not at the  
45 table in the audience who would like to comment on this  
46 first part of the issues for discussion? could you state  
47 your name for the transcript.

1  
2 MS HYAM: Linda Hyam, general manager of Newcastle City  
3 Council. I support the comments largely that have been  
4 made around the table but I would like to throw a few other  
5 different perspectives in if I may.  
6

7 The first set of comments I want to make is about the  
8 changes in the way in which government operates at local,  
9 state and Federal level and the implication for the roles  
10 of local government.  
11

12 Today it is very much accepted that local government  
13 will work in partnership with the State Government and the  
14 Federal Government and that has some implications. A  
15 couple of good examples of that are that Newcastle is  
16 working very closely with the Department of Lands around  
17 the issue of Crown lands and that will deliver some good  
18 results, but what it will do is have Crown lands passed  
19 over to a local government with unsure or uncertain sources  
20 of income for the future maintenance of those lands. I do  
21 not disagree with the strategy but the surety of income is  
22 not there at a time when climate change is having an  
23 increased impact on the state of those coastal land areas.  
24

25 The second example about working in partnership is  
26 Hunter Water, for example. We had a major flood here last  
27 year, with very significant damage to our area, and many of  
28 the issues that have been explored around the flood issues  
29 are being done in partnership with Hunter Water but it has  
30 under its legislation only a maintenance role for trunk  
31 drains, so there is no capacity to revisit the development  
32 and improvement and enhancement of those trunk drains.  
33

34 Local government has responsibility for local drainage  
35 systems. We know we can't eliminate floods, but the  
36 coordination between state and local is a major issue and  
37 it is not an unwillingness on the part of our local  
38 representatives at all, it is the way in which their own  
39 charters are developed.  
40

41 The third example in this area is the Department of  
42 Planning's role in Part 3 assessments, and so we find that  
43 where the local council would normally have a certain level  
44 of section 94 funds allocated to it from a development that  
45 an agreement has been struck with the major developer and a  
46 state department whereby we end up millions of dollars  
47 short in section 94 funds that should come to the local

.5/11/08 22

Transcript produced by Merrill Legal Solutions

1 community for development of particular areas.  
2

3 The second area I would like to comment on is the  
4 emerging changes in roles and what goes with that. We have  
5 a lot of traditional roles, which tends to be where the  
6 focus is, but a couple of people today have spoken about  
7 the increased role of local government in providing social  
8 services and that is one of the most significant changes.  
9

10 Those social services are being impacted by a number  
11 of other reviews, and to give you an example, the National  
12 Health and Hospital Reform Commission is already through  
13 its consultation process finding that there is a much  
14 greater role for local government in the future, not funded  
15 of course at this stage, but a much greater role for local  
16 government in ensuring the human health of their populations  
17 within the local communities.  
18

19 The second area is in respect to environment where now  
20 local government organisations have to provide a much  
21 greater emphasis on sustainability of their services. Once  
22 upon a time you provided the service and you provided it to  
23 the level that you could, but now you have to actually  
24 provide it in a way that has a recognition of environmental  
25 factors and sustainability and that usually costs you  
26 significantly more, but you still are on the same funding  
27 base.  
28

29 The third point in respect to emerging needs is that  
30 there is very limited capacity for local government to  
31 respond to newly emerging needs. An example of that in  
32 Newcastle is that we have approximately 130 business  
33 residents or sites in the length of our main street that  
34 are vacant. There is absolutely an urgent need for  
35 renewal. There is no capacity anywhere to support that and  
36 while we have a management plan process that is in place  
37 annually, and even with the integrated planning framework  
38 and an annual budget, the capacity to actually address  
39 changing needs within the community is quite restricted.  
40

41 That means then that a council, as already said here  
42 this morning, is faced with either cutting out a whole  
43 service to try to meet those emerging needs or to deliver  
44 the current range of services with less. Over the years  
45 that has been cut back to such a point that if you try to  
46 deliver that range of services what you end up with is a  
47 completely dissatisfied, discontented community and none of

.5/11/08 23

Transcript produced by Merrill Legal Solutions

1 those services being done well.  
2  
3 In respect to accountability to the community, all  
4 councils have a very significant number of council  
5 committees that involve community members. Newcastle has  
6 over 70 and those community committees largely help develop  
7 the future plans for specific areas of council activity.  
8 They are supplemented and complemented by surveys, by  
9 ongoing consultation with councillors, and by such  
10 strategies as exhibitions of plans of management, et  
11 cetera. I have worked in three levels of government and I  
12 would say there is far more engagement of the community in  
13 this level of government than any that I have ever  
14 experienced.  
15

16 Also in respect to that issue of accountability, most  
17 councils, including Newcastle, do have detailed quarterly  
18 reviews back in the public arena and those accounts are  
19 there. You have probably got more immediacy to council  
20 activity now than you ever had because everyone uses the  
21 web, so it is very, very public.  
22

23 In respect to the annual report, I believe there is a  
24 role for the annual report and I believe it is about what  
25 Darryl was talking about earlier, which is about a  
26 reference point over time. That is extremely important. I  
27 don't know of any other report in our council that actually  
28 covers the whole business of council. All of the other  
29 reports have part of the information, so I think it just  
30 needs to be clear about what is the purpose and intent of  
31 that report.  
32

33 There are many other mechanisms for reporting back to  
34 the community, including through not only your constituents  
35 but through the staff of your organisation. Newcastle has  
36 1400 staff involved in the operation of our activities.  
37

38 The annual report does provide a useful report, albeit  
39 there can be some improvements, so thank you very much.  
40

41 THE CHAIRMAN: Thank you. Is there anybody else?  
42

43 MR ESDAILE: Russell Esdaile, I am director of corporate  
44 services at Muswellbrook Shire Council. I just wanted to  
45 make a short comment if I could just adding to that second  
46 part on the accountability of councils to the community.  
47

1 As all of the councils here have indicated, there are  
2 many committees that are involved that councillors are  
3 involved with, both councillors and staff, that create that  
4 discussion point with the community. But there are also  
5 the additional forums and special interest groups that  
6 happen as well that over the life of a four-year term  
7 election of a council, there are special interests that  
8 occur during that time that provide a forum for the  
9 community to impact and provide ideas to the council,  
10 particularly when there are large projects, say, in our  
11 area where you have new coal mines that come in, you must  
12 have these extra community consultation groups happen. It  
13 is very important that the community feels that it is given  
14 a voice in those situations.  
15

16 The other expectation that the community has of  
17 councils which has not been raised here this morning is  
18 that the community expects that local government will act  
19 as a conduit for access to State and Federal government  
20 that they normally do not have access to. They will expect  
21 that the politicians at the local level will be able to  
22 have that touch point that they can access better and in a  
23 more formal process those State and Federal ministers who  
24 need to be accessed for specific projects and particularly  
25 for going cap in hand for funding, et cetera.  
26

27 They are just a couple of points I wanted to raise.  
28

29 THE CHAIRMAN: Is there anyone else who would like to  
30 speak on the first part, otherwise we will move on to the  
31 second session.  
32

33 MR SEERY: This next session is basically about the  
34 threats to long term financial sustainability of local  
35 government. I have up here a short paraphrased definition  
36 of what I believe financial sustainability might be. You  
37 may have a different view, and I would be interested to  
38 hear if you have a different view, but basically I see it  
39 as service and infrastructure levels and standards are  
40 delivered according to a long-term plan without the need to  
41 substantially increase rates or substantially reduce  
42 services. I guess the point there is the substantial  
43 component of the increase or reduction and what you define  
44 as substantial, is that a 20 per cent, 30 per cent or 40  
45 per cent or greater increase.  
46

47 A number of the submissions have identified various

1 threats to financial sustainability. Chief amongst these  
2 are rate pegging and cost shifting, something which has  
3 already been mentioned today, and areas where IPART  
4 requires further information include what is the adequacy  
5 of rate pegging, how effective is it, is it able from one  
6 perspective to achieve the goals of keeping rates down or  
7 is it causing problems with providing services that are  
8 needed to be provided, and this should be taken in the  
9 context of I guess in many most areas here that rates are  
10 not minor but certainly not the significant portion of  
11 income or revenue for councils.  
12  
13 How does the capacity to raise revenue vary across the  
14 state and should this be taken into account in any  
15 framework that is developed? We will talk about that later  
16 as well.  
17  
18 What is the alignment of revenue and expenditure?  
19 What is the scope for greater efficiencies? Have councils  
20 reached the level of efficiency that they can achieve or is  
21 there greater scope there for something else to be done?  
22  
23 The discussion points for today are three. How  
24 effective is rate pegging? What are the implications for  
25 councils and ratepayers? Does rate pegging effectively  
26 constrain the level of rates and total revenues for local  
27 government? While it may constrain rates, does it  
28 constrain council revenues in total?  
29  
30 One question of interest here is, if councils can  
31 apply for a special variation, does rate pegging really  
32 constrain council revenue? I would be interested in your  
33 views on that.  
34  
35 What examples are there in local government of best  
36 practice in place to achieve greater efficiencies? Are  
37 further efficiency gains possible?  
38  
39 All the reports to date suggest that debt is under  
40 utilised by councils. One area where we would like further  
41 information is how debt funding is used by councils to  
42 provide services, infrastructure and facilities; and what  
43 is the attitude of councils towards debt funding? What  
44 obstacles prevent councils from making greater use of debt  
45 to provide infrastructure, including new and replacement  
46 works? And finally on the issue of debt, is rate pegging a  
47 constraint on debt funding due to the lack of affordability

.5/11/08 26

Transcript produced by Merrill Legal Solutions

1 of associated payments?

2  
3 THE CHAIRMAN: Thank you. On the topics that come up in  
4 this second session, in previous workshops which IPART has  
5 held some people wanted to spend time exploring what were  
6 the original motivations for the introduction of rate  
7 pegging in the late 1970s. That is probably not a very  
8 fruitful exercise. The fact is that, whatever the origins  
9 of the introduction of that constraint, it has now been  
10 around for 30 years, so the question is really what effect  
11 it has on councils now, whether or not it serves its  
12 original purposes, whatever they were at the time - what  
13 effect it has on councils now.  
14

15 In the third session we will talk about what it might  
16 be replaced with or how it might be changed, but in this  
17 session we would really like to hear about how relevant it  
18 is in the bigger picture, to what extent rate pegging  
19 really affects the way councils plan and manage their  
20 businesses. We understood from previous discussions that  
21 in some councils, particularly smaller rural councils,  
22 rates account for about a third of revenue and grants have  
23 a much larger significance and that the bigger issue, the  
24 issue that is bigger than rate pegging, often is the  
25 question of whether or not councils should have a  
26 predictable share of a growth tax like the GST.  
27

28 There has also been a lot of emphasis on the fact  
29 that the importance of rate pegging depends very much on  
30 the size and area in which the council operates and the  
31 scope that it has in charging for services, particularly  
32 human services, so on this round we might just start with  
33 Mr Pasternatsky.  
34

35 MR PASTERNATSKY: Rate pegging has in fact forced a lot of  
36 councils to seek special rate variations and that has  
37 happened over the past 30 years, every council has probably  
38 got a special rate increase, however to get a special rate  
39 variation increase it has to be for a specific purpose and  
40 generally speaking it is for a capital project and so on,  
41 so we have all got these capital expenditure requirements  
42 and many of the increases that have been obtained over and  
43 above the rate pegging amounts have been directed for those  
44 capital projects.  
45

46 Does it constrain the level of rates and total  
47 revenues? Rate pegging certainly does. It constrains it

.5/11/08 27

Transcript produced by Merrill Legal Solutions

1 for councils. You mentioned city councils, metropolitan  
2 councils and regional councils. Our rating base is about  
3 55 per cent of our total income at Gosford City. And fees  
4 and charges make up around 20 per cent, and we have other  
5 grants and contributions and so on.

6  
7 What best practices are used by local government,  
8 greater efficiencies? Well, we have seen collaboration  
9 between various councils. There are various regional  
10 organisations of councils, ROCS, that are working together.  
11 On the Central Coast our national partner is Wyong. We  
12 work pretty closely with Wyong because we are also a water  
13 authority and we do it on a joint basis with Wyong, so  
14 there are certain synergies and certain economies of scale  
15 associated with being a water authority. I know it is not  
16 a council, but it is still part of our operations, so we  
17 achieve it there.

18  
19 We are also involved with the Hunter group in terms of  
20 looking at various best practices in terms of tendering,  
21 purchasing and procurement, all that sort of thing, so we  
22 are always participating with others in that regard.

23  
24 Also to look at what is available through our industry  
25 body, the LGSA, in terms of some of the contracts that have  
26 already raised and tendered for, through the LGSA you can  
27 tap into that without reinventing the wheel, corporate  
28 wardrobe, some procurement, so that allows you to sort of  
29 not do the same thing on your own because someone else has  
30 already done it for you.

31  
32 In terms of debt funding, I find it very interesting  
33 when I read the reports here that our debt is too low. The  
34 State Government always wanted to be debt free. The  
35 Federal Government is always reducing its debt and we are  
36 advised that we should increase our debt levels, so that is  
37 going in the face of what the other spheres of government  
38 are actually doing. I know that being a water authority we  
39 are continually encouraged by IPART to increase borrowing  
40 to fund some of our operations, because of the  
41 intergenerational equity issues and so on, and we do that  
42 for specific capital projects which will last over a number  
43 of years, so we are not scared to take on debt on the water  
44 and sewer side, but that is a regulated environment,  
45 whereas in fact when we do a submission and IPART signs off  
46 on it, there is a history of what the authority wants to do  
47 so therefore that continues on.

.5/11/08 28

Transcript produced by Merrill Legal Solutions

1  
2 THE CHAIRMAN: Just on that point, there is no suggestion  
3 of IPART advising anyone to increase their debt, it is  
4 really more a question of the appropriate use of debt by  
5 local councils. Clearly to fund year in year out  
6 maintenance obligations and so on there is a huge risk  
7 associated in using debt for that, but equally if councils  
8 do have assets of long lives I think the suggestion in  
9 raising this question of intergenerational equity is that  
10 long-term debt may be a fair way of spreading the cost of  
11 those long term assets over those who use them.

12  
13 MR PASTERNATSKY: I agree. In terms of best practice for  
14 council on a lot of those issues is actually to have a  
15 viable and an asset management system, so an integrated  
16 asset management system so therefore you have your asset  
17 management plans and you can look at the condition of your  
18 assets, you go and actually argue your case in terms of the  
19 state of your assets, so that is what we are working on at  
20 Gosford. We have commenced that.

21  
22 I know most councils have asset management systems but  
23 what has traditionally happened is that they are disparate  
24 and not integrated in many ways. In our particular case we  
25 wanted an integrated approach so therefore we can argue our  
26 case, should rate pegging be lifted we can say, this is the  
27 state of our assets, this is the money required for renewal  
28 and maintenance and all that sort of thing, not to mention  
29 if we want further civic infrastructure, like a performing  
30 arts centre or what have you, so in terms of best practice  
31 one of the challenges facing councils is a viable asset  
32 management system and plans and reporting against those  
33 plans. In that way you can actually consult with the  
34 community and actually point out the state of the assets  
35 and therefore if people understand that there has to be an  
36 injection of funds in terms of renewal maintenance, it  
37 makes it a lot easier for them to accept that.

38  
39 THE CHAIRMAN: Is that something that you see improving  
40 through the integrated reporting framework?

41  
42 MR PASTERNATSKY: Of course, yes, that is one of the lynch  
43 pins of that. We were a bit proactive in that regard  
44 because we saw the future. The proposed reporting that is  
45 coming in with the Department of Local Government, yes, you  
46 would require that.

.5/11/08 29

Transcript produced by Merrill Legal Solutions

1 MR McMAHON: In Newcastle's case our proportion of income  
2 coming from rates has been pretty consistent at around 50  
3 per cent in the last five years or so. What we have been  
4 growing is our income from fees and charges. That is now  
5 up to 23 per cent but that has been largely offset by  
6 reductions in financial assistance grants and other  
7 state-funded contributions, so it has pretty much evened  
8 out. The question is how long can we continue to increase  
9 fees without detriment to the community, particularly in  
10 providing the many services that have community service  
11 obligations where we have to have regard to the ability of  
12 people to pay those fees.

13  
14 The major consequence of that situation in Newcastle  
15 has been the significant growth of our infrastructure  
16 backlog and IPART has acknowledged the findings of various  
17 inquiries, the PricewaterhouseCoopers inquiry and similarly  
18 the Productivity Commission conclusion. They all have  
19 concluded exactly the same, so there is a clear strong body  
20 of evidence that the infrastructure backlog is the thing  
21 that is suffering.

22  
23 With best practice, yes, there are opportunities for  
24 continually improving the performance of local government.  
25 In our case, we actively embrace the continuous improvement  
26 program process, which is ongoing. We are about to take  
27 that to a new level to embrace the business excellence  
28 framework, which is a national framework or international  
29 framework, so that you can be very proactive with your  
30 continuous improvement initiatives. That gives you the  
31 opportunity to look at service delivery models and the way  
32 in which they can be streamlined and provided at lower cost  
33 whilst maintaining standards. That has limits but  
34 certainly it is an important focus of local government.

35  
36 Similarly, in terms of looking at our asset base, as  
37 already mentioned, whether there is any redundancy in our  
38 assets and whether that can be converted into capital for  
39 other priorities or emerging priorities.

40  
41 Yes, it is totally legitimate to use borrowing as a  
42 source of capital funding and that is certainly our policy  
43 position. We target borrowing up to 4 per cent - a debt  
44 service ratio of 4 per cent. That could increase but it  
45 cannot increase unless there is an ability to repay it, so  
46 affordability is the key issue in expanding the use of  
47 borrowing and responding to intergenerational

1 considerations.

2  
3 The preference in Newcastle is to borrow for capital  
4 works that have got some income producing capacity so it  
5 assists with the debt repayment, but obviously there are a  
6 lot of capital works that don't provide any income  
7 contribution. So definitely a legitimate form of long-term  
8 capital borrowing but you need to have the ability to be  
9 able to repay it and not prejudice the delivery of other  
10 services in doing so.

11  
12 MR DEASEY: In terms of rate pegging, I come from a very  
13 small council, as I said before, with a very low income  
14 base, and that has certainly impacted on our ability to  
15 deliver on the ground. In terms of the socio-economic  
16 implications for our ratepayers, the council is very  
17 mindful of that and we have gone out for two special  
18 variations in the last two years. It is one of our  
19 considerations and it is one question I pose back to IPART,  
20 at what point do those generated accounts become  
21 unaffordable to our community, because we can't keep going  
22 with rate pegging forever.

23  
24 There needs to be a review of the taxation system and  
25 in particular the GST revenue, there has to be a source of  
26 revenue coming back to councils. We just can't keep going  
27 this way. As we already made mention of in terms of the  
28 state review of taxation, if that is imposed on councils,  
29 yes, some of our members already contribute to that via  
30 insurance premiums and the like, and they will pick up  
31 another 6 per cent burden to start with. And there is the  
32 pay-roll tax situation as well.

33  
34 So it does constrain us as regards what we do - rate  
35 pegging. We went through an extensive exercise of asset  
36 management in terms of our roads network, a significant  
37 review of that, and it was identified that we have a  
38 serious funding shortfall to maintain the asset network at  
39 its current poor state without it deteriorating any  
40 further. So we need a major injection of funds every year  
41 into our road network. Dungong in the last 17 months has  
42 experienced four flood events, so the impact of natural  
43 disasters upon our local government area exacerbates the  
44 problem and accelerates the deterioration of our road  
45 network and our timber bridge network.

46  
47 In terms of best practices used by local government, I



1 suppose Dungong has been cut to the bone. It was cut to  
2 the bone before I arrived there in 1999 in terms of staff  
3 and resources, where we have a very small plant operation  
4 as such compared to our neighbouring councils. One of  
5 those reasons is that we are not a contractor to the RTA,  
6 simply because we don't have any state roads in our local  
7 government area, so that has a major revenue impact upon  
8 us.

9  
10 Coming from other local government areas where there  
11 is an ability to generate work and return to the council,  
12 we are very limited in that sphere of operation. The  
13 regional road network is the best that we can do and the  
14 works there are effectively pegged by State Government as  
15 regards the level of funding that is provided each year,  
16 and that is virtually on a diminishing rate of return. In  
17 current trends, it is not sustaining the regional road  
18 network as it is and there is more and more pressure being  
19 placed on councils to inject general revenue funds into the  
20 regional road network just to sustain them at their current  
21 levels.

22  
23 In terms of our best practices, it is a small  
24 workforce. Our outdoor workforce works a four-day week, a  
25 nine and a half our day, and that is to streamline our  
26 operations because we rely upon a lot of external plant  
27 hire contractors. They charge you for a full day whether  
28 you utilise it for a full day or not. The way we work now,  
29 the nine and a half hour day, better enables us to get  
30 eight hours on the ground with that plant and equipment.  
31 That is saving each year in the order of \$200,000. It has  
32 been effective. Less over time as a consequence. But from  
33 our perspective it works in a small organisation, it would  
34 not work in a large organisation, and there is a degree of  
35 flexibility in our workforce to work on that basis.

36  
37 My workforce is multiskilled, it has to be, there is  
38 no other reason for it. If a person goes off, I don't have  
39 the luxury of having additional resources on the ground to  
40 take up those gaps. They have to be filled within the  
41 organisation as it stands.

42  
43 THE CHAIRMAN: That is something we have heard from  
44 other councils.

45  
46 MR DEASEY: It is the state of the nation at the moment.  
47 I have a person on three months long service leave. I do

1 not have someone coming in to fill that role. It is being  
2 filled internally and they are doing their other job at the  
3 same time, so something has to give way somewhere.

4  
5 In terms of debt, we utilise debt for bridge  
6 infrastructure and stormwater drainage predominantly. We  
7 have been replacing our timber bridges, using a mix of  
8 funding for that, it coming out of part of the roads  
9 recovery funding plus capital borrowings. We have gone  
10 from about 89 timber bridges down to about 46. To replace  
11 the current 46 I need \$30m, and raising that sort of debt I  
12 don't think would be really acceptable to my community or  
13 affordable without significant cuts in services.

14  
15 That is excluding the ones on the regional roads. Our  
16 council took the stand that we are not going to cough up 50  
17 per cent to replace timber bridges on our regional roads.  
18 Being in an area that is currently under pressure from a  
19 proposed new dam, we are likely to lose another \$80,000 in  
20 general rates revenue, so let's just say that we are trying  
21 to get Hunter Water to meet that cost.

22  
23 MR TOLHURST: With regard to the first point, rate pegging,  
24 can I just commence, is rate pegging an economic decision  
25 or a political decision? Having been in local government  
26 from the time rate pegging has been in, it has been very  
27 difficult for councils I have worked at to live within rate  
28 pegging when a lot of other expenditure, especially wages  
29 and other costs coming through to councils, and costs  
30 coming from other levels of government, are increasing at a  
31 higher rate than what rate pegging is.

32  
33 Can I also just say as another point, I spent sometime  
34 a month or so ago with a mate of mine who is finance  
35 manager of a council in another state where they don't have  
36 rate pegging. They still have financial wants that are not  
37 being met but their needs seem to be met. I think that is  
38 a problem that New South Wales is facing in regard to its  
39 infrastructure, that the needs of meeting the  
40 infrastructure are not being met because of things such as  
41 rate pegging.

42  
43 The effect on council: It is just a case that if you  
44 get a 3.2 per cent rate increase, you put that into the  
45 budget and we all have to live within that and so things  
46 get either cut or we don't provide services that are needed  
47 within the community or, as Michael McMahon indicated, you

1 increase fees and charges to try to counteract that, but  
2 again the community does not also want to hear about  
3 increases in those kinds of costs for the services that are  
4 provided.

5  
6 Basically, and against all these three points,  
7 infrastructure for our council is the biggest liability  
8 that we hold. It is not an asset. Trying to meet that at  
9 a satisfactory level, we have a long-term asset plan with  
10 an integrated long-term financial plan and over the next  
11 ten years at a minimum we are looking at a shortfall of  
12 \$60m. Now, if you go to point three, for us to raise that  
13 \$60m in debt, it could be possible but there would be  
14 either a reduction in staff or a reduction in other  
15 services that we are already providing, so how do we  
16 balance that as an organisation and as an elected body to  
17 take out to the community?

18  
19 From a personal point of view, I wonder when all this  
20 infrastructure business is all just going to come to a  
21 point where people are just going to walk away. At the  
22 moment we have done a review of a number of our assets, we  
23 were going to build the assets, as to whether we keep  
24 providing them to the community or we just close them up  
25 and leave them locked up and not provide them at all,  
26 because it would be better if we tried to use other  
27 facilities instead of trying to keep some historical  
28 assets, buildings, than trying to maintain them.

29  
30 On best practices, it has already been mentioned about  
31 assets. Asset practices that have been implemented by  
32 local government have been good in regard to monitoring and  
33 maintaining them, and that has just highlighted the  
34 shortfall in funding for that.

35  
36 The other thing in the Hunter I believe is that  
37 organisations such as Hunter councils provide greater  
38 efficiencies and opportunities in trying to work together.  
39 Even as a medium sized council there is the option there,  
40 and there are some better efficiencies gained through that.

41  
42 I have already mentioned about the debt funding. We  
43 run at 5 per cent in our organisation. If we were to  
44 increase that, there would just be other services or  
45 facilities that would not be able to be provided.

46  
47 MR SMITH: In regards to rate pegging, over time it has

1 probably forced a number of efficiencies for local  
2 government but I think we have seen of late with the  
3 significant deterioration and quantification of  
4 infrastructure backlogs and these other issues that those  
5 opportunities are now exhausted and I think the time has  
6 come that there needs to be a serious look at that.

7  
8 The other issue around rate pegging and its  
9 relationship with special variations is the issue of the  
10 timeliness of the whole special variation process. Port  
11 Stephens applied for a special variation last year, to be  
12 effective in the year that we are in now, and that  
13 application was submitted to the Department of Local  
14 Government in March well before the due date. We were  
15 advised of our success on 10 July. The financial year had  
16 already started, the timeframe for actually getting rate  
17 notices to ratepayers was by the end of July, so it caused  
18 significant planning issues and resource issues internally.

19  
20 The comment was made before around rates not being the  
21 largest source of income for a council. Our rates  
22 represent about 45 per cent of our total income but I think  
23 what is important is that the rates revenue is really the  
24 only source of discretionary revenue for the organisation.  
25 User fees charges can only be levied for activities that  
26 provide some sort of private benefit, whereas a significant  
27 proportion of local government operations are more public  
28 based service provision, so road networks and parks and  
29 recreation, passive recreation facilities. So while there  
30 is an opportunity to raise fees and charges, they really  
31 can't assist in the provision of those public goods and  
32 services.

33  
34 The other issue around rate pegging is the calculation  
35 of the percentage increases. The research that we do  
36 internally suggests that, again given that the provision of  
37 civil infrastructure is a significant proportion of our  
38 total spend, rate pegging isn't keeping pace, anywhere near  
39 keeping pace, with the annual increases in those sorts of  
40 indexes in regard to the provision of civil infrastructure.  
41 As a number of people have touched on before, you are  
42 effectively going backwards and having to identify cuts in  
43 other areas.

44  
45 THE CHAIRMAN: Is there a time issue as well? One of the  
46 things we have been told is an issue is that it comes out  
47 too late in the planning process.

1  
2 MR SMITH: At Port Stephens we are basically initiating  
3 our budget process for next financial year at the moment,  
4 but we are not going to know what the rate pegging  
5 percentage is until maybe March, April. A lot of the major  
6 decisions effectively are already made based on an  
7 estimation, and it is problematic if that estimation is an  
8 over-estimation, or it can result in some unnecessary pain  
9 and suffering if that estimation is an under-estimation.  
10  
11 With regards to best practice, Michael McMahon touched  
12 on it earlier in regard to the framework, that various  
13 councils have been utilising the current reporting  
14 framework and we have realised some significant  
15 efficiencies and improvements in processes as a result of  
16 that. Again, those opportunities are finite, it does not  
17 present an infinite opportunity to improve practices, so  
18 all of these things reach their useful life from a  
19 financial perspective as some point.  
20  
21 In regards to borrowings, a lot of argument about  
22 intergenerational equity are valid. But at the end of the  
23 day it is a bit of a chicken and egg thing, a lot of  
24 councils probably have a capacity to borrow more than they  
25 are now but at the end of the day they have to pay that  
26 back over a certain timeframe. Unless there is an  
27 opportunity to generate that additional income to fund  
28 those debt repayments it is a less than an optimal  
29 situation to get yourself in.  
30  
31 THE CHAIRMAN: We have heard in other discussions that  
32 there is probably a more favourable view of debt funding  
33 amongst the managers of the various local councils and  
34 greater resistance from the elected councillors and that in  
35 a number of councils it has become almost a badge of honour  
36 to be debt free, whether that makes commercial sense or  
37 not.  
38  
39 MR SMITH: I think that is valid. At our council we have  
40 actually seen a change just in the last election in that  
41 the last council was to some extent a little bit debt  
42 adverse, whereas that balance seems to have shifted since  
43 September with the change in the elected members.  
44  
45 MR DUTTON: How effective is rate pegging? I guess it  
46 depends on what perspective you are coming from. If you  
47 are coming from a State Government control mentality then

.5/11/08 36

Transcript produced by Merrill Legal Solutions

1 it is very effective. It is the ultimate control. It is  
2 used that way. Not only just through the fact of having  
3 rate pegging in place, but the process to go around that  
4 through requesting a variation to the rate pegging limit is  
5 aimed squarely at reducing the number of applications,  
6 making it extremely difficult to get, and very political in  
7 its process.  
8  
9 A number of the councils here today have been through  
10 the process where they have had applications knocked back,  
11 I would say on political grounds rather than on reality,  
12 economic grounds, so the process is political and the fact  
13 that rate pegging is in place is political and so from a  
14 perspective of a State Government it has a control  
15 mentality of local government and it is very effective.  
16  
17 If you are on the other side, what are the implication  
18 also for councils, and I have been around 38 years in this  
19 business and so I was there when rate pegging was  
20 introduced and I have suffered the consequences. There is  
21 a thing called the law of diminishing returns and if it was  
22 ever aimed at increasing efficiency, we have gone well and  
23 truly past the point where we are getting some effective  
24 returns on what we do. I am not saying that we can't  
25 always improve. Like many of the other councils here, we  
26 are involved in best business practice, we are involved in  
27 the competitive provision of services, we are involved in  
28 fine tuning our organisations to make them as efficient and  
29 effective as we can make them, but it is not as a result of  
30 rate pegging that has got us that way. It is the result of  
31 the increased demand for our services and the limited  
32 fiscal resources that we have overall, rates being only one  
33 third of our revenue.  
34  
35 We are looking to make sure we give value for money,  
36 no matter whose money we are spending. So just to have a  
37 rate pegging system in place in New South Wales, it does  
38 not operate in any other state, and paradoxically they  
39 don't seem to have the same problems as we have in asset  
40 management and asset replacement of 30 years of the  
41 imposition of terrible constraint.  
42  
43 I read with interest in regard to the discussion paper  
44 about some of the recommendations about who should be  
45 continuing to control rate pegging, should IPART have a  
46 role in the rate pegging system, and questions about the  
47 timing for rate pegging. Just get rid of it is my

.5/11/08 37

Transcript produced by Merrill Legal Solutions

1 recommendation. It is an impost on local government as a  
2 third tier of government. It does not have to be there.  
3 If you want to make local government accountable, make them  
4 accountable through them demonstrating to their clients  
5 that the revenue they need is what they need, not what is  
6 imposed on them by somebody else.

7  
8 THE CHAIRMAN: There are variations around those themes  
9 which we will get to in the third area. One of the  
10 criticisms made is that whatever process lies behind the  
11 rate pegging number it is not visible or transparent, and  
12 that if you were in a situation where you had to continue  
13 to live with rate pegging of some kind an improvement would  
14 a more open process. That is where that comes from.

15  
16 I understand your view that you should abolish the  
17 lot, but the point is I suppose from previous hearings we  
18 do need to explore what the second choice position is  
19 because once a control like rate pegging is in place,  
20 relatively few politicians of any kind are prepared to give  
21 it away entirely.

22  
23 MR DUTTON: I understand the political realities of both  
24 sides of parliament to remove this control mentality on  
25 local government but it is about time there was some  
26 maturity in the relationship between local government and  
27 State Government in getting rid of this. It has always  
28 been the focus of attention. If it was taken away, the  
29 focus would be on efficiency and operations of the council,  
30 not about whether there is rate pegging in place and used  
31 on one side as an excuse, on the other side as a control  
32 mechanism, so eliminate it out of the exercise and then it  
33 is no longer relevant.

34  
35 From a ratepayer's point of view, IPART's  
36 recommendation for state taxes, to increase or impose the  
37 payroll tax and increase the cost on local government for  
38 fire services, as I mentioned earlier that is fine, we will  
39 lift the rate cap for that to happen, but the process of  
40 lifting the rate cap has been a major struggle.

41  
42 My council is an amalgamated council from four and a  
43 half years ago, 8,000 square kilometres, a very large area,  
44 and three former councils coming together. It would not be  
45 seen by that council politically to be the right thing to  
46 do to apply immediately, or within that period, for a  
47 variation to rate pegging without exploring all of the

.5/11/08 38

Transcript produced by Merrill Legal Solutions

1 efficiencies that can be obtained through the amalgamation  
2 process.

3  
4 We are a little bit unique in this room with regard to  
5 our attitude to applying for variations in the last five  
6 years. Might I say now that really needs to change, that  
7 in the next five years we need to start really getting down  
8 to the point where our total revenue has to meet our needs  
9 and rate pegging is one of the impositions to that that we  
10 will have to address.

11  
12 How effective does it effectively constrain the level  
13 of rates and total revenue for local government? As I said  
14 earlier, it is a variation of a few per cent on 30 per cent  
15 of our revenue, so in net terms it does not control us but  
16 it is the one thing that we do have control of because if  
17 we are living off grants, the year-to-year process of  
18 grants, it does not give you any long-term confidence that  
19 you will get those grants year after year. So why would  
20 you go through a process of borrowing money when you  
21 don't have that certainty of your future ability to pay that  
22 back.

23  
24 I mentioned our processes in terms of best practice.  
25 We follow the best practice principles, all the self-help  
26 guides and audits and all that, so we try to maintain a  
27 demonstrated level of efficiency to our community. We are  
28 happy to be judged on that basis.

29  
30 We don't like to be judged on the basis of an annual  
31 demonstration of control of local government by a Local  
32 Government Minister who talks about comparative  
33 performance of local government two years after the event on  
34 information that was pretty poorly put together in the  
35 first place and does not have much credibility, so local  
36 government's efficiency in the court of public opinion is  
37 impressed by that sort of process, which again does not go  
38 well towards that partnership between local government and  
39 State Government.

40  
41 In terms of debt funding, I think there is a place for  
42 debt funding where there is a good business case, where  
43 there is an asset that has a useful life, where there are  
44 intergenerational equity issues, but if you have got an  
45 assets replacement program that is 40 years long and if you  
46 don't buy bite off that program one year at a time then you  
47 have to borrow ten years worth or 20 years worth at one

.5/11/08 39

Transcript produced by Merrill Legal Solutions

1 time and pay it off over a period of time and that is only  
2 going to cost you more money, because you are paying an  
3 interest charge to the bank to give you some money, access  
4 to capital that you need to spend yearly anyway.

5  
6 So it depends on the size of the task and what you are  
7 going to achieve with the money as to whether it is  
8 worthwhile borrowing for that particular asset. Things  
9 like roads, if you have 1,000 kilometres of roads and you  
10 have a road life of 50 years, you need to replace 20  
11 kilometres a year. Borrowing for that 20 kilometres in one  
12 year does not fix up the next year, the next year and the  
13 next year, so borrowing is a significant constraint in  
14 terms of asset replacement.

15  
16 I read in here, the underlying tone, is that local  
17 government does not make much use of its borrowing  
18 capacity, it has this spare capacity to go out and raise  
19 extra revenue. It has severe constraints on it. If it is  
20 borrowing for something that can raise some money, whether  
21 it has an income stream with it that pays off the debt,  
22 sure, that is any business principle that says, go and  
23 borrow for that because that achieves the target. Or if it  
24 is a water and sewer asset where the population against the  
25 value of that asset pays for it, that has some good  
26 economic basis to it. But if it is just replacing the  
27 roads program, 1,000 kilometres, it is not a useful  
28 exercise.

29  
30 MR IRVINE: Going back to your first question about  
31 financial sustainability, I did have some additional  
32 comments so I hope you bear with me. Your definition  
33 didn't include a statement which referenced the  
34 satisfaction of the community to which the level of  
35 services was being delivered or the price paid by the  
36 community for that service.

37  
38 Down a level, we work to a more mechanistic  
39 definition. If you bear with me, I will share it. Our  
40 definition of fiscal sustainability is that you obviously  
41 value your assets at fair value and apply useful realistic  
42 lives to those assets. You then spend that cash only on the  
43 replacement of assets. Following that, you need to  
44 generate enough of an operating surplus to cover your  
45 principal and loan repayments and make contribution  
46 towards new capital. If you can do that, then in our view that  
47 is financial sustainability.

.5/11/08 40

Transcript produced by Merrill Legal Solutions

1  
2 Coming to the questions, is rate pegging effective?  
3 Without going over old ground, most of which has been  
4 covered, our situation this year was the following, that if  
5 we did nothing else this year than what we did last year at  
6 this year's price it would cost us an extra \$11m. As a  
7 result of the 3.2 per cent rate increase we received, that  
8 generated an extra \$2.2m for us. So is rate pegging  
9 effective? Well, it makes you think differently about how  
10 you are going to balance the budget. It does force you to  
11 do things like seek out regional partnerships and it  
12 enforces a certain amount of efficiencies on you.

13  
14 As some of the speakers have said, the gap widens  
15 because the cost indexes that we are faced with far  
16 outstrip the revenue constraints we have imposed on us. At  
17 Lake Macquarie, around 80 per cent of our revenue is  
18 constrained, so we find it quite difficult to find \$9m in  
19 one budget period and we will find it more difficult next  
20 year to find whatever it grows to.

21  
22 Consequently, we are engaged in an extensive service  
23 review which will be painful and long and result in a fair  
24 degree of dissatisfaction in the community because we will  
25 be asking that hard question: what is it you don't want, do  
26 you want less things.

27  
28 The other point on the psychology of rate pegging is  
29 is it effective in allowing your community and the elected  
30 officials to take full responsibility for their decisions  
31 and actions? Absolutely not, because they will always have  
32 the State Government to blame because they are constrained  
33 in what revenue they can generate. If you were to have a  
34 situation where the elected officials were actually  
35 accountable and responsible for setting the rates and the  
36 services, you would find a much greater degree of community  
37 connection with the council.

38  
39 On the second point in respect of best practice, again  
40 I didn't want to go over all ground, but it does force a  
41 certain degree of regional partnerships and those things  
42 work out quite well. The one thing I would mention today  
43 is the proposed changes to the act in respect of council's  
44 ability to act as corporations is of some concern to us.  
45 If we are constrained in our revenue generation activities  
46 through rate capping, one of the few ways we have to  
47 generate additional revenue is to form business units.

.5/11/08 41

Transcript produced by Merrill Legal Solutions

1  
2 If we are now going to be constrained by having to run  
3 those ideas past the Minister and go through whatever hoops  
4 will be put in place in the regulations we have not seen,  
5 we have some concern that that is another constraint that  
6 will limit us in our ability to deliver the services that  
7 our community aspires for itself.  
8  
9 I would also say, maybe cheekily, we are on the record  
10 as saying that one of the greatest efficiencies would be  
11 achieved by the abolition of the State Government in favour  
12 of regional government.  
13  
14 With respect to debt funding, that absolutely is  
15 appropriate. Following our definition, we use debt funding  
16 only to fund new capital and land acquisition. Our total  
17 indebtedness is around \$50m and we repay about \$5m a year.  
18 We also use debt management to fund capital activities  
19 associated with our waste collection services because the  
20 operating costs are recoverable through charging.  
21  
22 THE CHAIRMAN: Which are not pegged?  
23  
24 MR IRVINE: No.  
25  
26 MR O'LEARY: One of the things that most people would  
27 know about rate pegging which might not have been  
28 commented upon this morning is that it is just such a blunt  
29 instrument. For example, a couple of anecdotes: There were  
30 some group four councils, you would be aware of the  
31 grouping, where the average rate was between \$550 and  
32 \$1,000 a year, so if you are applying a flat rate cap across that  
33 whole range there is no capacity for the councils at the lower  
34 end to catch up ever.  
35  
36 As an aside, we had a look at our financial assistance  
37 grant and what we found is that our financial assistance  
38 grant, the general component, was much lower than two other  
39 councils which were about the same size and of the same  
40 demographic or geographic nature. We were receiving about  
41 \$800,000 less than them and part of that was because our  
42 land values were considerably higher than those other  
43 councils. Under the current methodologies, with the rate  
44 pegging, we have no ability, we charge about the same  
45 rates, so our \$800,000 that we are short in the financial  
46 assistance grant can't really be caught up because rate  
47 pegging limits us to where we are at the moment.

.5/11/08 42

Transcript produced by Merrill Legal Solutions

1  
2 I think those two stories just give a rough idea of  
3 how blunt an instrument rate pegging is.  
4  
5 When we talk about total revenues from local  
6 government, if I look at Muswellbrook, our money from  
7 rates, the financial assistance grant, pegged by a formula,  
8 an amount of money set by someone else, we have little  
9 control over that. Our interest on investments is being  
10 curtailed both statutorily through the new minister's order  
11 and what has just happened in the world, so if we then look  
12 at our other sources, things such as fees and charges,  
13 there are political and practical limits on that.  
14  
15 Our pools cost us some \$800,000 a year to run. If we  
16 were going to try to recover that through fees and charges,  
17 our pool costs would triple. It is very hard to charge  
18 someone \$10 to go for a swim in a pool. Most councils  
19 would agree that the fees and charges, whether we levy a  
20 fee for playing on a sporting field, are hard to  
21 administer. You charge so small an amount that it does not  
22 create that problem, or you charge so much that you either  
23 have a huge backlash or a decline in the level of those  
24 sports.  
25  
26 Obviously we have achieved very significant revenues  
27 through land development, particularly in residential and  
28 industrial subdividing of land. We have generated some  
29 \$800,000 a year, which is very nice, but in the first  
30 instance we were doing the residential in the absence of  
31 private works. Now that private companies have moved in,  
32 that has ceased. I don't think it is probably hugely  
33 appropriate or sustainable or worthwhile going forward for  
34 council to maintain a huge presence in that kind of  
35 industry for those sort of reasons. If we looked into  
36 moving into other private enterprises, the competition  
37 issues we would face in a mid-size town would be very  
38 difficult.  
39  
40 THE CHAIRMAN: You mean in terms of aged care or child  
41 care or those sorts of business activities?  
42  
43 MR O'LEARY: Towns get to a certain size where a lot of  
44 those facilities can be provided by a private provider. If  
45 we go into competition with that private provider the  
46 market is small enough to cause angst. For some other  
47 councils, like the larger metropolitan councils, they could

.5/11/08 43

Transcript produced by Merrill Legal Solutions

1 operate a restaurant and it is one of 1,000 and it does not  
2 matter. In rural areas the ability to be out in private  
3 enterprise is a lot more constrained for those competition  
4 reasons.

5  
6 I do not think there is any real need to comment much  
7 more on the efficiency side of things. Councils are doing  
8 everything they can. I do not know how local the services  
9 are that prohibit a lot of efficiencies being gained. We  
10 talked about Upper Hunter. They are still running three  
11 council buildings, so if you amalgamate them, will you  
12 really save all that much?

13  
14 With regard to debt, many councils would not see debt  
15 as an unacceptable way of funding infrastructure renewal or  
16 replacement. But if I look at the situation of my own  
17 council, we run an operating deficit in our general fund,  
18 which is something I would like to see corrected very much  
19 before we accept more debt and therefore add more pressure  
20 to that deficit. I do not think anyone accepts that  
21 running deficits is sustainable and anything that we do  
22 that would add pressure to that could only make that  
23 situation worse.

24  
25 As I said, when you talk about constraints we have had  
26 both on our income and expenditure side, it can be very  
27 hard to fix that operating deficit quickly. Thank you.

28  
29 MS LYFORD: From our perspective, rates are a much smaller  
30 portion of our revenue. Gloucester is also a low  
31 socio-economic area, as is Dungong. We are geographically  
32 isolated. We have never had a special rate variation and  
33 have been fairly conservative in our budget constraints and  
34 we have always had a balanced budget and a fairly healthy  
35 debt ratio. Being in debt is not seen as a negative.

36  
37 With the rate cap, I think it is political timidity,  
38 not just with the State Government, but with local  
39 government. There has been quite a push from the  
40 administration side and from the political side but I think  
41 the push could be a little greater to talk about rate  
42 capping and the disadvantages. For some councils I guess  
43 having that rate cap is also a little excuse, that we are  
44 not pushing the community too hard. Then to have to go out  
45 and justify a special rate variation to get needs  
46 accommodated I think is unfair on the administration and on  
47 the political side of councils to be actually put in that

.5/11/08 44

Transcript produced by Merrill Legal Solutions

1 position to justify that.

2  
3 Most residents I feel would understand if rate capping  
4 was abolished, as long as their needs were met and they  
5 could see substantial differences on the ground. They  
6 don't want to pay \$10 to go into their local pool, they  
7 want to pay \$3, and if everything becomes user pays we may  
8 as well turn into a private industry.

9  
10 From our perspective rates would be impacted by the  
11 growth in national parks, which in one part is a good  
12 thing, being wilderness and tourism, but we are losing a  
13 lot of rates through that. We know that is currently on  
14 the table being discussed.

15  
16 Council is a major employer in our town and when we  
17 have to cut services or things - we do on the ground due to  
18 financial constraints - we start to lose employees, we  
19 start to lose families, the schools get impacted upon, so  
20 that is a major extrapolation of circumstances.

21  
22 We have been very proactive with our money and with  
23 our balanced budget. We have just replaced Gloucester  
24 Bridge, \$70,000 in loan for ratepayers to pay over the next  
25 25 years, and we are just about to go on to another bridge,  
26 Lauries Bridge, both regional bridges, both on a major  
27 artery into town and on the Brisbane to Sydney route,  
28 cutting an hour off the journey, so it is being used  
29 increasingly every day by a lot of transport modes. It is  
30 unfair that we have to do that, but we are put in the  
31 position of having to do that. But if there is a major  
32 flood which takes out one of the bridges then it is fully  
33 funded. It seems ironic that they are proactive in putting  
34 the community into hock for 25 years at \$60,000 a year to  
35 keep a regional road open in terms of major flooding, and a  
36 bridge that is just about to disintegrate, that we seem to  
37 be penalised for that.

38  
39 As far as best practice, we belong to Hunter Councils  
40 and Mid North Councils and we get excellent value for our  
41 participation in that, especially with the cost savings  
42 through group purchases. Also with RAMS, the regional  
43 management strategy, that helps us with planning and  
44 environment needs, so as a small council we are very  
45 proactive and involved in looking at best practice.

46  
47 The constraints to provide the services - we are

.5/11/08 45

Transcript produced by Merrill Legal Solutions

1 probably within the next four years having to actually  
2 start to cut services because, as with the rates, it is a  
3 low part of our budget but a substantial part, we account  
4 for every dollar, and that is a great pity for a community  
5 that has worked its guts out to provide good services. We  
6 are hampered by rate capping and by cost shifting and we  
7 won't stop putting things on the ground for our community  
8 but the community will start to ask questions soon because  
9 it knows that council has done a pretty good job.  
10  
11 THE CHAIRMAN: Thank you. Is there anyone from the  
12 body of the room who would like to comment on the second  
13 segment?  
14  
15 MS HYAM: Just a brief comment on the first issue, rate  
16 pegging. Most of the issues have been covered by other  
17 people but there are two issues I specifically want to  
18 state and that is that it is really looking backwards  
19 rather than looking forwards. It is not prospective. It  
20 does not take into account the forward increases that we  
21 are anticipating.  
22  
23 In Newcastle, for example, we have been advised that  
24 we can expect in the next 12 months an increase of up to 20  
25 per cent for energy costs, increases coming in up to 46 per  
26 cent for water costs and a potential bill of up to \$5m for  
27 carbon emissions, so that is before you start with any of  
28 the normal delivery of services and your other normal cost  
29 increases.  
30  
31 The second thing is that it does not take into account  
32 your specific community's ability to pay. We have in  
33 Newcastle a population where the average income is below  
34 that of the state. We have a higher proportion of aged  
35 members than the state. We have a higher proportion of  
36 single families than the state. So the capacity of that  
37 community is very, very limited to pay much more. There  
38 are some natural self-regulation factors for a council in  
39 terms of how it would manage its increases, the rate  
40 capping and the financing arrangements, and I am talking  
41 more broadly here, which need to be such that you can  
42 address your local circumstances.  
43  
44 Rate pegging is a very paternalistic approach that  
45 belongs to the 1970s. Increased accountability goes with  
46 increased empowerment, so we have one half of it and not  
47 the other half and it is time that the cultural shift took

1 place in government financing arrangements with local  
2 government.  
3  
4 The other thing I would just like to say is that I  
5 would like to have some of the same constraints that are  
6 applied to local government applied to State Government.  
7 If there was something that was a bit more evenhanded about  
8 the treatment then it might not be an issue that rankles  
9 everybody so much, but there seems to be two sets of rules.  
10 There needs to be a consistent financial approach across  
11 the three levels of government, whether that be with GST or  
12 grants or whatever.  
13  
14 A final comment is that even recently with the relief  
15 funding for the storm damage and the flooding, it is  
16 laughable in terms of some of the amounts of compensation.  
17 Newcastle lost a very significant number of mature trees.  
18 We have been offered \$3 a tree. For that you would not  
19 even get something out on the road to plant a tree, let  
20 alone replacement, yet we have an urban trees policy and we  
21 will replace those trees. But it will be well beyond \$3 a  
22 tree.  
23  
24 I think it is time for a climate of respect in the  
25 relationship between the two levels of government and a  
26 true recognition that local government has a legitimate  
27 role in servicing its community and needs an appropriate  
28 financial strategy to support it. Thank you.  
29  
30 THE CHAIRMAN: Any other member of the audience.  
31  
32 MR EGAN: Anthony Egan, manager, finance, Singleton. I  
33 would just like to make one brief comment in regards to the  
34 effectiveness of rate pegging, mainly to do with the  
35 announcement timeframe of the rate pegging limit, which  
36 normally occurs around May each year, by which time the  
37 majority of councils have got their management plans on  
38 public display, making an assumption on what the rate  
39 pegging will be. Looking forward, it is a requirement for  
40 councils to look more longer term, and to enable us to do  
41 that it would be great and really appreciated if rate  
42 pegging does remain.  
43  
44 Consideration was given to providing a longer term  
45 provision of what future rate pegging may be into the  
46 future to help the longer term planning for councils, as to  
47 what programs we should be planning for into the future.



1  
2 THE CHAIRMAN: That is something that we will spend time  
3 looking at after lunch in terms of whether there should be  
4 a peg of any description, whether there should be say a  
5 price index by which people are either constrained or  
6 against which they can assess their proposed increases, and  
7 over what price path, if you like, or what planning cycle  
8 that should apply if you went down that road, but we will  
9 talk about that in the third segment.

10  
11 Anyone else like to comment before we break for lunch?

12 If not, we are about 10 minutes behind schedule, so could  
13 we aim to reconvene by about 12.45.

14  
15 LUNCHEON ADJOURNMENT

16  
17 UPON RESUMPTION:

18  
19 THE CHAIRMAN: We will resume, and this is the third  
20 segment of today's discussions, so I will ask Michael Seery  
21 to introduce it.

22  
23 Fundamentally what we are looking at here are the  
24 options for the way forward, whether it is a clean sweep,  
25 as I am sure Mr Dutton would prefer, or whether it is some  
26 modification of the existing system and, if so, what, so I  
27 will hand over to Michael.

28  
29 MR SEERY: In the issues paper we identified five options  
30 for regulating local government revenues. These options  
31 are not necessarily the only options available but they did  
32 provide us the basis for discussion in the report and we  
33 thought they were particular options that were worth  
34 exploring as part of our issues paper.

35  
36 In response to these options, there has been fairly  
37 strong support for options four and five, which I will  
38 expand on in a moment, and in the 64 submissions there were  
39 very few alternative options put forward to us although  
40 there were a couple of different considerations about the  
41 index that was raised at a number of the earlier hearings.

42  
43 The five options which are up on the screen can be  
44 summarised basically as option 1, being that we retain rate  
45 pegging with some modifications. This really is a matter  
46 of tinkering around the edges and has not had strong  
47 support.

.5/11/08 48

Transcript produced by Merrill Legal Solutions

1  
2 Option 2 did have some support in regard to having a  
3 disaggregated form of rate pegging where this gave an  
4 opportunity for different councils to have a different peg  
5 depending on certain characteristics of those councils, for  
6 example, there may have been outer fringe councils or  
7 regional councils, western regional councils or coastal  
8 regional councils, each of those having a different cap.  
9 Whilst it is disaggregated, one of the things that IPART,  
10 when we talk about in a minute the role for IPART, if IPART  
11 was to have a role one of the things we would not be doing  
12 would be to set rates for 152 councils. That is a function  
13 that is way outside our capability and I think it is  
14 probably inappropriate to provide an individual rates cap  
15 for each council. Also we are certainly not about doing  
16 the actual grunt work of determining what the rates are.  
17 That is rightly a function for councils.

18  
19 Option 3 involved providing a rate peg for the  
20 operating revenue only. For this there would be removal of  
21 the capital expenditure from the revenue components and  
22 therefore it would enable people to just cap the operating  
23 revenue and not to include capital expenditure, which is a  
24 significant source of frustration in the rate cap.

25  
26 Option 4 was to exempt councils from a rate peg  
27 subject to them meeting certain criteria. That means that  
28 everyone would be involved in a rate peg but if a council  
29 was able to achieve certain benchmarks, to achieve  
30 particular performance standards - and these standards have  
31 not been worked out at this stage - they would be able to  
32 be exempted from being involved in the rate peg.

33  
34 Finally, option 5, which is a bit different to option  
35 4 in respect that everyone would be outside of the rate peg  
36 in option 5 but would be pulled back into a default cap if  
37 the council failed to meet certain criteria.

38  
39 In the submissions there was strong support from  
40 councils at least for the removal of rate pegging and some  
41 of those views have been expressed this morning. However,  
42 if rate pegging was to exist into the future, the next best  
43 options were options 4 and 5.

44  
45 In determining what the appropriate regulatory  
46 framework should be, we firstly should consider what the  
47 objectives are for that regulatory framework and in the

.5/11/08 49

Transcript produced by Merrill Legal Solutions

1 issues paper we listed a number of those objectives.  
2  
3 In the discussion paper which we circulated for  
4 today's workshop there were a number of issues such as  
5 financial sustainability, the linkages of rate setting and  
6 costs, efficiency, prudent use of borrowings,  
7 accountability, openness and transparency, and the  
8 recognition of diversity. This certainly needs to be  
9 included or could be included in a regulatory framework as  
10 a single approach may not suit everybody.  
11  
12 This was heavily discussed at a number of our earlier  
13 workshops and whilst there is a recognition that it would  
14 be good to provide some diversity, at the end of the day  
15 there was not a strong optional framework put forward,  
16 although in the workshop in Queanbeyan it was suggested  
17 that if you are looking at the index that this could be  
18 devolved, if say IPART were to develop an index or work out  
19 a number of different indices for different assets, for  
20 example, wages, construction costs, general movements in  
21 the index of prices, and then each individual council have  
22 separate weights attributed to each of those factors then  
23 that could be incorporated into a particular index.  
24  
25 Finally in relation to the role of IPART, IPART's role  
26 in various workshops has been suggested could be to  
27 actually calculate the rate peg amount, to regulate the  
28 framework, and an alternative view was that one role IPART  
29 could have, even if there was no rate pegging, would be to  
30 develop the index and that index could, for example, if  
31 rate pegging was removed completely, could be used as a  
32 benchmark for the community to determine, or to assess,  
33 each council's particular rate increases against each year.  
34  
35 So the discussion points for today are what are the  
36 objectives which should underpin a regulatory framework for  
37 local government revenues? Which of the options for  
38 regulating, or any other alternatives, meet these  
39 objectives? What role should IPART play in setting local  
40 government rates and charges in future years? Should the  
41 framework provide for diversity across councils and, if so,  
42 how could these be achieved?  
43  
44 THE CHAIRMAN: Thank you, Michael. In looking at this  
45 part of today's discussions we accept that there is a range  
46 of views, and there has been in past workshops held,  
47 ranging from the occasional ratepayers association in

.5/11/08 50

Transcript produced by Merrill Legal Solutions

1 favour of retaining rate pegging right through to the  
2 abolitionist view that rate pegging should be abolished  
3 altogether and other forms of accountability should prevail  
4 to local communities. Then there are intermediate  
5 positions, some of which Michael has outlined.  
6  
7 Some of those are probably not worth spending a lot of  
8 time on unless you favour them. The opex capex divide  
9 didn't seem to be very productive. The response to that  
10 was that people would put a lot of unproductive energy into  
11 opex capex going forward.  
12  
13 The categorisation of councils was thought to be  
14 unproductive in the sense that if a particular category or  
15 grouping of councils was given a higher rate peg increase  
16 then everyone would try to reclassify themselves and a lot  
17 of energy would be put into that unproductive activity  
18 there.  
19  
20 There was in previous discussions some support for an  
21 indicator, whether it is a cost index or some other  
22 indicator, against which even in the absence of rate  
23 pegging the performance of a council can be judged by  
24 people in the local community. So the first point which  
25 has come up several times so far is however the number is  
26 developed, it needs to be developed by a transparent  
27 process, it needs to be developed not politically.  
28  
29 The second issue is whether the costs of councils all  
30 rise at the same rate or whether there are significant  
31 differences depending on whether you have a large roads  
32 maintenance program or a large plant and equipment  
33 program or various other things that may drive an index  
34 differently.  
35  
36 The third thing was this question of what role should  
37 such an indicator play? Should it be the default cap?  
38 Should it simply be a signpost against which people judge  
39 the role it plays, or whether one or the other is more  
40 realistic to work with. That is the sort of ground that we  
41 have heard views on so far, but if anyone wants to  
42 introduce new ideas in relation to that, please do.  
43  
44 For those who feel strongly that complete abolition of  
45 rate pegging is the preferable outcome, that is a perfectly  
46 fine view to hold, and we have heard it loud and clear, but  
47 you do need to address the fall back because there is

.5/11/08 51

Transcript produced by Merrill Legal Solutions

1 clearly no guarantee that that is what the State Government  
2 will decide to do. Therefore it would be useful to address  
3 second and third choices in that eventuality.  
4  
5 We will start with Mr Dutton on this one and take the  
6 abolitionist view as read and maybe ask you what your  
7 second and third choices are.  
8  
9 MR DUTTON: Before I go to that, though, could I just take  
10 a couple of minutes about today's sessions. We are now in  
11 the final session, and the first session we talked about  
12 accountability, the second session we talked about  
13 efficiency and debt, but we have not actually attacked the  
14 core of the problem, which is the revenue framework for  
15 local government.  
16  
17 We are now dealing with rate pegging, which is just  
18 one small element of that entire process. We have not had  
19 any discussion about revenue sharing grants and the  
20 vertical and fiscal horizontal arrangements between the  
21 Federal Government's grants to the states, which New South  
22 Wales does badly in, then the horizontal distribution of  
23 those funds to local government via a formula that has  
24 distorted effects for population and disability factors  
25 that create disparity, the separation between the general  
26 component and the roads component in that area, the three  
27 by three funding and the roads to recovery funding, and we  
28 have not talked about the State Government in terms of its  
29 lack of paying local government fees and charges, State  
30 Forests operating commercially but not paying rates, we  
31 have not talked about National Parks & Wildlife taking up a  
32 large area of our shires and not making any contributions  
33 to the networks that they use and the access requirements  
34 that they have to their particular properties. We have not  
35 talked about the pay-roll tax issue for local government,  
36 local government being used as an agent for taxation for  
37 the State Government.  
38  
39 They are all things in the broader framework of  
40 revenue for local government that we have not had any  
41 discussion on at all. Just to concentrate on rate pegging  
42 and the differences between five options in rate pegging,  
43 to me we have missed the point, we have used a lot of time  
44 and effort and resources here to talk about a revenue  
45 framework but we have really concentrated on other issues  
46 and missed this component of it entirely. So I just make  
47 that point.

.5/11/08 52

Transcript produced by Merrill Legal Solutions

1  
2 In terms of the rate pegging situation, my council's  
3 submission is quite strong, my personal position is quite  
4 strong, that rate pegging misses the point. But if you are  
5 going to have a rate pegging arrangement, let's have one  
6 that has the least imposition on local government, have  
7 some broad percentages under which local government can  
8 raise its revenue above which you need to go through a  
9 process that is depoliticised, whether it is IPART or some  
10 other supposedly depoliticised process. So that would be  
11 our position, whether that is option 4 or option 5 or a  
12 combination between those two.  
13  
14 THE CHAIRMAN: It can be either, depending on what the  
15 role is for any cap or cost index, whether it actually  
16 serves as a cap or whether it is just a benchmark against  
17 which you will judge whether you fall below it or exceed  
18 it, in the sense that if you have it as a benchmark and you  
19 were a council that exceeded it, you presumably would be  
20 called to account or to explain by the people in the local  
21 community, so it can be either option 4 or 5.  
22  
23 In relation to the other things which you have raised,  
24 clearly we don't have a roving brief on local government.  
25 We have got terms of reference that constrain what we can  
26 do. We certainly can't deal with anything that is within  
27 the purview of the Federal Government. We are a New South  
28 Wales state tribunal.  
29  
30 MR DUTTON: I understand that you have been given terms  
31 of reference. What I am suggesting is that those terms of  
32 reference, if it was an inquiry into the revenue framework  
33 for local government, it has missed the mark. It has not  
34 extended to the things that really affect us. Rates is a  
35 third of our revenue and rate pegging is a small percentage  
36 of the revenue based on the previous year. Grants and  
37 contributions and our ability to get access to things like  
38 section 94 contributions, which are State Government  
39 controlled things these days, parking fees and those sorts  
40 of things that local government gets revenue from, are  
41 applied disparately across the state, so they are the  
42 issues that I would liked to have been able to discuss.  
43  
44 THE CHAIRMAN: You can, of course, discuss any issue that  
45 is relevant to our terms of reference in the written  
46 submissions that you make. For the purpose of these  
47 workshops we are really dealing with a subsection of things

.5/11/08 53

Transcript produced by Merrill Legal Solutions

1 that are covered in the written submissions.  
2  
3 MR IRVINE: Picking up from what Darryl said, if there was  
4 an abolitionist view to rate pegging, we would hate to see  
5 that succeed, to have it undermined by future impositions  
6 by the State Government to become a tax collector on its  
7 behalf.  
8  
9 Further to the points on the first question, the  
10 objectives on a framework in my view should be less  
11 regulatory and more a goal post, it should be outcome  
12 based, and the objectives should be outcome focused and  
13 developed in partnership with the communities affected by  
14 the outcomes. In that respect it is a framework that  
15 should be a bit looser and less imposing.  
16  
17 Which of the options for regulating or alternatives  
18 meet these objectives? I am not sure any do, however we  
19 would be interested in seeing in more detail how options 4  
20 and 5 would be administered but we have a strong preference  
21 for the abolition of rate pegging and for communities to  
22 develop their own futures.  
23  
24 What role should IPART play? Maybe IPART could play a  
25 role in collecting and collating benchmarking information  
26 rather than as a regulator, and ensuring that things that  
27 are being measured and reported in the same way to allow  
28 those councils with aspirations to higher performance were  
29 able to learn from the good practice of other councils.  
30  
31 Should the framework provide for diversity across  
32 councils? Absolutely, so long as the framework is loose  
33 enough to take into consideration that each community has  
34 its own aspirations and desired outcomes and if IPART was  
35 to take a framework which was less regulatory and more as a  
36 benchmarking or information providing service to allow  
37 those councils to do the things they needed to do within  
38 the revenue frameworks they faced, then I would see that  
39 that would be an appropriate framework.  
40  
41 MR O'REILLY: A little bit earlier today I talked about  
42 the range of average residential rates which were charged  
43 in group four councils and I also talked about the  
44 differences that we faced in relation to our financial  
45 assistance grants and the rates charged by some peer  
46 councils. If there was any regulatory framework that would  
47 allow for those issues to be addressed and allow those

1 historical problems to be corrected, that would be a good  
2 start.  
3  
4 Obviously when we talk about this, transparency has  
5 become a given as part of the discussions we have had.  
6 Something that ensures the sustainability of councils and  
7 recognises that there is a large diversity amongst councils  
8 in the issues they face and the range or the level of which  
9 individual issues face councils. We have seen a lot of  
10 common themes here today but a lot of different services, a  
11 lot of different issues impact on councils at different  
12 levels and we need to recognise that.  
13  
14 Another thing that would be good is if the framework  
15 would allow councils to take responsibility for what they  
16 are doing. We have talked about how the rate peg has been  
17 allowed to be a quasi excuse for not doing everything they  
18 should and it has provided limitations, it has been a way  
19 out for not charging properly and not providing the level  
20 of services that we had. So something that would allow  
21 councils to take responsibility for the decisions they had  
22 as well.  
23  
24 Again, while we obviously need to express concern  
25 about what might be in any criteria that we would have to  
26 meet in order to be uncapped, if we can have a proper  
27 framework in place that allows councils to address all the  
28 individual issues they face, all the issues that are  
29 particular to them, all the issues of how they impact on  
30 them differently, then I think that would go a long way to  
31 addressing a lot of these issues and providing a proper  
32 framework by which rates could increase at appropriate  
33 levels.  
34  
35 In relation to IPART, in the submission that the  
36 council made we did suggest that perhaps IPART would be  
37 interested in setting a dollar amount or an average  
38 residential rate for like councils, whether that be done by  
39 groups or some other way. It would also allow for  
40 comparability between councils and would end situations  
41 like we had in that one amongst the group four councils  
42 where we had such a huge range. If that range was narrowed  
43 I think it would provide a good idea for residents and as a  
44 good guide for councils themselves.  
45  
46 If a resident was able to say, okay, my council  
47 charges \$750 a year, for like councils they pay between

1 \$500 and \$600, there obviously would be questions raised,  
2 but that kind of range could be a useful tool for councils.  
3  
4 THE CHAIRMAN: One of the ideas that has come up in  
5 discussions so far is that instead of trying to set the  
6 level, setting the dollar amount as you suggest, may be too  
7 difficult because there are too many differences between  
8 councils in the things that they do. It does seem, though,  
9 that there is less difference between the rate of increase  
10 between councils, in other words, if you fix up the base  
11 problem, the rate at which expenses increases from year to  
12 year there would not be so much variability, and that  
13 possibly one index or maybe two, but the point of  
14 difference that people spoke about was those which I  
15 mentioned before, those that have a huge road backlog path  
16 to their overall budget might have a cost index with  
17 different weightings from others.  
18  
19 You would not want to multiply the indices and  
20 overcomplicate it, but while the dollar levels on a  
21 council-by-council basis might vary enormously, it seems  
22 that the rate upon which costs increase year to year would  
23 be reasonably informed and could be capable by one or  
24 possibly two indices, so I think that is the reason why  
25 your suggestion of setting a dollar level may simply be  
26 unmanageable across 152 councils.  
27

28 MR O'REILLY: That is fine, but at the moment councils are  
29 probably not really working with a huge range of  
30 information about what they should charge. At the moment  
31 we now charge 3.5 per cent more than we did last year and  
32 that is the basis for those rates calculations I would  
33 imagine. To be able to say that an independent body was  
34 able to say that for a council of your size, recognising  
35 that there are differences, we would expect a range between  
36 this and this would be at least a good place to start as we  
37 could then address some of those historical issues I talked  
38 about.  
39

40 MS LYFORD: I am learning and listening. Just from a  
41 political perspective - and probably this should not be  
42 politically influenced - but the lord mayor of Newcastle  
43 headed a rate pegging task force that did quite a lot of  
44 work in respect to the issues of rate pegging and all the  
45 other options and I am just thinking that maybe there is a  
46 bit of a political disconnect there with local government  
47 and councils in the fact they see it as not a pragmatic

.5/11/08 56

Transcript produced by Merrill Legal Solutions

1 exercise to actually look at abolishing rate pegging, so I  
2 think the framework is not a political influenced. Am I on  
3 the wrong track? I don't think politics has a place to  
4 look at the regulatory framework as such if you are talking  
5 about rates and charges.  
6

7 THE CHAIRMAN: What people in previous discussions have  
8 termed political is the percentage increase that is set by  
9 State Government each year, in other words the peg, the  
10 range at which council rates are permitted to increase.  
11 That is what people have referred to as political and have  
12 said that if there is to be a cap or a benchmark or any  
13 other signpost increase, it should be arrived at by a  
14 non-political process, a transparent process, whether it is  
15 IPART or some other public process.  
16

17 IPART has considerable experience in setting cost  
18 indices in various industries, including right down to  
19 things like taxi fares, and putting together an index from  
20 weightings applicable to that industry, so that could be  
21 done for local government. But that is really the point  
22 about the political non-political way of getting to that  
23 percentage and it is the establishment of the percentage  
24 through a political process that people have objected to in  
25 the workshops.  
26

27 MS HYAM: The objectives and features of a revenue  
28 framework that I would like to see are first of all one  
29 that is community based, so that the community has the  
30 major role in determining what is their capacity to bear in  
31 terms of prices. For example, if they decided that they as  
32 a community wanted to introduce a new service or a new  
33 facility or a catch-up on an infrastructure backlog, they  
34 would have the capacity if there was agreement within that  
35 community, so I worry a bit about a cap because a cap might  
36 interfere with that. It could be a cap with a special  
37 application if there was a case. There might be some way  
38 there.  
39

40 The second feature is I would really like for whatever  
41 is in place to be equitable. At the moment we don't have a  
42 situation that is equitable across councils. There is  
43 clearly more difficulty in some councils in being able to  
44 meet their basic services than others, for a whole host of  
45 reasons, and a flat peg rate does not address issues of  
46 equity.  
47

.5/11/08 57

Transcript produced by Merrill Legal Solutions

1 The third thing is that I would like it to have  
2 characteristics of being prospective rather than  
3 retrospective, so that enables us to take into account the  
4 forward costs that are having to be planned for in future  
5 planning. For example, to meet costs associated with  
6 carbon emissions or increased utilities costs, new service  
7 provision because of deficiency within a community or  
8 whatever, it needs to have some prospective element to it.  
9  
10 The fourth feature is I would like it linked to other  
11 regulations in a seamless way. We have the opportunity at  
12 the moment with the integrated planning and reporting  
13 framework to actually have a very good basis for  
14 establishing a revenue framework, so in that you have a  
15 linkage between what I call the content plan of what  
16 services are going to be delivered, integrated with an  
17 infrastructure and asset management plan, integrated with a  
18 financial planning strategy. That is what should be on the  
19 table and your financial and revenue plan will fit in that  
20 context. That would be the starting point for looking at  
21 anything in respect to whether this is a fair and  
22 reasonable approach taken by the council, so linking it to  
23 other regulations, both within the Local Government Act but  
24 also other regulations that local government might be  
25 subject to, this disconnect at the moment.  
26  
27 The fifth criteria is that I would like it to be  
28 realistic. 3.2 per cent is far from realistic in terms of  
29 being able to meet costs. Lastly, I would like for  
30 whatever is in place - and I am an abolitionist at heart  
31 but understand that we may not get there - is that whatever  
32 we have, I don't want it to be overly burdensome. It has  
33 to be pragmatic and I think it has to recognise that local  
34 government throughout New South Wales is a major  
35 employer and it has many flow on impacts throughout the  
36 community if there are major interventions that bring about  
37 significant changes in the service delivery and capacity to  
38 employ people to do that.  
39  
40 In terms of IPART's role, I would like to see the  
41 emphasis on the "I", the independence of advice, the  
42 independence of government, the independence of thought  
43 about what is an appropriate framework for us to be working  
44 with.  
45  
46 In terms of indices or indicators that you might look  
47 at, there is value in indicators but they need to be

.5/11/08 58

Transcript produced by Merrill Legal Solutions

1 something that is applicable to everyone. For example,  
2 under the Local Government Act there are specific service  
3 provisions that everyone covers. So whatever it is, it  
4 needs to be applicable to everyone because there are a lot  
5 of parts of our role in terms of service delivery that are  
6 very individually based, based on individual communities.  
7 That needs some thought about what is applicable across  
8 all.  
9  
10 I have some sympathy with a range of what might be an  
11 appropriate price range although I do think it is community  
12 based. I do know that people struggle with what is an  
13 appropriate level. Ultimately the community and those who  
14 have to pay should indicate that. A starting point is  
15 often a useful place to begin with some sort of reference  
16 point.  
17  
18 THE CHAIRMAN: I suppose that is what people in the  
19 community do, they talk to people in other council areas to  
20 see what rates they pay.  
21  
22 MS HYAM: Exactly. I would hate to have some fixed point.  
23 It needs to be something that takes into account the  
24 different circumstances of each council and I think that  
25 will be where the difficulties will come with a range,  
26 because the mix of what council provides has quite a  
27 significant bearing as well.  
28  
29 They are my thoughts, thank you.  
30  
31 MR PASTERNAISKY: As to the objectives, I think we have  
32 only got one objective really in terms of any regulatory  
33 framework and that is that councils should be financially  
34 sustainable. However you measure that, and in terms of  
35 regulating that, financial sustainability is the root of  
36 our problem, that is it, and that is the objective for us,  
37 to be financially sustainable.  
38  
39 It may mean different things to different councils  
40 because of the profiles of the councils, communities vary,  
41 city councils, regional councils, shires in the country,  
42 this sort of thing, so financial sustainability means  
43 different things to different councils. If you look at the  
44 review today report that they put out back in July they  
45 mention that 35 councils in New South Wales were  
46 financially unsustainable if they were to continue the way  
47 they had been going. The reason that they will be going is

.5/11/08 59

Transcript produced by Merrill Legal Solutions

1 because of the fact that there is always the opportunity to  
2 tax your way out of trouble, you can always put in a  
3 special rate increase, a variation, and therefore get out  
4 of the mire that you are in, but you should not be placed  
5 in that position, so we have to come up with a framework  
6 that can overcome that - and that is the biggest challenge  
7 facing local government, financial sustainability, and that  
8 is why we are here discussing it at the moment.  
9  
10 In terms of the options for regulating, or other  
11 alternatives, I am realistic too, I would like to see rate  
12 pegging abolished, but realistically perhaps there is an  
13 interim step, an option 4 or something like that, where you  
14 actually have a starting point before the abolition of rate  
15 pegging can actually occur. That will give the opportunity  
16 to councils to actually show to the community and to the  
17 public at large that they are fare dinkum in terms of  
18 seeking to be exempt from rate pegging. I see that as an  
19 interim step with a view to moving to abolish rate pegging,  
20 but I do not believe you will achieve it straight away.  
21  
22 In terms of the role that IPART should play, the "I"  
23 has been stressed, the independence, and that is very  
24 important to local government. If there are any  
25 indicators, benchmarks, various things like that that need  
26 to be developed or looked at across the local government  
27 industry, IPART would be in a good position to actually  
28 assist in that regard.  
29  
30 In terms of the framework to provide the diversity  
31 across councils, well, of course the ability to achieve  
32 financial sustainability will mean different things to  
33 different councils, but at the end of the day every council  
34 has a backlog of infrastructure that has to be addressed  
35 because it has been run down over many, many years. So  
36 that is a common given for all councils, the  
37 infrastructure, and you have seen reports, and it is  
38 mentioned in your documents, it is also covered in the LGSA  
39 submission, which I think every council around the state  
40 would support, points to the fact that we have an  
41 infrastructure backlog problem and that financial  
42 sustainability is the root of our problems.  
43  
44 MR McMAHON: Without wanting to go over some of the points  
45 that have already been made I will see if I can supplement  
46 them. Clearly I think the focus should be around outcomes  
47 and community involvement. The integrated planning and

.5/11/08 60

Transcript produced by Merrill Legal Solutions

1 reporting model is one which local governments can be more  
2 accountable and responsible for what they do in their own  
3 communities and also work towards long-term sustainability.  
4  
5 In terms of IPART's role, there was reference made to  
6 the local government rate task force that was set up. I  
7 was on that task force. We took input from Professor Bob  
8 Walker at Sydney University and Dr Manning from National  
9 Economics and came up with a two-tiered suggested approach  
10 which you might like to think about.  
11  
12 The first one was the development of a local  
13 government specific cost index and we were able to find  
14 independent objective information to support the  
15 development of that, namely the annual accounts of councils  
16 so you can see a trend of actual costs. We also looked at  
17 ABS published data around wage increases, as of course  
18 salaries and wages is a major component of the cost of  
19 local government, construction indices, and petrol based or  
20 petroleum based indices, because that is the source of many  
21 of the supplies of local government.  
22  
23 So that was the first tier around a local government  
24 cost index and that could well be a benchmark as a  
25 reference point.  
26  
27 The second tier recognised that a lot of councils were  
28 at different places in time because of their history and  
29 other circumstances and provided for some special  
30 consideration for local areas. At that time the solution  
31 was around the special rate variation process but the  
32 thinking was that if everyone engaged in long-term  
33 financial planning and asset management and negotiated with  
34 their communities, that should be the means by which that  
35 component was determined.  
36  
37 MR DEASEY: I would like to reiterate upon what Darryl  
38 already touched on about more of a review of revenue  
39 framework. We seen to have had more of a focus on rate  
40 pegging. I can understand the mechanics behind it but the  
41 review of local government revenues overall needs a bit  
42 more emphasis on the broader revenue base of councils and  
43 not just the sole focus on the rate pegging scenario.  
44  
45 Further, in relation to what Michael has said, I put  
46 that in my submission to IPART, that it should be going  
47 back and looking at the previous work undertaken by the

.5/11/08 61

Transcript produced by Merrill Legal Solutions

1 LGSA in regards that rate modelling and the establishment  
2 of an index, that we need something that is far more  
3 transparent, we need to remove the political element out of  
4 rate pegging if it is going to be there, and we also need  
5 to be looking at it from the perspective of when you do go  
6 to your community for an increase over and above what the  
7 rate pegging limit is, that once you have the acceptance of  
8 your community it should be just a mere sign-off from  
9 government and not a political decision made whereby you  
10 may go down the gurgler.

11  
12 Speaking from experience, I went to the government on  
13 a matter of rate pegging, we would have loved to have gone  
14 out and got 15 per cent for my community in one hit. The  
15 community even wanted it but because of the politics  
16 involved we had to stage it over several years and the  
17 first year we went up to government we lost out. Needless  
18 to say it puts back our maintenance strategies for 12  
19 months and we are forever in a catch-up phase once again  
20 and we are still having to secure the funding that we were  
21 trying to achieve.

22  
23 Regulatory framework for me I have some questions of,  
24 because to be honest I look at what is already in place  
25 with a lot of the fees and charges we already levy which  
26 are in statute at present. Some have been in statute for  
27 30 years and have not moved. If we are fair dinkum, they  
28 should be moving every year. It should not be just us that  
29 is getting this, like every agency of government is  
30 smacking us year in year out with increases over and above  
31 what the rate pegging limit is, yet we are still levying  
32 charges to our clients based upon a fee set in legislation  
33 some 30 years ago. This is ridiculous. It has to be taken  
34 out of the legislation. It has to be support us.

35  
36 Look at the section 149 certificate, \$40, been there  
37 forever. At least a section 603 certificate goes up every  
38 two years so there is some incremental increase there. But  
39 a 149 certificate, it takes more than one person to process  
40 that, it still has to be signed off by a senior counsel  
41 officer of the council in most instances, and there is a  
42 fair bit of liability with it too if something goes astray.

43  
44 THE CHAIRMAN: There is a fairly wide view that all fees  
45 and charges should be at least CPIed every year.

46  
47 MR DEASEY: I wholly endorse that, but we don't see it.

.5/11/08 62

Transcript produced by Merrill Legal Solutions

1  
2 THE CHAIRMAN: This is by way of future development or  
3 reform.

4  
5 MR DEASEY: Even an FOI, the first 20 hours free. Let's  
6 be real. If a complex FOI comes into an organisation, it  
7 is taking away a resource for a significant period of time.  
8 And they get the first 20 hours for nothing. Something is  
9 wrong. Some of the people that go searching for this  
10 information - and I blame the legal profession here for  
11 some of this - have a lot to answer for. Whilst we are all  
12 for open and transparent government, from my perspective  
13 when you have an FOI that lands us in an almighty mess at  
14 times - and we see time and time again State Government  
15 agencies criticised in the press for their inadequacy in  
16 dealing with FOIs, it makes me wonder whether that piece of  
17 legislation is worth its weight.

18  
19 Aside from that, from my perspective, with rate  
20 pegging, if it is going to stay, and we look at the  
21 regulatory options, 4 has to be the choice if we are not  
22 going to get rid of rate pegging. The only reason I say  
23 that, and I still have some question marks with it, I would  
24 rather see it expanded than shrunk, but I am not in a  
25 position to give you what the expanded aspects would be,  
26 but there needs to be a degree of flexibility in there.

27  
28 If we are going to be looking at comparing council to  
29 council or council group to council group, we have  
30 problems. Every local government area is different. They  
31 all provide a different range of services. We all have  
32 different standards of service provision now. We have all  
33 got different levels of infrastructure and in those  
34 groupings of councils you will see that there is quite a  
35 disparity as regards what some of those councils do have as  
36 regards services.

37  
38 From that perspective if IPART is involved, if it is  
39 independent, I don't care who does it, as long as they are  
40 independent and takes away the political process. As long  
41 as there is something there that is an adequate measure  
42 which is produced in a timely fashion, available in  
43 November so that we can start working on our budgetary  
44 processes in advance, well and good, but we need something  
45 that is at least rigid and robust in terms of the  
46 structure. But whilst saying that, there needs to be the  
47 opportunity still for some degree of flexibility above that

.5/11/08 63

Transcript produced by Merrill Legal Solutions



1 when councils start catching up particularly on the asset  
2 infrastructure backlogs.

3  
4 That decision, yes, has to come out of the community.

5 But that comes back to, whilst it is coming out of the  
6 community, the political process is there and you have to  
7 ensure that your councillors are going to take the right  
8 stems forward, they just can't sit there and procrastinate  
9 over it for a couple of years. Dungong Shire Council in  
10 1997 went for an 18 per cent rate increase, and we would  
11 have got it, according to Ernie Page - I talked to him  
12 seven years ago on this matter - but the council went back  
13 to the community, copped a lot of flak and decided, oh, we  
14 will only increase our rates by 6 per cent. Big mistake.  
15 It would have saved me going out twice since if they had  
16 done that.

17  
18 Apart from that, I don't really want to say too much  
19 more because I might cut my own throat, but from my  
20 perspective our Shire Council, being a very small council,  
21 is trying to do a lot of work. I have 8,500 population,  
22 four centres of population as such, predominantly a rural  
23 area with a lot of rural residential and a lot of influence  
24 coming from the Lower Hunter region at the moment putting  
25 a lot of pressure on us. We have been hamstrung in the past  
26 with planning instruments, an LEP taking three years to get  
27 through government. Everything like that has constrained  
28 the growth of our shire and we are wearing the cost of that  
29 now and will wear it in the future, particularly if we have  
30 growth of the Lower Hunter projected to grow at the rate  
31 that is expected with a proposed dam being built in our  
32 area where I will lose another 2 to 3 per cent of my  
33 general rate income because the water is going to cover  
34 prime agricultural land, it will be vested in Hunter Water,  
35 which is a non rateable entity.

36  
37 There is something wrong when a state-owned entity can  
38 sit there as a non-rateable entity, will charge for every  
39 bit of water consumed used out of that dam like it does out  
40 of Chichester Dam now. I have two dams, I will have a  
41 third, and it is all non-rateable land. Something is  
42 wrong. I will just leave my comment there, thank you.

43  
44 MR TOLHURST: I think a lot of it has already been said.  
45 Just in regard to rating, and that is specific to what we  
46 are discussing today, but rating in local government is a  
47 very special kind of area that from my knowledge and

1 discussion with the Department of Local Government and  
2 other areas I do not think a lot of people outside of the  
3 local council understand how it operates, how it works, and  
4 we have made different at different times representation to  
5 the department regarding areas within the legislation of  
6 rating and you will get this letter back and I just do not  
7 think they understand how the whole system works,  
8 understand that you cannot go out on the street and just  
9 get a rates flow, it is a special kind of area, and I just  
10 shake my head sometimes at the lack of understanding from  
11 the State Government, the Department of Local Government  
12 especially, in their understanding of rating.

13  
14 I personally would like to know where their knowledge  
15 is because I get very frustrated with them from a rating  
16 point of view. We just seem to struggle with the responses  
17 that we get back and when you talk about Maitland, it is 50  
18 per cent of our income, it is something that we strive to  
19 get every dollar we can out of the community.

20  
21 We are getting right down to individual cases here,  
22 but we have a shopping centre here in Maitland, the highest  
23 rated value property. We had a revaluation three years  
24 ago. It did not go up \$1. Again, a State Government  
25 department said that in three years it had not increased  
26 its valuation on that land of so many hectares, it did not  
27 increase. Like, the whole system - we just shake our  
28 heads.

29  
30 In regard to the objectives, for a council or local  
31 government authority it is providing the goods and services  
32 that the community needs, and if you were in business you  
33 would be providing what you were supplying or providing as  
34 your business. I do not think any business, and we are  
35 supposed to operate as a business, we talked before about  
36 efficiencies, well, we are supposed to operate at a  
37 business yet we have this sledgehammer over us saying, you  
38 can only have a rate increase, in our situation, 50 per  
39 cent of our income, of 3.2 per cent, and you have wages  
40 going up higher than that plus all the other costs. It  
41 just does not balance out.

42  
43 That is why, as I said before lunch, the interaction  
44 of your asset plan for your infrastructure and your  
45 financial plan should be paramount in any organisation.  
46 And that just shows up the figures that from, a local  
47 government perspective, I know our council, they just

1 shakes their head and go, what can we do, they just  
2 struggle with it, because again it will mean, as someone  
3 said earlier, shutting down services or shutting down  
4 existing buildings so that we don't have those kind of  
5 costs to have to undertake.

6  
7 What role should IPART play? It has already been said  
8 about the independence. That is the part that has to be a  
9 separate body, that if they are setting the local  
10 government rates and charges, be completely independent. I  
11 do not know if that can be achieved to everyone's  
12 satisfaction, but it has to be. And the framework provide  
13 for diversity across councils. There has to be diversity.  
14 As someone already mentioned, we are all different  
15 councils, we all have different services, but again there  
16 is a community interaction, which I think the general  
17 manager from Newcastle spoke about. How you get that  
18 community interaction so that you are all going in the one  
19 direction is going to be very difficult, so that you can  
20 all work together.

21  
22 MR SMITH: I agree with much of what has been said already  
23 so I will not bother going over things again. But in  
24 regards to the objectives, it really should be financial  
25 sustainability and it should be accountability. A  
26 regulatory framework should encourage an end to the blame  
27 game that has existed for a long time between state and  
28 local government.

29  
30 As well as those objectives, a framework should be  
31 built under the principles of a high trust model. The  
32 existing framework is built on a no trust model, so for us  
33 to be able to move forward effectively there needs to be a  
34 high trust model in regards to the framework for  
35 regulation.

36  
37 The options in regards to that regulation? Option  
38 number 4. I am probably an abolitionist, but if we need to  
39 consider a framework that involves rate pegging to some  
40 degree, option number 4 is probably worthy of some further  
41 consideration. I have some concerns there in regard to  
42 financial sustainability being a determinant of whether  
43 someone is exempt from rate pegging or not because rate  
44 pegging is probably one of the key things that has caused a  
45 number of councils to be financially unsustainable in the  
46 first place, so perhaps financial sustainability over a  
47 longer timeframe needs to be one of the things that a

.5/11/08 66

Transcript produced by Merrill Legal Solutions

1 council has to demonstrate to be exempt from rate pegging  
2 in that regard.

3  
4 What role can IPART play? There is potentially a case  
5 for the development of benchmarks or something of that  
6 nature. But again in regards to point 4, there really  
7 needs to be an acceptance of the diversity of councils,  
8 even within the same groups, things like population density  
9 or population disbursement. Demographics, socio-economic  
10 profiles are all different. Some councils have greater  
11 opportunities to generate alternative revenue through  
12 property development and other such things, so essentially  
13 if there are benchmarks to be introduced, they potentially  
14 need to reflect more a range rather than values to reflect  
15 those things.

16  
17 THE CHAIRMAN: Is there anyone in the body of the room  
18 who would like to comment on this part.

19  
20 MR ESDAILE: Just a quick one on the ability of setting a  
21 framework for diversity across councils, perhaps it can be  
22 something - we all acknowledge that all councils here are  
23 of different sizes and shapes, and even if they look  
24 similar from the outside, they fundamentally operate  
25 differently internally because they do different things.  
26 Perhaps from some of the comments that have been made  
27 around here this afternoon, IPART could get involved in  
28 setting indices for I guess cost drivers that operate  
29 within councils, being separate ones for their wages,  
30 separate ones for the petrochemical type activity, separate  
31 ones for engineering.

32  
33 There are a range of types of indices that each  
34 individual council could cherry pick if you like those that  
35 apply to their own internal model that they use to operate  
36 their council because essentially you would be looking at  
37 what are the costs that drive the activity that you are  
38 doing. You would have certain levels of activity and  
39 certain cost drivers in each of those, and perhaps it could  
40 be something that you could look at the different indices  
41 to help in that for the individual councils, without being  
42 rigid about demographics, how far apart they are.

43  
44 It would be very complicated to do, to accommodate  
45 everything, but this is perhaps one way to address some of  
46 that diversity.

.5/11/08 67

Transcript produced by Merrill Legal Solutions

1 THE CHAIRMAN: Is there anyone else in the body of the  
2 room who would like to comment?  
3  
4 MS LOFBERG; Kelly Lofberg, Lake Macquarie City Council.  
5 There are two things I would like to raise and seek comment  
6 from the chair on. It seems in the slide that was  
7 presented earlier that option 5 has changed quite  
8 significantly since the discussion paper. I would like a  
9 comment on that.  
10  
11 The second point is the comments made earlier by the  
12 chair suggests that the recommendation to remove the rate  
13 pegging is not going to happen, rather the recommendation  
14 will be that IPART will become the body to set the rate  
15 cap --  
16  
17 THE CHAIRMAN: No, I am not in a position to say anything  
18 about what the recommendation will be. What I said is that  
19 even though people may have a strong preference for the  
20 abolition of rate capping altogether, we need to know what  
21 the fall back preferences are because you have to  
22 contemplate, it is not our decision, you have to  
23 contemplate the reality that the state government may elect  
24 not to abolish rate pegs.  
25  
26 I want to make it quite clear that we are not saying  
27 anything about what IPART's recommendations will be  
28 because we don't know at this stage.  
29  
30 MS LOFBERG Okay, if I can finish, point three says what  
31 role should IPART play in setting local government rates  
32 and charges in the future. That suggests to me, with the  
33 comments that were previously made, I do not know if it is  
34 appropriate that those comments should be made. I think it  
35 is more the role of IPART to make recommendations based on  
36 the evidence and I think quite clearly the evidence that  
37 has been presented today is that councils have an issue  
38 with rate pegging and it has significant implications on  
39 their revenue raising capacity.  
40  
41 I would just like to go back to my first point and  
42 that was option five, if you could bring that slide back  
43 up, please? Remove mandatory rate pegging with a default  
44 cap. I would like clarification on what that default cap  
45 means because that is different to what was in the original  
46 discussion paper.  
47

.5/11/08 68

Transcript produced by Merrill Legal Solutions

1 THE CHAIRMAN: I will let Michael look it up if there is  
2 anything to be looked up, but it means basically what we  
3 have been discussing today, that instead of being told what  
4 the cap will be that it in effect represents a fall back,  
5 that if you exceed that cap you become accountable to the  
6 local community for the way in which you exceed it.  
7  
8 MS LOFBERG: Because my recollection was that it said  
9 institute measures to enhance accountability to the local  
10 government and remove mandatory rate pegging, which is  
11 slightly different.  
12  
13 THE CHAIRMAN: But what is your point about that?  
14  
15 MS LOFBERG: I am just asking for clarification, why there  
16 is now a default cap rather than just an abolition of the  
17 mandatory rate pegging.  
18  
19 THE CHAIRMAN: If you look at page 64, it looks pretty  
20 much the same to me on a superficial basis. I am not sure  
21 that we are talking about --  
22  
23 MS LOFBERG: I was just seeking clarification. I will just  
24 go back to my point, that I would like to see any  
25 recommendations made based on the evidence from the  
26 submissions by local government. There has been strong  
27 support for both options 4 and 5. And I would like to see  
28 any decision or recommendations made by IPART that clearly  
29 identify that, rather than making comments that suggest  
30 that IPART will take over the role of the State Government  
31 to set that rate cap.  
32  
33 That was my point earlier about the comments made by  
34 the chair. It is important that what has been stated here  
35 today and through our submissions is adequately represented  
36 in the evidence that is presented back to the State  
37 Government.  
38  
39 THE CHAIRMAN: Yes, that is the point of these hearings.  
40 Anyone else like to comment before we close? If not, I  
41 would like to extend our thanks to everyone who has taken  
42 the time and trouble to come along today and again to those  
43 who have made submissions as well.  
44  
45 We will complete this process of regional workshops in  
46 the next couple of weeks. We will then work towards the  
47 draft report, which as I said is due out in May of next

.5/11/08 69

Transcript produced by Merrill Legal Solutions

1 year, and you will have an opportunity, along with other  
2 stakeholders and the rest of the community, to comment on  
3 that, with a final report due in September of next year.  
4

5 Thank you for your attendance as we appreciate it very  
6 much.  
7

8 AT 1.45PM THE TRIBUNAL ADJOURNED ACCORDINGLY  
9

10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47