

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC WORKSHOP

REVIEW OF REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

Chairman: Dr Michael Keating

Held at the Airport International Motel  
57-73 Yass Road, Queanbeyan, NSW

On

Tuesday, 14 October 2008 at 9.10am

.14/10/08 1

Transcript produced by Merrill Legal Solutions

---

1 THE CHAIRMAN: I would like to begin by welcoming you to  
2 this public workshop which is being conducted by the  
3 Independent Pricing Regulatory Tribunal into the Review of  
4 Revenue Framework for Local Government. I should begin by  
5 introducing myself: I am Michael Keating and I am the  
6 Chairman of the Tribunal, and with me today is Michael  
7 Seery, on my right, who is the Program Manager for the  
8 Local Government Review.

9  
10 The former Premier requested that I undertake a Review of  
11 the Revenue Framework For Local Government. The Premier  
12 requested that the review consider three terms of  
13 reference: firstly, an appropriate intergovernmental and  
14 regulatory framework for setting rates and charges that  
15 facilitates the effective and efficient provision of Local  
16 Government services; secondly, a possible role for IPART in  
17 setting rates and charges in future years; and thirdly, a  
18 framework for setting the charges levied by certain public  
19 authorities, such as the Sydney Harbour Foreshore  
20 Authority, the Redfern Waterloo Authority, Sydney Olympic  
21 Park Authority and the Growth Centres Commission, to  
22 enable those authorities to recover costs for the provision of  
23 services that are normally provided by Local Government.

24  
25 In undertaking this review, IPART is also to have  
26 regard to a range of matters, including the role and  
27 financial position of Local Government, the revenue sources  
28 available to Local Government, scope for efficiencies,  
29 socio-economic impacts of rates and charges, and the  
30 differences between councils across the state. In  
31 addition, IPART is to have regard to the findings of recent  
32 reviews of Local Government and the matters listed in  
33 Section 15 of the IPART Act.

34  
35 This workshop is part of the Tribunal's public  
36 consultation process for the review. Recently, IPART held  
37 a workshop in Sydney and last week held one in Griffith and  
38 it will be holding a number of other workshops in various  
39 regional centres over the coming weeks.

40  
41 The workshops today will address the first two terms  
42 of reference that I have read out, as the third term of  
43 reference, which relates to the Sydney Harbour Foreshore  
44 and those authorities, is really only of interest to a  
45 small number of Sydney councils - none of them are  
46 represented here today - and we will be holding a separate  
47 hearing for those councils in relation to that third term

1 of reference.

2  
3 As part of this investigation, IPART released in July  
4 an Issues Paper which set out key aspects of the review  
5 process. That Issues Paper outlines some of the matters  
6 that IPART considered important to this review, along with  
7 a timetable for the review. In the Issues Paper, IPART  
8 called for submissions from interested stakeholders to be  
9 submitted by 29 August and to date IPART has received  
10 64 submissions, all of which have now been placed on the  
11 IPART web site and are available for viewing there.

12  
13 I want to record IPART's appreciation of those who  
14 have taken the time to make a submission. All of the  
15 submissions received will be carefully considered by the  
16 Tribunal in reaching its conclusions on the Framework for  
17 Regulating Local Government Revenue. Some of the  
18 organisations that have made submissions to the review are  
19 here participating in our workshop today, and I would like  
20 to thank those of you who have agreed to participate here  
21 today. IPART considers this to be a very important part of  
22 its investigation.

23  
24 Following consideration of the matters stakeholders  
25 have raised in submissions and at this workshop today, the  
26 Tribunal will be making recommendations to the Minister for  
27 Local Government via a draft report, which we expect to  
28 submit next May. Then after further public response to  
29 that draft report, we would expect to submit a final report  
30 in September 2009.

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

42  
43 The three sessions specifically deal with: the role  
44 of Local Government in providing services to the community;  
45 secondly, threats for long-term financial sustainability of  
46 Local Government; and thirdly, options for a more  
47 sustainable financial management system.

1  
2 At the outset of each session, Michael Seery, who is  
3 from our Secretariat, will make a brief presentation to  
4 introduce each item and he will pose a series of questions.  
5 I am then going to ask people sitting here at the table to  
6 express your views on the issues that have been raised by  
7 Michael, and I will go round the table to do that. At the  
8 conclusion of each topic or session, I will make a short  
9 period of time available for members of the audience here  
10 to express their views and opinions on the issues and  
11 opinions that have been raised, if you wish to.  
12  
13 IPART will be making available a transcript of today's  
14 proceedings and this will be available on our web site  
15 within the next week. For the benefit of the transcriber,  
16 I would ask that you use the microphone, there are a couple  
17 placed around here. You will need to turn it on and then  
18 turn it off as you finish. Transcribers always ask me to  
19 ask you to speak clearly.  
20  
21 Finally, I should point out that while IPART is to  
22 provide a draft report to the Minister for Local Government  
23 by May of next year, quite understandably we haven't  
24 determined our position on any of the issues which will be  
25 raised at the hearing today and consequently we will not be  
26 giving our opinion on any of the issues - we are here  
27 rather more to listen.  
28  
29 To get the ball rolling, I would like firstly to  
30 commence by inviting each of you to introduce yourselves  
31 for the record by stating your name and the organisation  
32 that you represent. I will then ask Michael to introduce  
33 the first workshop issue.  
34  
35 MR BRAYBROOKS: Good morning. My name is Paul  
36 Braybrooks. I'm here instead of Julie Briggs, and you can  
37 recognise the difference. I am representing the Riverina  
38 Eastern Regional Organisation of Councils, which is based on  
39 13 local government areas and two water county councils.  
40 I am also the mayor of Cootamundra and the treasurer of the  
41 Shires Association of New South Wales.  
42  
43 MR CROCK: My name is Andrew Crock, representing Upper  
44 Lachlan Shire Council. I'm the Director of Finance and  
45 Administration.  
46  
47 MR RICHARDSON: I'm Craig Richardson. I'm the Manager

1 Financial Services at Wagga Wagga City Council. I assisted  
2 council in preparing the submission to IPART, and I am also  
3 on the State Executive of the New South Wales Local  
4 Government Finance Professionals.  
5  
6 MR CHRISTIE: I'm Ashley Christie from Wollondilly Shire  
7 Council, the Finance Manager there.  
8  
9 MR CARMODY: Councillor Nick Carmody, Mayor of Yass  
10 Valley Council.  
11  
12 MR TRETHERWEY: Ken Trethewey, I'm the General Manager  
13 of Cootamundra Shire.  
14  
15 MS MILLER: I'm Annabell Miller and I'm the General  
16 Manager of Harden Shire.  
17  
18 MR SEERY: Today we have chosen three broad topics from a  
19 range of the issues that are available in the Issues Paper.  
20 For these topics, we would like to hear your views and  
21 whether there is a possible solution or outcome that could  
22 be put forward. In each of the three sessions today, I  
23 will give a brief introduction and then leave you with a  
24 number of discussion points that you may address your  
25 comments to. As the Chairman has indicated, this workshop  
26 is in the form of a round table and each of the people at  
27 the table will have an opportunity to speak on the  
28 discussion points.  
29  
30 Councils have a wider role now than they had in the  
31 past and this has considerable impact on the costs of  
32 councils. We note the Local Government Act provides  
33 councils with flexibility in determining their role. In  
34 reality, a council's role is in response to the needs of  
35 the community, and this role requires councils to provide a  
36 diverse range of infrastructure.  
37  
38 These changing expectations create pressures for new  
39 services, and consequently councils have to assess  
40 priorities in providing the services and the  
41 infrastructure. The key issue for IPART is: how do  
42 councils determine their role and the expectations of the  
43 community, and how accountability fits into that structure.  
44  
45 So the three discussion points we have for this  
46 particular session are: how does the determination of the  
47 various roles for Local Government impact on expenditure

1 and revenue; how do councils establish their role and be  
2 accountable to the community; and how effective are  
3 mechanisms, such as the annual report, in ensuring  
4 accountability to the community.

5  
6 THE CHAIRMAN: Thank you, Michael. It's open to people at  
7 the table now.

8  
9 MR CHRISTIE: I'll respond to the second point on the  
10 screen there, how councils establish their role. I think  
11 council's role is often established not by the council  
12 itself, but by the demands that the community place upon  
13 it. It's often as a result of no other provider of the  
14 service being available. Therefore, council is often left  
15 to pick up what is required, and this often happens in a  
16 very gradual manner, so it's like an evolvement over time.

17  
18 Looking at the first point there, where you talk about  
19 the impact on expenditure and revenue, it often doesn't hit  
20 in one big hit, it's just a gradual thing that builds up  
21 over time, and that is where all this talk about the cost  
22 shifting comes in. You don't sort of see it in one hit,  
23 but when you start to look back, you realise the impact  
24 that all of this has had. So we haven't actually had the  
25 chance to create our own role or provide our own direction,  
26 but we often have to pick up what has been left by the gaps  
27 where others haven't been able to provide.

28  
29 THE CHAIRMAN: When you refer to cost shifting and then  
30 you said "gaps," is that where you believe the State has  
31 not fulfilled its role and the council is then in a sense  
32 forced to come in, or what does it mean?

33  
34 MR CHRISTIE: That's part of it. When I was talking about  
35 how there's the gap, part of it is through cost shifting  
36 where maybe the State or the Federal Government hasn't  
37 provided it. The other part of it, too, is just the  
38 expectations of the community. Over time, that has  
39 changed. It's not roads, rates and rubbish any more, there  
40 is an increase in expectation for councils to provide other  
41 services and often that is because there aren't NGAs, or  
42 non-government providers, available. So it's a combination  
43 of both.

44  
45 MR BRAYBROOKS: Paul Braybrooks from REROC. I think if  
46 you want a good example of cost shifting, the very recent  
47 Local Government elections are an excellent one. You have

1 an organisation, in the Electoral Commission, which  
2 obviously does have a role to play, it's a serious role to  
3 play, but if it's been decided that Local Government cannot  
4 run its own elections, it has to be done under the  
5 Electoral Commission, as soon as you do that, obviously,  
6 you have to contribute to it and the contributions have  
7 gone significantly up in four years.

8  
9 As such, in many ways it's just another example of  
10 cost shifting because now we are making a serious, real  
11 contribution to the Electoral Commission as Local  
12 Government, whereas in fact before we didn't involve the  
13 Electoral Commission at all. That is, to me, a serious  
14 case of cost shifting again. You look as if you are about  
15 to ask me a question about that.

16  
17 THE CHAIRMAN: I accept the point. I suppose the question  
18 in my mind was how significant it is. The proposition we  
19 are facing is that the pressure on Local Government  
20 finances is significant and that rate pegging - the crux of  
21 the problem - is inappropriate, given the pressure on Local  
22 Government finances. In this session, we are trying to  
23 understand what is the pressure on Local Government  
24 finances, why is the amount of revenue coming through under  
25 the rate pegging regime inadequate? That's what we are  
26 really trying to understand. The Electoral Commission may  
27 be the straw that broke the camel's back, but it's not  
28 obvious.

29  
30 MR BRAYBROOKS: Point taken. I was really just giving  
31 that as a current example.

32  
33 THE CHAIRMAN: Yes, I appreciate that.

34  
35 MR BRAYBROOKS: But you are quite right, the whole crux  
36 of the problem facing Local Government is financial and  
37 expectation of service. The expectation of service is  
38 increasing exponentially from our own communities and at  
39 the same time we are being curtailed very considerably in  
40 the amount of money we can raise to pay for those services.

41  
42 I think the Allan Inquiry showed us two things: first  
43 of all, that Local Government has become quite lean and  
44 mean, it is being quite effective and efficient within its  
45 cost restrictions, its income restrictions; and secondly,  
46 that one of the things that it is cutting back on is  
47 infrastructure. That's fine for a few years, but it is

1 something which you cannot, and should not, continue to  
2 ignore, the fact that we are falling well short of our  
3 requirements for infrastructure maintenance and this is the  
4 long-term time bomb which the present regime of rate  
5 pegging is leaving us with.

6  
7 MR CARMODY: I'm going to put a different perspective on  
8 that. I think rate pegging is a good thing. There's not  
9 too many mayors that would probably say that, but I think  
10 it is, and I think the problem that Local Government has,  
11 and it has very little infrastructure nowadays, it's not  
12 because they don't have enough money, it's because they no  
13 longer borrow money. They no longer put on projects,  
14 particularly for infrastructure, and say, "We'll pay it off  
15 over the next 20 years," the next generation will pay for  
16 that asset, whatever it is, because they are the ones who  
17 are going to benefit from it.

18  
19 Nowadays for some reason, the last 10 or 15 years,  
20 Local Government has decided to become debt free, and  
21 there's not too many other businesses that can do that.  
22 It's not just Local Government, State Government is  
23 similar, the State Government have decided that they no  
24 longer want to borrow money, so what they do is get private  
25 enterprise to build roads and tollways for them so that  
26 they belong to the private sector, which they shouldn't do,  
27 I think that belongs to the public sector. Governments of  
28 all forms - other than the Federal Government, who have all  
29 the money - no longer want to borrow money, and that's why  
30 our infrastructure is failing and that's why we have no  
31 infrastructure programs.

32  
33 MR RICHARDSON: I can't agree with that point. I think  
34 whilst borrowing is potentially part of the answer in  
35 relation to funding infrastructure, there still remains the  
36 ongoing issue of servicing those borrowing costs, and  
37 whilst we are operating in an environment of rate pegging,  
38 the capacity to increase our operating budgets to service  
39 the required borrowing costs are constrained. So borrowing  
40 is not necessarily the answer in relation to that issue.

41  
42 MS MILLER: I listen with interest and I would say that  
43 I'm not unsympathetic to what Nick Carmody says. If we had  
44 a removal of rate pegging tomorrow, that wouldn't solve our  
45 issues, we need to look at the broader picture. Rate  
46 pegging is definitely an issue, but our community's ability  
47 to pay, once rate pegging is removed, will be our next

1 issue once that happens. So we need to look past rate  
2 pegging, and it's been a concern of Local Government for a  
3 long time.

4  
5 If we go back to the services we provide and our  
6 roles - and the gentlemen have touched on it - the  
7 withdrawal of government services from our communities has  
8 meant that Local Government picks that up. 2006-2007, the  
9 LGSA have quantified our unfunded mandates, or our  
10 cost-shifting from Local Government, as \$412m, or just over  
11 5 per cent of our revenue. That's something that obviously  
12 the State Government couldn't afford to provide into our  
13 communities, so then we are left to pick up the backlog and  
14 provide that service, because once you have provided a  
15 service to a community, they are very loath to let that  
16 service go. So we then as Local Governments have to step  
17 in and fill the void.

18  
19 We need to be looking at a greater percentage of GST,  
20 or a percentage of GST would be a better description, and  
21 other funding from the Government because realistically we  
22 exist at their behest, we don't exist tomorrow if they  
23 don't want us to. So whilst rate pegging is an important  
24 issue, the Government funding that we don't receive is a  
25 more important issue. A cut of GST would solve nearly all  
26 our problems. We are providing infrastructure that other  
27 levels of Government can't provide and we are expected to  
28 maintain and upgrade and continually grow that, with no  
29 resources.

30  
31 THE CHAIRMAN: This \$412m - I probably should know more  
32 about this, and I will endeavour to inform myself - but are  
33 you saying this is the cost of services which were  
34 previously provided by the State Government?

35  
36 MS MILLER: Yes.

37  
38 THE CHAIRMAN: So we can identify the services, and that  
39 has been done?

40  
41 MS MILLER: Yes, the Local Government Shires Association  
42 has done that for 2006-2007 and it's \$412m to Local  
43 Government, 5 per cent of our revenue. In Harden, where we  
44 have a turnover of \$12m, it's quite a slice to be providing  
45 other services - health and aging is a classic example.  
46 There's not a council in rural Australia that doesn't have  
47 an input into health and aging. Surely not anywhere that

1 I can find in our charter or in the mandates that the  
2 Government provide to Local Government are services that  
3 must be provided, yet our communities demand that because  
4 of the withdrawal of other services by other levels of  
5 Government - not only limited, I would have to say, to  
6 State Government, but the federal sphere is nearly as good.

7  
8 MR TRETHERWEY: I was going to go back to your second  
9 question, about how councils establish their roles. From  
10 my perspective, that really goes right back to the 1919  
11 Local Government Act, which was very prescriptive and set  
12 out exactly what council should do. So there used to be an  
13 expectation that the council would deal with your roads,  
14 your rates, your rubbish, a variety of things which were  
15 really spelled out, and the 1993 Local Government Act took  
16 all of that away in a sense and simply gave a charter to  
17 councils which effectively said, "Councils will do  
18 virtually anything for you, if you want them to do it."

19  
20 It's no longer a prescriptive act and that in itself  
21 creates an expectation from people that we will be able to  
22 do all sorts of things which we previously weren't able to  
23 do. So we have the historic things that we are supposed to  
24 do and, in the mind of the general public, things like  
25 roads are still a major priority for Local Government,  
26 particularly in rural areas. So there is no lessening of  
27 those prescriptive things which the act theoretically made  
28 it possible for you to change the mix of what you did as  
29 Local Government.

30  
31 But in reality, the expectation from the people is for  
32 all those things we did in the past to be done to the same  
33 standard, or a better standard, plus a raft of other  
34 things. It's not purely a problem of Local Government, but  
35 the expectations of the community are increasing  
36 exponentially. The community expects that they will be  
37 provided with all manner of things by somebody else. As a  
38 society, I think society has really changed its view that  
39 it has to look after itself to being a view that the State  
40 will look after us, and Local Government has become a part  
41 of the State. We have requests on us for all sorts of  
42 things which are totally unrealistic, but people's  
43 expectations are there for those.

44  
45 The other thing is that the modern world is different  
46 in that a place like Cootamundra, where I come from, once  
47 upon a time we didn't have a visiting specialist, for

1 instance a heart specialist didn't come to Cootamundra. We  
2 might have had a dentist or whatever, but there were a lot  
3 of things that we didn't have, which we now have because  
4 the modern world is the way it is and people travel more,  
5 people can come to us and we can go to other people.

6  
7 That brings its own expectation that the council will  
8 be involved in those things, that we will be involved in  
9 providing a medical centre which isn't just a room for a  
10 couple of doctors, it's a medical centre that provides for  
11 every version of medical activity that there possibly is.  
12 So it's a much larger issue than just Local Government  
13 being able to fund its traditional roles, it's an  
14 expectation issue from the community that goes beyond Local  
15 Government - well and truly beyond it.

16  
17 THE CHAIRMAN: Let me just offer an opinion there.  
18 I agree very strongly with the proposition that community  
19 expectations of Government have been rising. Just as an  
20 aside, I assume one of the reasons why the Government  
21 changed the Local Government Act in 1993 was in recognition  
22 of those sort of community pressures.

23  
24 If you look at State and Federal Government, they are  
25 both subject to the same increasing expectations you have  
26 mentioned. The thing is, however, that the level of  
27 taxation relative to GDP has hardly changed since the  
28 mid-1970s. It certainly went up quite rapidly through the  
29 60s and the Whitlam Government, early 1970s, but since the  
30 mid-1970s, it has hardly changed. So in a sense State and  
31 Federal Governments have also been operating within a  
32 revenue cap - it may not have been a legislative revenue  
33 cap, but it was a recognised revenue cap, if I can put it  
34 that way.

35  
36 Let's suppose you had a free hand, you might still  
37 find it a constraint. That seemed to me the point of  
38 Ms Miller's comment, that even if there weren't rate  
39 pegging, you would have to balance expectations on the one  
40 hand against people's willingness to pay on the other hand.  
41 That, in a sense, I suppose, leads on to the other thing  
42 I think we need to explore in this session, and that is  
43 accountability mechanisms. We have a specific question as  
44 to how useful the annual report is, and I would appreciate  
45 your views on that. We have heard from other councils  
46 already on that issue, but we will check here that you have  
47 a similar view.

1  
2 More generally, if there were a freer hand on revenue,  
3 there would still be the fundamental issue of balancing  
4 expectations against willingness to pay and what are the  
5 potential roles of other mechanisms, if you like, for  
6 councils to be able to engage with the electorate and the  
7 citizens in terms of balancing possible expenditures  
8 against willingness to pay.  
9  
10 MS MILLER: I'm happy to answer that. I think once you  
11 have the ability to ask the question of your  
12 residents/citizens, then it very clearly becomes their  
13 power, so their expectations are met within themselves. If  
14 I go back to Harden and say, "Okay, rate pegging has gone,  
15 we have the ability to provide A, B and C, it is now your  
16 choice," then that's the community engagement that they  
17 expect and they will be satisfied. "Yes, we can afford A  
18 and B, but we are not going to go forward with C." That  
19 level of ability to remove our constraints would be  
20 appreciated.  
21  
22 Victoria has a similar system where they are not  
23 constrained by rate pegging and they sell to their  
24 communities on an annual basis what their budget is going  
25 to be and what their rate increase is going to be to 17,  
26 18, 20 per cent annually to meet their community  
27 expectation. So it then becomes a choice of the community  
28 about what services, and at what service level, are  
29 provided to that community.  
30  
31 MR CARMODY: Just on the role, you're talking about the  
32 role of Local Government and I want to get on to that  
33 because I think it's important. The role for Local  
34 Government is different everywhere. In Harden and Yass and  
35 rural areas, it's different from what it is in Wagga, and  
36 it's all about accessibility. Local Government is the most  
37 accessible to everybody, so Local Government in Yass, for  
38 example, is all forms of government.  
39  
40 If there's something wrong with the hospital, they  
41 come to Local Government. If there's something wrong with  
42 their local school car park, it's Local Government. They  
43 come to see us all the time because there is no  
44 accessibility to the Federal Government, zero, and the  
45 State Government, there's less and less State Government  
46 services provided throughout rural New South Wales.  
47

1 So it's all about accessibility. If someone wants to  
2 know anything, it's forced upon us. It's hard to quantify  
3 what that cost-shifting does, like there's no offices of  
4 whatever State Government department in the main street of  
5 Yass, so they come and see the council and it's the  
6 council's responsibility.  
7  
8 In Yass, I'll give you two quick examples. We have  
9 just recently built a new aged cared facility - nothing to  
10 do with Local Government, aged care - but the problem was  
11 that there was a community group that were managing the  
12 process. They got a \$3.5m grant from the Federal  
13 Government and, guess what, they are 2m short. Guess where  
14 the money came from? Guess what, they borrowed the money  
15 from Local Government. So we had to run the process and  
16 manage the building of it to ensure that the facility was  
17 viable. So all of a sudden now Local Government in Yass is  
18 running an aged care facility.  
19  
20 Our hospital was downgraded, and who did the community  
21 turn to? They turned to Local Government. The only  
22 capital money that has been spent in the last 10 or  
23 15 years in the Yass Hospital has come from the community,  
24 from local Apex groups and Lions Clubs and hospital  
25 auxiliaries. So Local Government is government to our  
26 community, which is different from what it obviously would  
27 be in Sydney.  
28  
29 MR BRAYBROOKS: What Councillor Carmody says is very  
30 true, the expectation on Local Government is that we are all  
31 things to all people, but the simple fact is you don't have  
32 to be, and I give a good example in Cootamundra.  
33  
34 The doctors in Cootamundra wanted a new medical  
35 centre. They had previously either practised in pairs or  
36 singly and they wanted to have a medical centre and be all  
37 together. They obviously informally approached council  
38 about building it for them and paying for it, and frankly  
39 I said no. I knew that I was probably going to get a  
40 backlash from my community because the expectation in the  
41 community is that council will provide these things and  
42 there's an awful lot of precedence of it everywhere,  
43 certainly in rural New South Wales, where councils do pay  
44 for this sort of thing.  
45  
46 But I went out and I found two local people who looked  
47 upon it as a business venture, and two local people have

1 invested money in this and have successfully built a  
2 medical centre using private enterprise. To me, that is  
3 another answer where Local Government has been the  
4 facilitator. It is not involved in the medical centre, has  
5 provided no funds to it at all, but we have facilitated  
6 local money into this as a private enterprise, and to me  
7 that is the way of doing it.  
8  
9 Can I just pick up on a couple of things. I have a  
10 real problem. If I go right back again to Councillor  
11 Carmody - and I'm not picking on you, Nick, I promise.  
12  
13 MR CARMODY: That's fine.  
14  
15 MR BRAYBROOKS: I have a real problem with borrowing  
16 for maintenance. I believe borrowing should only be for  
17 capital items. Maintenance should be paid for out of  
18 current account.  
19  
20 Fair enough, capital building, I have no problems with  
21 borrowing for that and I strongly advise, and I take on  
22 board very much the fact that these days in Local  
23 Government and generally, I have an adverseness to  
24 borrowing generally and I think we in Cootamundra do  
25 borrow for capital projects and I have no problems with that,  
26 but I do have a problem with borrowing for maintenance.  
27  
28 I also, Annabell, have a little bit of a problem with  
29 taking on GST. I think GST and the State Government,  
30 unless you really want to take on the state governments,  
31 you are going to have to find some other source of income  
32 from the federal, and the federal income is not only  
33 limited to GST. I think if you were to say 1 per cent of  
34 federal income other than GST, you are more likely to get  
35 away with it, because I think you will take on a major  
36 battle, where the states already complain about their lack  
37 of funds, even through GST, which obviously, as we know, is  
38 a wonderful growth tax, but they still seem to be able to  
39 spend it and not have enough left over. So there we are,  
40 that's my comments.  
41  
42 MR RICHARDSON: If I could just make a quick comment on  
43 the annual report. The annual report is obviously a  
44 corporate governance requirement and it ticks the boxes in  
45 relation to meeting those requirements, but in terms of it  
46 being an effective tool for engagement and accountability  
47 to the community, it is certainly not the primary tool that

1 is used by the council.  
2  
3 The main accountability factor, I think, is really  
4 years of satisfaction with the services that are provided.  
5 That provides the best gauge, I think, of how a council is  
6 performing. Yes, the annual report is there, many councils  
7 produce summaries of their annual report and they send that  
8 out to their local community and it's useful as a tool in  
9 that regard, but it's not the be-all and end-all in terms  
10 of accountability.  
11  
12 THE CHAIRMAN: Is that a generally shared view on the  
13 annual report, or are there differences?  
14  
15 MR CARMODY: I'll comment on accountability, particularly  
16 the annual report. Annual reports mean nothing, to be  
17 quite honest. Most people who are members of an RSL club,  
18 something like that, or if you're in a golf club, the  
19 annual report, you'll have a look at it and it means  
20 nothing - unless you're an accountant. You look at the  
21 bottom line, the president's statement, and that's it. It  
22 means nothing.  
23  
24 Accountability in Local Government is different, as  
25 I said, in all areas. In our area - I talk in our area  
26 because I know about Local Government in the bush, 10 years  
27 or 12 years - in our area, accountability to our community  
28 is the outcomes. We have a local newspaper that reports  
29 every council meeting we have, we have a local radio  
30 station that disseminates information about everything that  
31 council does. And if council wasn't there, there would be  
32 no newspaper, there would be no local radio station,  
33 because that's all they report about; the only thing that  
34 happens in our area is what council does.  
35  
36 We have eight community meetings to do our management  
37 plan, which is our budget, it's setting the budget each  
38 year. We go back to them at the end of each year - or the  
39 following year, sorry - to report the outcomes of what we  
40 achieved. It's all in the annual report, that says what we  
41 spent the money on, but that means nothing to them. They  
42 know if that street in their village has been sealed, park  
43 equipment has been provided, they know if that new barbecue  
44 is there. They are the sorts of things that mean something  
45 to the local community. That's accountability - not what's  
46 on a balance sheet.  
47



1 THE CHAIRMAN: Thanks for that. The consultation we have  
2 had already with other councils is similar, in that the  
3 annual report isn't a useful document - partly, from what  
4 we have heard, because it's more backward looking and the  
5 community is more interested in what you intend to do in  
6 the next year or two, rather than the backward looking.  
7 Mr Carmody, you referred to your community consultation  
8 through a management plan.

9  
10 MR CARMODY: Yes.

11  
12 THE CHAIRMAN: I would like to explore that a bit further  
13 with others, because if we were to persuade the State  
14 Government that it should relax rate pegging, let's say,  
15 I think it's almost certain we would have to say what is  
16 the alternative to put in place in terms of engagement  
17 with the community and accountability.

18  
19 With increased freedom, we will need to persuade the  
20 State Government that there will be a matching improvement  
21 in accountability, and it's in that context that I am  
22 really interested in exploring what are the alternatives,  
23 and from the sound of it it's not the annual report. So  
24 what is the sort of forward-looking information that can be  
25 used to engage with the community, and which you can then  
26 be held accountable against?

27  
28 MR CARMODY: Can you ask the Premier, next time he puts  
29 up a tax, how accountable he is and tell us what he does with  
30 that money.

31  
32 THE CHAIRMAN: There is a State budget.

33  
34 MR CARMODY: And there's a Local Government budget.

35  
36 MR BRAYBROOKS: Woe betide me if I think the DLG are  
37 doing something right, but their new system of 10-year, 4-year  
38 and 1-year reporting is, I think, a move distinctly in the  
39 right direction. Personally I think that if we can get  
40 that to work properly, fine-tune that, that's the time to  
41 remove rate pegging, because to me part of the maturity of  
42 Local Government and acceptance of our maturity by the  
43 State Government is that we have consulted, generally  
44 consulted, the people, we have given forward planning for  
45 10 years, four years, and then obviously our budget, which  
46 is the one year forward.

47

1 It's at that point at which we can honestly say, "This  
2 is the expectation of the community. Council has made a  
3 judgment that the following are practical and it will cost  
4 and the community has accepted that it will cost." I have  
5 always said to my community, whether it's heated swimming  
6 pools or what it is, if that's what the majority want, and  
7 I am prepared to pay for, therefore council has a  
8 responsibility to do it, if it's the right thing to do for  
9 the majority of the community. I think that the DLG's  
10 forward planning schemes that they are putting in place now  
11 are definitely a move in the right direction.

12  
13 THE CHAIRMAN: Can I just test whether that is a generally  
14 shared view around the table, because that is something we  
15 are thinking about.

16  
17 MS MILLER: I will agree that the annual report is useless  
18 in community consultation. They don't read it. It's a  
19 large, cumbersome document with nothing of importance in it  
20 to the community.

21  
22 I agree that the planning strategy that the department  
23 is promoting is one that will service our communities to a  
24 greater benefit, but only if all the stakeholders are  
25 engaged. I believe it has some fundamental flaws, and we  
26 haven't learned anything from our social community planning  
27 guidelines where we, as a council, must prepare a social  
28 community plan that identifies other state agencies and  
29 other service providers to provide services. They can, or  
30 may not, choose to embrace that community plan, and there  
31 is currently no obligation for them to do so.

32  
33 The planning process that the Department of Local  
34 Government was supposed to release in September also drags  
35 into it the State Plan and its reporting priorities. It  
36 also brings together other government agencies which sit  
37 within that plan, and we then must report it back to the  
38 community. The fundamental flaw I find with that is that  
39 the community then expects that we are responsible for  
40 those services, and they continue to come to us when that  
41 service provision isn't provided.

42  
43 I think theoretically it's a good start, but the  
44 ownership issues and getting the government agencies and  
45 the levels of government to come back and own those plans,  
46 as Local Government should also be part of that, will be an  
47 issue for us all. If I can use the social community plan.

1 In Harden, we surveyed approximately 20 per cent of our  
2 community. They came back and what they wanted for their  
3 community welfare was to have the State Government provide  
4 better levels of health services. We can't do that as  
5 Local Government, we have no ability to influence the State  
6 Government to do that. Although we would like to think we  
7 do, the reality is we don't.

8  
9 So the ownership of providing a better facility at a  
10 hospital should be at a State Government level. If that  
11 goes into our proposed plans with the State Government's  
12 current planning strategies, then our reporting is  
13 constantly going to be at a negative state, which will then  
14 disenchant our communities because we are not delivering on  
15 their expectations.

16  
17 So once again, we are back to how to deliver to their  
18 expectations with our limited funds, and the 1-year  
19 delivery model, the 4-year - I'm not sure what that was  
20 called - and the 10-year community plan becomes the  
21 responsibility of Local Government, and I don't believe it  
22 should sit there, it should sit with the State Government.

23  
24 THE CHAIRMAN: Your point is that you need to get the  
25 other parties, who also have a responsibility, to commit to  
26 the plan.

27  
28 MS MILLER: That's right. We have had in this region a  
29 review of the State Plan recently and I'm not sure, but I  
30 would say that the outcomes that were delivered by the  
31 State Plan to our region were less than poor. The delivery  
32 of their promises into our plans would be great if they  
33 deliver, if they will even sit at the table and talk to us.

34  
35 From my perspective, there is a fundamental flaw in  
36 the south-east region of New South Wales, where we don't  
37 have good coverage from the Premier's Group, we don't have  
38 a regional LEP plan, we don't have those State Government  
39 agencies at a high enough level over-arching already. So  
40 by introducing that through our 10-year community plan is  
41 only going to tie our hands more so than what they are tied  
42 now.

43  
44 MR TRETHERWEY: I partially agree with Annabell and I think  
45 that the DLG's proposals are actually very good, but the  
46 success of them will be determined by how well we can  
47 consult with our communities, because one of the things

1 about consultation with the community is that you really  
2 have to not only hear what the community wants to say to  
3 us, but we need to be able to convince the community and  
4 make them understand that our roles and responsibilities  
5 are limited.

6  
7 Providing you can do that, the DLG proposals for  
8 10-year plans will work perfectly well because the  
9 community will actually understand that these are the areas  
10 where the council is going to undertake activity on your  
11 behalf. These other areas are nothing to do with council  
12 and we simply won't be providing anything. We might do a  
13 bit of lobbying, we might agree with the community that  
14 certain things are needed, but we won't be providing them.

15  
16 So I think providing the DLG proposals go ahead  
17 without a requirement that we include things which are not  
18 in our remit really, they will be fine, they will actually  
19 work well and they will provide a good level of  
20 accountability because in a sense we will be saying to the  
21 community, "This is our 10-year rolling plan, this is the  
22 four years that's coming up, this is this year's budget,  
23 this is what you've told us you want to be in it and this  
24 is what we are going to do." So at the end of that  
25 process, we can say we either did it or we didn't do it,  
26 and really that works quite simply. But IT'S a matter of  
27 us convincing the community that there are certain things  
28 that are nothing to do with Local Government.

29  
30 THE CHAIRMAN: So the key point is to be very clear in  
31 the plan about roles and responsibilities.

32  
33 MR TRETHERWEY: Yes.

34  
35 MR RAWLING: David Rawling, from Bombala Council. One  
36 of the things I would like to point out is I think we also  
37 need to focus very much on what is our role and  
38 responsibilities, so I agree with that as well, but we also  
39 need to make sure that we keep everything close together  
40 and integrated. One of the things I find with the smaller  
41 councils is it's very difficult to keep a number of  
42 different plans marching together, and that's what we seem  
43 to have at the moment, we have a separate LEP, a separate  
44 social plan.

45  
46 What I'm moving to is just having one integrated plan  
47 and all of my 10-year and 5-year and short-term stuff is

1 all going to be in one document, and I think that makes it  
2 a lot easier for the community as well because they don't  
3 have to go around to constant different spots to try and  
4 find out what is happening, they have one source document  
5 and, like most of us, it's difficult trying to find your  
6 way around structures that you don't know. So we need to  
7 have one simple plan that we can use for both looking back  
8 and saying what we have done and looking forward to say,  
9 "This is where we are going." It needs to be consistent.  
10 So if we have annual reports and management plans, they  
11 need to be very consistent so people can follow it.  
12  
13 MR CHRISTIE: Just jumping back to the comment you made  
14 at the very beginning, about whether the sentiment was the  
15 same for everybody with regards to the annual report,  
16 et cetera, I agree, I think the annual report doesn't serve  
17 a great purpose and that the main document really is the  
18 management plan and the high-level plans above that,  
19 community plans. I agree also with the sentiment about  
20 what the State Government has introduced with the State  
21 Plan and we embrace that at Wollondilly and will change all  
22 our planning to be in line with that.  
23  
24 You also made the comment about community engagement  
25 and being able to engage the communities. If you were to  
26 recommend that rate pegging was removed - and I agree that  
27 definitely community engagement would increase as a result  
28 of that - but when we try to do a lot of that with the  
29 management planning process, engaging the community, with  
30 varying levels of community input, I think if rate pegging  
31 was removed and therefore there was the potential for rate  
32 increases to be of varying amounts, depending on what was  
33 proposed to be done, I think that level of community  
34 engagement would increase from the community side. We  
35 provide the opportunities or the avenues to engage the  
36 community, but I think if rate pegging was removed, there  
37 would be definitely an increased level of participation  
38 from the community in that engagement process.  
39  
40 THE CHAIRMAN: Any further comments?  
41  
42 MR TRETHERWEY: Could I just say that may happen, but  
43 certainly our experience is that it's very, very difficult  
44 to engage the community. Even if you're talking about a  
45 particular project which the community is interested in,  
46 you tend really only to get the people who have a specific  
47 interest in what you're talking about or a particular

1 concern with what you're talking about.  
2  
3 Engaging the whole community - we are in the process  
4 of doing it at the moment and it is extremely difficult to  
5 get people to actually come out and give you an opinion on  
6 things other than the things which they are individually  
7 involved in, so I don't know whether the removal of rate  
8 pegging would actually change that particularly.  
9  
10 My experience in South Australia, where they don't  
11 have rate pegging, is that, generally speaking, councils  
12 don't go insane and say, "We want to bump everything up by  
13 a ridiculous amount," they still only seek the amount of  
14 rates that they need to provide the services that they have  
15 determined they are going to provide, and I would imagine  
16 that New South Wales would be exactly the same.  
17  
18 Councillors, as a group, are responsible and unless  
19 the community said, "This is a service that we want," say,  
20 "We want a new swimming pool or we want wherever it is,"  
21 unless there is actually a groundswell for that thing, the  
22 councillors are not going to put up a proposal to increase  
23 the rates substantially to provide it just off their own  
24 bat. I don't know what justification you can go back to  
25 the Government with and say there's no need for rate  
26 pegging, other than it's unnecessary everywhere else. That  
27 is really the crux of the matter, I think.  
28  
29 MR CROCK: My view is at the present time the operating  
30 resolve before capital amounts, probably 40 per cent of  
31 councils are in deficit. Obviously rate capping has a lot  
32 to do with that. You look at the salaries increase, that  
33 chews up all of your rate increase, so the increases to  
34 your own employees chew up all that increase. Then on top  
35 of that you have rising fuel costs in rural areas where  
36 road making and road construction and maintenance is  
37 heavily involved with the fuel processes.  
38  
39 So all we are looking for is not going out and trying  
40 to get huge increases, get huge results, all we are trying  
41 to do is get some equilibrium there to try and cover the  
42 costs that we are unable to cover at the present time. If  
43 you look at the depreciation expenses and you look at the  
44 renewal ratio of our assets, a lot of councils are below  
45 1:1, and the problem being we haven't got enough capacity  
46 to raise revenue.  
47

1 THE CHAIRMAN: We might get on to, in a future session,  
2 what can be done about publicising the cost pressures that  
3 councils are faced with. I will leave that to another  
4 session. I was going to ask if anyone from the audience  
5 now wants to make a comment on the discussion at this  
6 stage.

7  
8 MR ROWE: David Rowe, from Yass Valley Council. I support  
9 Andrew's comments just recently there, where nobody has  
10 touched on the issue of the infrastructure and the huge  
11 deficit that councils are facing. We are all talking about  
12 various other services and the roles of Local Government  
13 and we get down to the basics of what we can afford. A lot  
14 of us still don't even know what our liabilities are in  
15 terms of our assets, and Yass Valley is in exactly the same  
16 situation in regard to the increase.

17  
18 The increase that's awarded by the State Government  
19 annually is stripped out solely by our wage increase, so we  
20 are all going backwards annually each year on the services  
21 we can provide, and we still haven't addressed our age-old  
22 infrastructure problem. So there is a major gap there that  
23 we need to address somehow.

24  
25 MR McCLELLAN: My name is Tim McClellan and I'm the  
26 Director of Finance and Administration in Harden Shire  
27 Council. I really don't know why we continually are  
28 talking about whether or not we can get rid of rate  
29 pegging. I don't think it's going to happen. For the  
30 smaller councils, it's probably been a god-send. In tough  
31 times for smaller rural councils, rural councils tend to  
32 want to not put the rates up at all. If smaller councils  
33 can argue the point that, "We are only putting them up by  
34 the rate pegging level," then at least they are going up.  
35 Larger councils still have the opportunity, through the  
36 current legislation, to consult with their community and  
37 put in proposals when they are getting their 15 or  
38 20 per cent increases.

39  
40 For the councils that I have worked in previously and  
41 my current council, that's not really an option. Our  
42 community is not going to wear 15 to 20 per cent increases  
43 in rates. I think we've spent 30 years wasting our time  
44 trying to get rid of rate pegging, I can't see that  
45 happening. What I would like to see is to get rid of rates  
46 altogether. I think we need to expand on our financial  
47 assistance grants coming directly from the Commonwealth

1 Government, and that then bypasses some of the red tape and  
2 administrative costs, money filtering down from Federal  
3 Government through State Government through various  
4 departments, that we have to bend over backwards and jump  
5 through hoops to get funding for in the final scenario.  
6 I think we need to get rid of that, that red tape, and just  
7 have a simpler system.

8  
9 It would get rid of the angst within our community of  
10 local councils collecting rates. In our situation, we are  
11 only collecting 90 per cent of the rates that we are  
12 issuing anyway, due to the economic circumstances. Out of  
13 that, we get that reduced effectively through our pensioner  
14 rebate concessions. I would like to see a lot simpler  
15 system, and I think that's the direction we have to be  
16 looking at. Thank you.

17  
18 THE CHAIRMAN: Thank you. I think we might move to the  
19 next topic, Michael.

20  
21 MR SEERY: This next session picks up on a little bit of  
22 the comment that was just made and really it's about the  
23 threats to long-term financial sustainability in Local  
24 Government. I thought that before we start, I would  
25 reflect on what we mean by the term "financial  
26 sustainability".

27  
28 On the screen, I have paraphrased a definition of  
29 financial sustainability as: service and infrastructure  
30 levels and standards are such that they are delivered  
31 according to a long-term plan, without the need to  
32 substantially increase rates or to substantially reduce  
33 services.

34  
35 We actually at IPART are doing a little bit of work in  
36 this area and we are going to be conducting a number of  
37 case studies over the coming months. We will be  
38 approaching councils in the next month or so seeking their  
39 involvement in those case studies and we would like to use  
40 that as an opportunity to do further analysis particularly  
41 into this area of financial sustainability.

42  
43 A number of the submissions have identified various  
44 threats to financial sustainability, and two of those have  
45 been mentioned in particular this morning, one being rate  
46 pegging and the other cost shifting. Areas where IPART  
47 requires further information include the effectiveness of

1 rate pegging. If rate pegging is to continue into the  
2 future, then it must demonstrate some effectiveness, there  
3 must be a valid reason for it to continue and be worthwhile  
4 to the community.

5  
6 An area which particularly would be relevant to this  
7 group, and picks up a little bit on what was just said by  
8 Mr McClellan, is the how there is a variation across the  
9 states in their capacity to raise revenue. In Griffith  
10 last week it was suggested that, to a number of the  
11 councils, rate pegging doesn't mean a lot to them because  
12 their rate base at the moment is so small that the small  
13 increase on a small base just doesn't give them much. They  
14 actually need to have a minimum level of increase rather  
15 than a percentage increase. So it would be interesting to  
16 get your comments on that particular issue.

17  
18 What is the alignment of revenue versus expenditure?

19 I haven't heard much about that today, and it will be  
20 interesting to have some feedback on that particular issue.

21 What is the scope for greater efficiencies? Has Local  
22 Government reached the level of its efficiency or is there  
23 scope for further productivity improvements? Are there  
24 legislative requirements that prevent gains in efficiency?  
25 For example, do the OH&S provisions make it difficult to  
26 make efficiency gains in Local Government?

27  
28 In the discussion paper, we raised a large number of  
29 discussion points for this session and we thought we would  
30 limit it to three main questions: how effective is rate  
31 pegging and what are the implications for councils and  
32 ratepayers? For example, does rate pegging effectively  
33 constrain the levels of rates in total revenues for Local  
34 Government? What are the practices used by Local  
35 Government to achieve greater efficiencies, and what else  
36 could be possible? What are the constraints on councils  
37 making greater use of debt funding to provide services,  
38 infrastructure facilities, and what is the attitude of  
39 councils towards debt funding? I know we have had some  
40 comment on that, but perhaps a bit more comment from the  
41 other participants would be useful.

42  
43 THE CHAIRMAN: Thank you, Michael. I will just try to  
44 crystallise it on the efficiency point. There is a view, I  
45 think, in some quarters that rate pegging has in effect  
46 forced councils to be efficient, and without that downward  
47 pressure from rate pegging there wouldn't have been as much

1 efficiency. So I would like to just get your views on  
2 that.

3  
4 The other question, going to the effectiveness of rate  
5 pegging, is I think something like about a third of  
6 councils - perhaps not so much rural councils - about a  
7 third of councils in total have got exemption, have got a  
8 special adjustment, at some stage in the last 10 or 15  
9 years. So the argument would be that where there is a good  
10 case for a variation, such a variation is available, on the  
11 one hand, or on the other hand you can take the view it's  
12 so easy to get a variation that rate pegging isn't  
13 achieving that much in the first place. I would like to  
14 get some comments on that.

15  
16 MR TRETHERWEY: In relation to the comparison of revenue  
17 from rates, we collect about 22 per cent of our income from  
18 rates and our sister city in Sydney gets about 80 per cent,  
19 so using a percentage increase makes a major variation to  
20 what it really means in dollar terms. Last year, from the  
21 3.2 per cent we got about \$80,000, which, in the scheme of  
22 things, is not a great amount of money.

23  
24 Personally, I don't think rate pegging has done very  
25 much at all to increase the efficiency of councils.  
26 I think technology has increased our efficiency  
27 dramatically. From 10 years ago, we have about 15 less  
28 staff than we had and we do a lot more work and we do it a  
29 lot more efficiently, but it's primarily the use of new  
30 technology. I suppose the reality is that we wouldn't be  
31 able to afford those 15 staff if the technology hadn't  
32 changed, and we would have reduced our services. But in  
33 reality, we provide more service now and we provide a  
34 better quality of service. So I don't think rate pegging  
35 has a lot to do with that really, the increases in  
36 efficiency in Local Government generally.

37  
38 In relation to rate pegging being a mechanism to hold  
39 down the council's revenue generally, I don't think it's  
40 particularly effective in that either because we now have a  
41 lot more fee-for-service activities. We have a user charge  
42 system or user pay system for a lot of the things which,  
43 once upon a time, were part of the rating system and were  
44 paid for on the basis of a person's wealth, which is what a  
45 rate is, it's a wealth tax. We don't do that any more, we  
46 now charge everybody for actually providing the service.  
47 Ultimately, I don't think rate pegging is really effective

1 in any of those areas.

2  
3 THE CHAIRMAN: Thanks for that. When you said you  
4 reduced the staffing and so on through technology, the other  
5 possibility is contracting out. Is that being pursued  
6 also?

7  
8 MR TRETHERWEY: Yes, we do contract out a few functions,  
9 but they tend to be user pays functions, things like  
10 running the recycling depot, those sorts of things, we  
11 contract those out. Roadworks, there's obviously a large  
12 use of contractors, but that's always been the case.

13  
14 THE CHAIRMAN: But when you're as old as I am, that's a  
15 long time.

16  
17 MR TRETHERWEY: In the last 10 years, anyway. I don't  
18 think contracting out in itself has actually increased our  
19 efficiencies or been a result - you know, the increase in  
20 contracting out has not been a result of rate pegging, it's  
21 really been a result of just a more efficient way to do  
22 things.

23  
24 THE CHAIRMAN: The main shift to contracting out was  
25 longer ago than 10 years.

26  
27 MR TRETHERWEY: Yes.

28  
29 MR CROCK: Can I just make a point on the contracting out.  
30 The lifeblood of rural communities is the council, and  
31 employment is a huge mechanism to keep your local people,  
32 local younger people, in the communities. There is a role  
33 for contractors in certain parts of our operations, but we  
34 need to be very mindful about other social and community  
35 roles, we have to employ local people in our communities.

36  
37 In relation to greater efficiencies, I think, yes,  
38 what do you gauge efficiencies by? I think what has really  
39 happened is because of the less income through rate  
40 capping, we have probably stalled on our assets. We have  
41 basically put those to the side because we haven't got the  
42 money to do it, and we can argue and say, "We have an  
43 operating result because we haven't got a debt service  
44 cost." We are going to go out and borrow some money in  
45 relation to servicing some of those assets. So it's hard  
46 to gauge the efficiencies you are talking about there.

47

1 MR RAWLING: One of the things I always have a problem  
2 with is I don't see any evidence to support the assumption  
3 that there have been efficiency savings from our rate  
4 pegging caps. More of what I see is a backlog of  
5 infrastructure, which is saying that we are pushing off  
6 things that we can push off spending instead of putting the  
7 money into it at the best time.

8  
9 What I am seeing more coming out of the rate-pegging  
10 exercise is that we are not dealing with our very long-term  
11 assets in the most optimal way, instead we are deferring  
12 capital works and that in the long term is going to cost  
13 the communities more. That seems to me, from all the  
14 information I read, where we are heading. We are becoming  
15 more efficient in a lot of different ways, we are using  
16 more contractors and we are using different ways of doing  
17 things, but the bigger impact that will overshadow that by  
18 a long way in the longer term rather than the short term is  
19 we have this huge backlog of maintenance, we have higher  
20 maintenance costs because we're not replacing and updating  
21 assets, and that is really hurting our communities. So I  
22 don't think that the efficiencies we are doing are really  
23 going to compensate for that.

24  
25 MR BRAYBROOKS: Wasn't that exactly the message that came  
26 out of the Allan Inquiry? The message that came out of the  
27 Allan Inquiry was quite simply that councils tend to spend  
28 their money on the immediate rather than spending money on  
29 maintaining assets for the future, because of reduced  
30 availability of their cash literally. As I said right at  
31 the beginning, this is the time bomb which is affecting  
32 Local Government: if we don't maintain our assets, it will  
33 come back and haunt us in time, and it probably already is  
34 starting to.

35  
36 MR TRETHERWEY: Could I just make a comment on that. I  
37 don't necessarily agree that our assets are overall in  
38 worse condition now than they were, say, 20 years ago. In  
39 fact, I would say that in our case they are in a lot better  
40 condition. But the problems that we have are again an  
41 indirect version of cost-shifting.

42  
43 For instance, if the only reason we maintain our roads  
44 is to provide roads that are suitable for our communities,  
45 that would be fine, but our roads are better now than they  
46 were 20 years ago and they would remain better and we would  
47 be able to sustain that. The problem is that the RTA have

1 decided B-Doubles can drive on our roads and now that  
2 overweight B-Doubles can drive on our roads. In effect,  
3 outside pressures are actually causing more problems for  
4 our infrastructure than what the local community is  
5 causing.

6  
7 Given all of that, and there are a lot of problems in  
8 that regard and there's also things like the fact that,  
9 financially speaking, our roads are going downhill and our  
10 assets are collapsing and we are not going to be able to  
11 replace it, but the way it's worked out is that the theory  
12 is that every so often you're going to dig up the whole  
13 thing and go back to nothing and rebuild the road. In  
14 reality, we are not going to do that, we are just going to  
15 keep on maintaining the surface, which is the bit that  
16 wears out.

17  
18 In a lot of ways, it's outside views of how we do what  
19 we do and outside influences on what we do that causes more  
20 problems than the actual doing of it. Really, it's like I  
21 said before, our community doesn't need to suddenly go out  
22 and raise a whole lot of extra money because we are in such  
23 a parlous state that things are falling apart. We need to  
24 raise a little bit more money and we need to raise it  
25 consistently so we can keep things to the standard that  
26 they have to remain at, but we are not as disastrously  
27 placed as we are made out to be, I don't believe.

28  
29 MR RICHARDSON: I agree totally with the comments that  
30 David made in relation to rate pegging and the fact that  
31 it's really resulted in us deferring maintenance and  
32 deferring other works due to the fact that we have only  
33 been able to provide the basic level of service that we  
34 have previously been providing.

35  
36 I think rate pegging has definitely forced us to  
37 review our services and service levels and to make some  
38 tough decisions in relation to that, but we have moved  
39 beyond that now. You can only take that to a certain  
40 level. The fact is our costs are increasing at a far  
41 greater extent than what the rate pegging increase is.  
42 It's a totally blunt instrument to control councils. I  
43 mean, what is a rate pegging percentage based on? It's a  
44 political decision that is made by the Minister each year.  
45 There is no transparency in terms of how the percentage is  
46 calculated and there is just no basis behind it whatsoever,  
47 other than it meets a political imperative.

.14/10/08 28 QUEANBEYAN  
Transcript produced by Merrill Legal Solutions

1  
2 In relation to special variations, Wagga Wagga City  
3 Council is one of the councils that has successfully  
4 applied for and been granted a special variation. It was a  
5 very long, drawn-out process in relation to gaining that  
6 variation. We had to prepare a 10-year financial plan, we  
7 had to have a lot of consultation with our community prior  
8 to putting that application in, which I think was a very  
9 good exercise to go through. But once again, the decision  
10 to grant that application, the Department of Local  
11 Government has no set criteria on which to judge those  
12 applications by, it is again a decision made by the  
13 Minister for Local Government.

14  
15 THE CHAIRMAN: Can I get a little bit more information  
16 about Wagga Wagga. One of the issues that we will need to  
17 explore soon is the diversity of the councils. I think one  
18 of the councils earlier said 22 per cent of council's  
19 revenue came through rates. What would be the proportion  
20 for Wagga Wagga?

21  
22 MR RICHARDSON: Our percentage is around the 30 per  
23 cent mark.

24  
25 THE CHAIRMAN: Still fairly low then compared to the City  
26 of Sydney - 80 per cent, I think.

27  
28 MR TRETHERWEY: Baulkham Hills, that is.

29  
30 THE CHAIRMAN: Still fairly low, for a major rural city.

31  
32 MR CARMODY: Can I make an observation on rates and  
33 where they come from. Sorry, I've lost my train of thought.

34  
35 MS MILLER: I'll help you out, Nick, I'll speak and then  
36 you can.

37  
38 MR CARMODY: Away you go, and I'll interrupt you. Sorry,  
39 before I forget, I want to make an observation on people  
40 who applied for variations and they have been granted  
41 special variations. The majority of them seem to be,  
42 appear to be, growing councils. So if the growing councils  
43 have a problem with infrastructure, maybe they have a  
44 problem with their Section 94 plans - just an observation.

45  
46 Smaller councils, for example, don't apply for rate  
47 pegging. Whether they don't have the will or they don't

.14/10/08 29 QUEANBEYAN  
Transcript produced by Merrill Legal Solutions

1 want to or they don't (inaudible) in some cases, we went  
2 through a similar argument with amalgamations in this area  
3 when there was a lot of councils - not all councils - some  
4 of the councils disappeared because they weren't providing  
5 what the State Government saw as the appropriate amount of  
6 services to their local community. There's nothing wrong,  
7 in my opinion, with a council providing a lower level of  
8 service, because that's probably what the community wants.

9  
10 The Department of Local Government has a check list of  
11 what Local Government should be providing and they go  
12 around the State getting all councils - not all councils -  
13 they have certainly been to other places where they tick  
14 all the boxes and they expect every council to provide all  
15 these things. Ken just mentioned that they have less  
16 employees at Cootamundra, but I'll guarantee you've got  
17 more indoor now. So you provide a different range of  
18 services. I've got more indoor staff. We've got more  
19 staff, but we've got a hell of a lot more indoor staff  
20 because we provide a completely different range of services  
21 now than what we did 10 or 15 years ago.

22  
23 MS MILLER: Finished?

24  
25 MR CARMODY: Yes.

26  
27 MS MILLER: Are you sure?

28  
29 MR CARMODY: Yes.

30  
31 MS MILLER: I guess my take on rate pegging is that,  
32 similar to Craig, if rate pegging is going to stay, then  
33 the rate-pegging limit needs to be quantified and it needs  
34 to reflect not CPI but things that directly affect council,  
35 so the formula and the status of that limit is clearly  
36 explainable. Our price index movements are greater usually  
37 than CPI. If you're going to factor CPI into the  
38 rate-pegging limit, then you are going to have to adjust  
39 specifically for Local Government.

40  
41 Harden is no different to anywhere else. Our  
42 rate-pegging limit has been taken up in the five years that  
43 I have been there and it has not covered the employee  
44 increase. It certainly hasn't gone anywhere near to  
45 covering the increase in fuel price or transport costs or  
46 general materials increase. I think the construction  
47 industry went up double what the general CPI industry was.

.14/10/08 30 QUEANBEYAN  
Transcript produced by Merrill Legal Solutions

1 So for us to be undertaking projects - road building is an  
2 example - then rate pegging calculated on CPI, which  
3 doesn't account for our core activities, certainly doesn't  
4 go anywhere near in accounting for the activities that we  
5 are supposed to be undertaking.

6  
7 In relation to infrastructure, I think we all forget  
8 that most of the infrastructure, certainly in rural  
9 New South Wales and nationally, I guess, was originally  
10 provided by the State Government and gifted to us in a  
11 state of disrepair. So we were provided with an asset that  
12 already required maintenance, with no financial assistance  
13 to undertake that maintenance, and certainly examples of  
14 that in Harden Shire, I'm happy to show you.

15  
16 An interesting statistic is coming out of several  
17 engineering groups, where only 8 per cent of the body cost  
18 of a project is capital, the other 92 per cent is  
19 maintenance, and that is something that we don't address in  
20 Local Government and, for many of us, can't address.

21  
22 The third point, debt funding: there is no reason why  
23 councils can't go into debt to bring forward new projects.  
24 But if you use the statistics of the initial capital cost  
25 being only 8 per cent of the total life of that project,  
26 then it's a moot point. We can all afford the capital  
27 cost; it's the 92 per cent for the life of that project  
28 that follows, that's the problem.

29  
30 Putting our borrowing repayments into our budget is  
31 generally not a problem. It's the ongoing maintenance that  
32 we have to calculate for the next 50 years that is limiting  
33 our ability to undertake future projects because our assets  
34 don't disappear in five years, we keep them for 50 to 100,  
35 to whatever the life is. So the debt component, for me, is  
36 not really relevant, only being 8 per cent of the total  
37 cost of a project.

38  
39 THE CHAIRMAN: I want to assure you we are going to have  
40 some discussion in the next session of possible price  
41 indexes and so on, and that is relevant to the role that  
42 IPART might play. We will come to that in the next  
43 session.

44  
45 MR RAWLING: Just a couple of points I would like to make  
46 on other things about rate pegging. Your definition of a  
47 financially sustainable council is not to have significant

.14/10/08 31 QUEANBEYAN  
Transcript produced by Merrill Legal Solutions



1 increases. But if you look at what has happened, it is  
2 because of all work that we have to go through to put up an  
3 above rate pegging increase, everyone holds off until they  
4 have to. It creates those spikes and so we have a system  
5 that effectively pushes a lot of councils into significant  
6 rate rises, instead of planning ahead and ramping up to  
7 things. So I think that's one thing that all those above  
8 rate pegging increases do say about the system as well.  
9  
10 THE CHAIRMAN: To create a crisis to get a good case?  
11  
12 MR RAWLING: Yes, exactly. The other thing is I think it  
13 does tend to, as was mentioned, push us into user charges,  
14 and I don't think we take enough account of the impact that  
15 has in being a more aggressive type of taxation on those  
16 who can least afford to use the services, for example,  
17 things like swimming pools. So your lower socio-economic  
18 groups, who probably need access to healthy lifestyle  
19 facilities, tend to get cut out more because the costs are  
20 going up because that's the easy way to recoup your  
21 revenues, and that is another big asset that I don't think  
22 we often highlight enough in the impacts of rate pegging on  
23 our financial structures and our communities.  
24  
25 THE CHAIRMAN: Just on that, the evidence for the State as  
26 a whole - and I am conscious that there's quite a diversity  
27 of Local Government - but the evidence of the State as a  
28 whole is that user-charge revenue hasn't risen any faster  
29 than other sources of revenue, including rates. That, of  
30 course, might be because no-one can afford to pay the  
31 charges, but it's not obvious that user charges are a  
32 source of revenue that has been either exploited in a major  
33 way, or some might argue that it could be exploited in a  
34 major way. Any other comments on this session?  
35  
36 MR CROCK: I just wanted to touch on one. Obviously  
37 trying to create greater efficiencies is the creation of  
38 connecting with other councils, through ROCs and also  
39 through other strategic alliances. We have one where we  
40 joined through our grants officer and we were successful in  
41 AusLink funding of over \$3m for a link road from Frogmore  
42 through to Boorowa. So there are efficiencies that council  
43 already are pursuing as a means to offset, I suppose, the  
44 impacts of rate capping.  
45  
46 THE CHAIRMAN: As I understand it, the argument for rate  
47 capping is that it forces you to pursue those initiatives.

1  
2 MR CROCK: Yes.  
3  
4 THE CHAIRMAN: Are there people in the audience who  
5 would like to comment?  
6  
7 MS MILLER: Can I just say, on what Andrew said, rate  
8 capping has forced us to pursue opportunities such as  
9 AusLink, but it's also allowed exploitation of that  
10 availability of funding because those councils who are  
11 large enough or who have the funds specifically employ  
12 grant officers and who are quite adept at writing grant  
13 applications, so they tend to get a greater percentage of  
14 the grants that are available, without the smaller councils  
15 like Harden being able to have the time or resources to  
16 apply for a grant.  
17  
18 So grants are delivered not on a needs basis, but on  
19 an eloquent grant application, which distorts the process  
20 of grants being for greater needs. So whilst it forces us  
21 into a grants process, it also takes away the need analysis  
22 to a more competitive analysis on who has the staff to  
23 write a grant or who is a better grant writer.  
24  
25 THE CHAIRMAN: It's a matter of degree. I recognise your  
26 point.  
27  
28 MR RICHARDSON: That has certainly been the experience at  
29 Wagga Wagga as well. We have only just taken on a grants  
30 officer in the last two years and, in terms of the  
31 additional grants that that officer has been able to  
32 attract just through submitting more grant applications and  
33 working cooperatively with other key staff members, has  
34 paid for that position more than three times over.  
35  
36 MR BRAYBROOKS: Can I just momentarily go back to rate  
37 pegging and say that in your information that you put out  
38 prior to asking for public comment, you raised, I think,  
39 five different potential ways of dealing with rate pegging.  
40  
41 THE CHAIRMAN: We want to get on to that in the next  
42 session.  
43  
44 MR BRAYBROOKS: All right, I'll leave that for the next  
45 session.  
46  
47 MR ROWE: That comment of people just talking about

1 grants, to me the whole system of grants supports the whole  
2 unsustainability issue because, as Annabell raised over  
3 there, you said 8 per cent capital, 92 per cent  
4 maintenance. How many grants do you get that fund any  
5 maintenance?

6  
7 MS MILLER: None.

8  
9 MR ROWE: It just perpetuates the unsustainability aspect.  
10 That whole grant scenario, about oiling the squeaky wheel,  
11 it really is an unsustainable situation. If you go back  
12 into the road grants years ago, they used to have a  
13 component for capital improvement and for maintenance - I  
14 don't know how many years ago, it was a long time ago, the  
15 federal ACR grants.

16  
17 THE CHAIRMAN: I think the State Government would  
18 understand your point, because they have just refused the  
19 computer grant from the Federal Government for schools, on  
20 the ground that it didn't come within any of the other  
21 costs to be covered. So it's exactly the same point.

22  
23 MR CARMODY: Can I ask you a question?

24  
25 THE CHAIRMAN: Yes.

26  
27 MR CARMODY: You mentioned before --

28  
29 THE CHAIRMAN: You can try.

30  
31 MR CARMODY: When you mentioned has Local  
32 Government thought of subcontracting, in what sense, what  
33 sort of services?

34  
35 THE CHAIRMAN: The one that's classical, which has  
36 changed, has been roads. That, as we pointed out, was a  
37 long time ago. For example, garbage collection is now  
38 being subcontracted out, which it wasn't once.

39  
40 MR CARMODY: If we're talking about rate pegging, the  
41 rates have got absolutely nothing to do with the garbage  
42 collection. The garbage is paid by garbage services, which  
43 you have a garbage rate itself and a garbage service charge  
44 itself. The things that rates pay for are things like road  
45 maintenance and things like that. The State Government  
46 subcontracts the road maintenance out to councils, so I  
47 don't know where we are going to get to, we're pretty good

1 at it.

2  
3 The best things that councils do are things like the  
4 rubbish, things like the water, things like the sewerage,  
5 because they are all different business units that actually  
6 have to pay themselves, so whatever the service costs,  
7 that's what you charge. The other things, like community  
8 services - and I don't see how you can subcontract out  
9 those types of things, and library services and swimming  
10 pools - if you subcontract a swimming pool, you would have  
11 nobody using it, so it's just impossible.

12  
13 MR CHRISTIE: Just talking about the rate pegging before,  
14 our rates make up about 50 per cent of our revenue and then  
15 the financial assistance grant is about another 7 or 8,  
16 maybe 9 per cent, of our revenue. So there's a big chunk  
17 of our revenue income that we don't have a lot of control  
18 over.

19  
20 Being an urban fringe council, we have been finding  
21 over recent years that our financial assistance grant has  
22 actually been decreasing or at least not increasing anyway,  
23 I think last year we stayed about the same. Therefore,  
24 that's eating into the amount of revenue that we - our  
25 revenue is not keeping up with our expenses for that  
26 reason. The reason why our financial assistance grant  
27 keeps going down, being a fringe council, is that the main  
28 determinant of the amount of financial assistance grant  
29 that you get is based upon how your average land value  
30 moves in comparison to the State.

31  
32 Being a fringe council, ours goes up remarkably  
33 because we are on the fringe, but the Grants Commission  
34 says, "That's the best measure of your area's ability to  
35 generate income," whereas in reality our people aren't  
36 really changing that much at all, the same old people are  
37 living in the same old houses that they have for donkeys'  
38 years. But because now their land has gone up just because  
39 of where they are situated, we are getting less of our  
40 second major form of revenue, so that's impacting in a big  
41 way on us. Then the rate pegging is not helping because  
42 that's not keeping up with inflation and those sorts things  
43 as well. So we're going backwards in real terms.

44  
45 THE CHAIRMAN: You must be getting more ratepayers.

46  
47 MR CHRISTIE: Not greatly, because most of our area, too,

1 is water catchment. So whilst we have a very big area, we  
2 don't have a lot of land that can expand in terms of  
3 rateable properties. We're going backwards, in real terms.  
4  
5 MR McCLELLAN: Increased land value, property values,  
6 doesn't increase the rate base.  
7  
8 THE CHAIRMAN: I said extra ratepayers. We'll take a  
9 break now.  
10  
11 SHORT ADJOURNMENT  
12  
13 THE CHAIRMAN: I will ask Michael to introduce this third  
14 session. This gets rather more into the specifics of what  
15 we might do.  
16  
17 MR SEERY: This is, as the chairman says, into the  
18 specifics, and probably one of the key elements of today's  
19 discussion.  
20  
21 Before going on, I might mention, and I mentioned to a  
22 couple of people during the break: after today's session,  
23 we have actually provided lunch over in the restaurant  
24 area. We will probably finish at about 12.30, so if you  
25 would like to join us and have some lunch with us, we have  
26 catered for plenty. So please come and join us and eat up  
27 some of the food.  
28  
29 In our issues paper, as Mr Braybrooks said earlier, we  
30 identified five options for the regulatory arrangements for  
31 revenue framework. These options aren't necessarily the  
32 only options, but it's ones we thought at the time might  
33 have been a good idea, certainly worth exploring, and gave  
34 something for the basis of discussion. Interestingly  
35 enough, we haven't had a lot of alternative options put  
36 forward, so maybe we can explore the full gamut of options.  
37  
38 They are summarised up on the screen, and I won't go  
39 through each of them, but in these submissions options 4  
40 and 5 have got most support. Most councils supported a  
41 self-determinatory role along the lines of Option 5,  
42 although if rate pegging were to continue, perhaps Option 4  
43 was a feasible outcome.  
44  
45 Considerations in establishing a regulatory framework  
46 are, firstly, the objectives for the regulatory framework,  
47 and in the Issues Paper we have listed a number of those.

1 In the discussion paper that we circulated prior to these  
2 workshops, there were a number of issues, such as financial  
3 sustainability, linkages of rates and costs, efficiency,  
4 prudent use of borrowings, accountability, openness,  
5 transparency - were some of the issues that were to be  
6 considered to be worthwhile in the objectives for a  
7 regulatory framework.  
8  
9 One area is the recognition of diversity. We do  
10 recognise that there is a large variation across the State  
11 in the nature of councils, their bases. In our Issues  
12 Paper, we talked about the Australian Local Government  
13 identification, which actually has 25 categories, and the  
14 DLG variation of that, which has 11 categories. That's  
15 probably way too many categories to consider in any  
16 consideration of diversity, but maybe there is a subset of  
17 those that could be possible to think about.  
18  
19 The discussion paper also identified some governance  
20 issues, and we have spoken about one already today,  
21 accountability to the community. Best practice financial  
22 benchmarking is another; effectiveness and efficiency,  
23 which we have also spoken about, and other corporate  
24 governance measures, and they were discussed in detail in  
25 the discussion paper that we circulated.  
26  
27 The discussion points for this particular session,  
28 although there are a large number in the paper, we have  
29 reduced them to basically four: What are the objectives  
30 which would underpin a regulatory framework for Local  
31 Government revenues? Which of the options for regulating,  
32 or other alternatives, would meet these objectives? What  
33 role should IPART play in setting Local Government rates  
34 and charges in future years? Should the framework provide  
35 for diversity across councils and, if so, how?  
36  
37 So we will just leave those four discussion points.  
38 These microphones seem to work okay, but it's important  
39 that when you're not using them, you turn them off.  
40 I think that's why we are getting the feedback, because  
41 people are leaving their microphone on and it's coming  
42 through the other microphone.  
43  
44 THE CHAIRMAN: Thank you, Michael. It's now open for  
45 people to comment. If you want some prompting, the options  
46 is often a good place to start, the five options. Can you  
47 just put them back on the screen, on page 10 of the Issues

1 Paper. We will just get some comments around the options.  
2  
3 MR BRAYBROOKS: I would like to start. I would like to  
4 suggest that some form of amalgamation of 2 and 4 is  
5 probably the practical way of dealing with rate pegging,  
6 making the broad assumption that rate pegging, or at least  
7 curtailment of increases in rates by Local Government, the  
8 curtailment by the state governments, still they feel the  
9 necessity to retain that curtailment.  
10  
11 First of all, I will say I find it both annoying and a little  
12 insulting that this State Government feels they have to  
13 contain our increases. We should surely be mature enough  
14 and responsible enough to our own communities to set  
15 our rates at a suitable rise to meet the expectation of our  
16 service levels by our community, but obviously that's not a  
17 point that the State Government seems to accept.  
18  
19 If that's the case, may I suggest somewhere between  
20 number 2 and number 4 lies a reasonable, practical  
21 compromise, because the costs to Local Government of  
22 maintaining its services do vary very considerably through  
23 rural, regional and city councils and, as such, I think  
24 this is where the disaggregation form of rate pegging  
25 relevant to groups of councils is the way I think we should  
26 be looking.  
27  
28 Secondly, I think number 4, where you have, "Exempt  
29 councils from a rate peg subject to meeting certain  
30 criteria," and I assume that is criteria which are expanded  
31 on in your discussion paper, are based particularly around  
32 financial accountability. I think if the council is doing  
33 the right thing, both by standards and also by its  
34 community, again that is a good reason, and has shown  
35 maturity in the way it handles rate increases, I think the  
36 response of State Government should be to considerably  
37 reduce the stranglehold which they have, and the reality is  
38 that rate pegging has slowly strangled Local Government.  
39  
40 THE CHAIRMAN: Thanks for that. I just want to provide a  
41 bit of clarification. I don't know that I would see it  
42 purely as financial accountability. We had an earlier  
43 discussion today looking at the forward planning approach,  
44 and that's I guess what we have in mind. That has  
45 financial aspects that are very important, but the forward  
46 planning approach the department has in mind, and which we  
47 would potentially build on, is not purely a financial plan.

1  
2 MR BRAYBROOKS: I take your point.  
3  
4 MR RAWLING: One thing that I thought about is we seem to  
5 have these statements on trying to categorise all the  
6 diverse councils into groups and I'm not sure why we need  
7 to stay with that. If you look at us, we do have a lot of  
8 underlying common cost groups and you could probably find  
9 four or five cost drivers that would account for 80 per  
10 cent of all council's costs, it would vary from council to  
11 council.  
12  
13 One thing that I think would be more sensible is to  
14 develop those indicators of what our real costs are going  
15 up by and then you put it out to the council and say, for  
16 example to Bombala Council, "Here are the indicators, you  
17 apply it to your percentages, and that will come up with a  
18 number for your council that indicates what is a reasonable  
19 level to keep up your real terms of revenue." I don't  
20 think we need this obsession with trying to group us  
21 together into classes or categories. I think we should be  
22 able to use more flexible and dynamic models to suit the  
23 individual councils.  
24  
25 THE CHAIRMAN: That's an interesting suggestion, and  
26 while we are by no means through all our consultation, that's  
27 an original so far.  
28  
29 Can I give you a bit of background to our line of  
30 thinking and that is that if a price index or a cost index  
31 were to be prepared, we recognise the proposition that what  
32 applies for Sydney City Council, to take one extreme,  
33 wouldn't apply for Bombala. So that was the background to  
34 sort of trying to get a manageable grouping. What you are  
35 really suggesting is we should say, "Bombala, there are  
36 five different cost drivers. You put in your weights for  
37 those five," and then be allowed to manage it.  
38  
39 MR RAWLING: Yes.  
40  
41 THE CHAIRMAN: If IPART were to do this, and we would  
42 need to discuss if there is a role for IPART and what its role  
43 were to be, but if IPART were to do that, it would then be  
44 prescribing, for want of a better phrase, a methodology.  
45 That is an approach that is used, it's used, for example,  
46 for developer charges. I don't know whether Bombala has  
47 developer charges, but some councils do have them.

1 Essentially what we are talking about is a methodology that  
2 is applied. So that's an interesting suggestion and we  
3 will take it on board.

4  
5 MR RICHARDSON: Can you just bring the discussion points  
6 up again, please.

7  
8 THE CHAIRMAN: Yes.

9  
10 MR RICHARDSON: In relation to the first discussion point,  
11 "The objectives which should underpin a regulatory  
12 framework," you actually documented what they are in the  
13 Issues Paper, and the standard of principles for good  
14 regulation and taxation are efficiency, equity, simplicity  
15 and transparency. When you apply that test to the current  
16 rate-pegging rules that we have in place, it's difficult to  
17 say that you can apply any of those principles to rate  
18 pegging. It doesn't meet any of those principles at all.

19  
20 The efficiency side of it, there's a whole bureaucracy  
21 around the rate-pegging environment where we have to  
22 prepare a statement of compliance each year, that statement  
23 has to be audited, there are other associated returns, like  
24 pensioner returns, there's a whole convoluted process in  
25 terms of applying for special rate variations, which ties  
26 up not just council's time but the Department of Local  
27 Government's time in terms of assessing those applications.  
28 You're talking probably three to four months where officers  
29 of the department are doing nothing else but assessing  
30 those applications. It certainly doesn't meet the criteria  
31 of efficiency.

32  
33 Equity - we have already covered that issue in terms  
34 of our discussions. Simplicity - it's simple in terms  
35 there's a set percentage there, but in terms of the  
36 variation process, it's certainly not a simple process.  
37 And I think we have already adequately covered the issue of  
38 transparency.

39  
40 Our council does not support the ongoing rate-pegging  
41 rules, but also acknowledges that if the State Government  
42 wants to retain rate pegging, IPART should play a direct  
43 role in determining the rate-pegging limit.

44  
45 MS MILLER: I would have to disagree with Councillor  
46 Braybrooks in retaining a mix of point 2 and point 4. The  
47 disaggregation of councils is already in place and I don't

1 think that by building upon that it will create any more  
2 efficiencies across the industry. Ideally I would like to  
3 see rate pegging removed, so I would have to support  
4 item 5. However, I don't believe, as my colleague doesn't,  
5 that rate pegging will be removed.

6  
7 IPART needs to play a strong role in that - not only  
8 for the transparency, but for the ability to be able to  
9 introduce equity across our industry. It doesn't currently  
10 exist, for reasons that we have discussed earlier today,  
11 and I'm really mindful of creating what is already a gap  
12 between Sydney City and Bombala, or Harden for that matter,  
13 in exacerbating that gap any further than it already is by  
14 placing us into categories for rate-pegging purposes. We  
15 already go to the Government on a limited basis as small,  
16 individual, rural councils. To be further placing another  
17 level of indifference when we go there, I believe, would  
18 further handicap us.

19  
20 THE CHAIRMAN: Can I pursue the role of IPART a bit  
21 further with you, particularly your comment for reasons of  
22 equity. I would like to think that IPART can do everything  
23 very well, but it would help us if we could understand  
24 better how you could see IPART achieve greater equity.

25  
26 On the face of it, I guess what we have been thinking  
27 is we have some expertise in measuring costs of services -  
28 I mean, our bread and butter core work is working out how  
29 much it costs to produce electricity and then determining a  
30 price for electricity as a consequence, or water or  
31 transport. So potentially we do could that for Local  
32 Government. We could even do it for different types of  
33 Local Government, possibly the best way being the way that  
34 David has just pointed out, which would get you ultimate  
35 diversity.

36  
37 I don't know that I fully understand. Is that what  
38 you mean by equity, that each council can achieve a fair  
39 result by applying a methodology, or that IPART can achieve  
40 a fair result, an equitable result? I just want to  
41 understand that a bit better.

42  
43 MS MILLER: I think, to start with, equity and  
44 understanding how rate capping is calculated on an annual  
45 basis would be nice, and it not being used as a political  
46 tool for councils. There's many occasions in the past  
47 where rate pegging has been released to suit the State

1 Government rather than to suit councils.  
2  
3 We're obviously all in a budgetary cycle, which the  
4 State Government imposes on us, but to have rate-pegging  
5 limits released in May or early June is unacceptable to any  
6 industry, and that's more regular than the exception. So  
7 to have that removed from it would be a bonus. To have the  
8 basis on which rate pegging is calculated from year to year  
9 would also be very valuable for us in councils in how we  
10 apply that and understanding why it is imposed against us.  
11  
12 The difficulty in not understanding how rate pegging  
13 is calculated leads to discussions like we have today.  
14 Everybody has a different viewpoint. I certainly expressed  
15 my concerns about the CPI and whether that's an appropriate  
16 factor to be utilised for a rate-pegging limit. By not  
17 exposing the factors of the formula that creates rate  
18 pegging, I don't know if it's equitable, I don't know if  
19 it's swayed towards rural councils or swayed towards  
20 metropolitan councils.  
21  
22 THE CHAIRMAN: I think I understand now. We would  
23 probably call a lot of what we do as being transparent, so  
24 you can see how we got the answer and you can then argue  
25 where we are wrong with us in that process, but you can  
26 fully understand how we got the answer. Also it probably  
27 means in your budgeting you would also be able to look  
28 ahead and say, "This is what we can anticipate we will get  
29 because we know how it's been calculated. So we know that  
30 if, for example, wages go up by 4 per cent, then that will  
31 be fed into the process."  
32  
33 MS MILLER: It would also allow us to have an input into  
34 how the formula evolves, and that process is not there now;  
35 all we get is a figure.  
36  
37 THE CHAIRMAN: That's true.  
38  
39 MR TRETHERWEY: My personal opinion is that I don't see the  
40 purpose of rate pegging and I think it ought to be  
41 scrapped. I think it's really just a slight on Local  
42 Government in general and unnecessary. But assuming that  
43 that won't happen - which I think is a reasonable  
44 assumption - I would go basically for your Option 4, which  
45 is that that rate pegging be maintained as an option so the  
46 DLG has the ability to cap a rate, if they want to, and my  
47 view would be that the figure should be worked out by IPART

1 and it should be totally transparent and take into account  
2 all of those different aspects and variations between  
3 councils, so that you can come up with a series of  
4 rate-pegging numbers based on council types and activity  
5 types.  
6  
7 But that really your Option 4 be in effect reversed so  
8 that no council has rate pegging imposed it on unless the  
9 council doesn't come up to a certain set of criteria, and I  
10 think the criteria would be based on how well you have  
11 managed things prior to that, and I think that would be  
12 quite reasonable, so that the DLG still had the ability to  
13 say, "This council is in trouble, there's something going  
14 wrong here, so this is a cap that is put on them." But  
15 also it would deal with Annabell's view early in the piece  
16 that some councils actually like a rate-pegging limit  
17 because it gives them something to work on.  
18  
19 MS MILLER: It wasn't mine.  
20  
21 MR TRETHERWEY: Not yours? Sorry, Annabell. It gives  
22 them a justification within their community to say, "The  
23 Government said it should be this so that's what it's going  
24 to be." Sorry, it wasn't you, Annabell. It's true that  
25 some rural councils do have difficulty raising rates,  
26 particularly in the middle of a drought and all that sort  
27 of thing, and it would give them a justification.  
28  
29 THE CHAIRMAN: I know I will be splitting hairs, but your  
30 observation sounds a bit like Option 5. What I think is  
31 probably important is the distinction really is what you  
32 are proposing is that councils aren't subject to rate  
33 pegging unless they go wrong, whereas Option 4 is proposing  
34 they are subject to rate pegging unless they can show they  
35 have put something in place which satisfies the Government  
36 that they are fully accountable and should be masters of  
37 their own destiny.  
38  
39 MR TRETHERWEY: That's reasonably correct. The reason I  
40 don't like the things that you have written in Option 4 is  
41 because experience tells us that the DLG or the Government  
42 will set the criteria in such a way that councils won't be  
43 able to comply with it, and that's not an uncommon thing to  
44 have happened in the past. So I just see it as a bit of a  
45 manipulation, in that they can easily determine that we are  
46 all financially unviable just by the way that they do the  
47 books, in a sense.

1  
2 THE CHAIRMAN: I guess that is at least a theoretical  
3 possibility; you may say it's a practical possibility. In  
4 my thinking about this, we would attempt to write the  
5 criteria into our recommendations and one would like to  
6 think there is some accountability on the Government for  
7 explaining, in their decision in terms of those criteria,  
8 if they accepted our recommendations.  
9  
10 We would see it as part of our job, if we pursued  
11 Option 4, would be to spell out the criteria and, as I have  
12 said earlier, we will be producing a draft report so if we  
13 go down that route we would expect you people to comment  
14 on the criteria and to comment on the options generally, but  
15 to comment on the criteria. I suppose from your point of  
16 view that comes down then to the issue of how much room  
17 the criteria allow for differences in interpretation by the  
18 DLG.  
19  
20 MR TRETHERWEY: Yes.  
21  
22 MS MILLER: I would just like to clarify - and Ken might  
23 be able to answer this - he had a statement about  
24 underperforming and rate pegging be applied to those  
25 councils who are not performing. Surely our  
26 revenue-raising ability should not depend on our  
27 performance, either individually or as an industry. There  
28 are other mechanisms that the Government and the  
29 department can put in place rather than restricting our  
30 revenue-raising ability.  
31  
32 I find that concerning - sorry, I'm choosing my words  
33 carefully - mainly because many councils are viewed upon  
34 currently as being underperforming, and that has nothing to  
35 do with their financial performance, it's their compliance  
36 with things like an accurate state of the environment  
37 report or 15 policies that are identified that need to be  
38 in place being in place. The promoting better practice  
39 reviews of councils have identified other issues other than  
40 financial performance as being underperforming. So if we  
41 categorise underperforming councils and then place a  
42 restriction on their revenue-raising ability, how can those  
43 councils effectively trade their way out of  
44 underperformance?  
45  
46 MR TRETHERWEY: I suppose, Annabelle, that's exactly what  
47 I was saying, that all those things are quite easily

1 manipulated and it's quite easy for the DLG to say, "That's  
2 a council that is not performing well," so under this  
3 Option 4, the accountabilities would really need to be  
4 written so that they don't take into account things like  
5 whether you've got a state of environment report that is up  
6 to some particular criteria, because it's got nothing to do  
7 with your revenue.  
8  
9 THE CHAIRMAN: That really is the point, what are the  
10 criteria that are going to be there if Option 4 is taken  
11 up. It's quite important what the criteria are.  
12  
13 MR CHRISTIE: The point I want to make is that I would be  
14 in favour of Option 5 as well, as other people have said,  
15 but if the State Government said we are going to be stuck  
16 with rate pegging, Option 4 is obviously the next best  
17 option.  
18  
19 In reality, I think down the track 4 and 5 would be  
20 very much the same anyway in the way it's been worded in  
21 here. In Option 5 there would be an extra ability for  
22 people to set their own rates; but if they weren't  
23 performing or they weren't up to a standard, there would be  
24 a cap set. Whereas in Option 4, there is a cap set but  
25 then if you show that you're performing okay, you would  
26 have that greater freedom to be exempt from rate pegging.  
27 So eventually they would be one and the same thing.  
28  
29 In both cases, the issue is going to be as to what is  
30 that sort of benchmark and what is that requirement, which  
31 is what everyone else has been talking about, and that is  
32 where I think IPART definitely should come in in terms of  
33 setting the cap that will be in Option 5 or setting what  
34 the actual figure is in Option 4. I think that's a role  
35 for IPART, and providing the transparency.  
36  
37 MR CROCK: I agree that Option 5 is the preferred option.  
38 I have some concerns in relation to Option 4 about the  
39 10-year timeframe through an improved and independently  
40 audited management plan. We are looking at going through  
41 the reform process in relation to a service delivery  
42 program, the 1-year, 4-year, 10-year long-term sustainable  
43 financial plan linked to our asset management plan. If  
44 this was another requirement on smaller councils, it would  
45 be very difficult, you would be looking at putting  
46 additional staff and resources to try and implement these  
47 plans.

1  
2 I agree that we should have IPART playing a role in  
3 the determination of the rate-pegging figure, but will you  
4 take into account findings from, say, fiscal staff which I  
5 processed, 35 of the 100 largest councils in  
6 New South Wales will need to increase their rates, fees and  
7 charges by 80 to 200 per cent over the next 10 years, or  
8 severely cut their services. There needs to be some  
9 process in the calculations to take into account the  
10 problems that already exist as part of the rate pegging  
11 that has been in for the last 15 years. Will IPART take  
12 any of those considerations from external findings in other  
13 reports into account?  
14

15 THE CHAIRMAN: You've massively increased the size of the  
16 task for IPART - you appreciate that. It's one thing to  
17 say, "This is how much costs have gone up in the last  
18 12 months, and councils need to be recompensed for that."  
19 It's another thing altogether to say, "These are the  
20 councils that are currently in difficulty and these are the  
21 ones that aren't, and by how much and differentiate and so  
22 on." The moment you reopen the base, if I can put it that  
23 way, you make the whole regulatory task much more  
24 controversial and complex than just saying, "We can take  
25 the base as given, but this is how much it needs to  
26 increase."  
27

28 I can't give you an answer, and whether the Government  
29 would want us to (inaudible) circumstances, but I do say  
30 that it would be a much bigger and more complex task and we  
31 would need to get evidence that the present method of  
32 special adjustment hadn't worked to correct the base when  
33 the base was clearly wrong.  
34

35 MR CROCK: Just a question, then. In part of these  
36 reports that have been conducted - and there's been  
37 numerous ones, the Allan Inquiry and so on - are they going  
38 to be taken into consideration at all in relation to  
39 considerations here and what regulatory model we have going  
40 forward?  
41

42 THE CHAIRMAN: There are terms of reference for inquiries  
43 to take account of the previous reports, but what I am  
44 saying is to say how that affects individual councils and  
45 how they should be compensated for that, that is a major  
46 task and a quite controversial task. We are at this stage  
47 recommending a system, not playing a role in operating the

1 future system. All we are doing in this report will be to  
2 recommend a future system.  
3

4 MR RAWLING: In relation to Option 5 - which is obviously  
5 all our favourite and all our least likely to succeed one -  
6 one of the things that we do have in there, there needs to  
7 be some sort of mechanism that the community has a way of  
8 objecting to their council making a decision they don't  
9 like, and that may be a way to make it more favourable, if  
10 you say if 10 per cent of the community lodges a petition  
11 to the Minister, then a review is undertaken on whether the  
12 increases are appropriate for their financial situation,  
13 et cetera. So that may be a way that can make that more an  
14 attractive option or an easier option for sale to a  
15 Government, by saying there is a power to the people-type  
16 mechanism.  
17

18 THE CHAIRMAN: That is again an interesting suggestion. I  
19 will just make a couple of observations.  
20

21 First, I think the suggestion from Ashley Christie  
22 that 4 and 5 might morph together, that is an important  
23 point and it will be really just a question of emphasis,  
24 whether it's more of 4 or more of 5. But I think whichever  
25 it is, the system in the future is bound to have some sort  
26 of conditions of what I will call democratic accountability  
27 built into it. Whether that's most councils are able to  
28 readily satisfy and just a few can't, or whether it's most  
29 have to sit in a regulated system until they have proved  
30 it, I'm unsure, but there will be conditions of democratic  
31 accountability. There will probably be some conditions of  
32 financial sustainability, too, I would think.  
33

34 The devil then will be in the detail, of what is the  
35 democratic accountability. We have been thinking along the  
36 lines of these forward plans that the department has been  
37 developing as being a way forward. You could say if  
38 10 per cent of ratepayers object to a council that has rate  
39 pegging removed and therefore they have to reconsider,  
40 that's an interesting suggestion. There is again an extra  
41 trigger for democratic accountability, I guess. I would be  
42 interested in how others react to that.  
43

44 I have had some experience in the United States where  
45 of course rate revenue is far more important. In  
46 California, it was the main source, the only source, of  
47 revenue for schools, and they allowed 10 per cent of



1 ratepayers to basically prevent any further increase in  
2 rates and that has created huge problems for their schools  
3 ever since.

4  
5 MR RAWLING: On that, I was probably more looking at that  
6 being a trigger for an investigation into whether it was a  
7 suitable decision, rather than something that would  
8 arbitrarily allow you to cut off a decision.

9  
10 THE CHAIRMAN: Yes. Nevertheless, with that  
11 clarification, how do others feel about, if you like, a  
12 petition prompting some sort of reconsideration?

13  
14 MR TRETHERWEY: I think it's quite reasonable, given that  
15 if you put in for a special rate increase at the moment you  
16 need to do the opposite, you need to show that a reasonable  
17 percentage of the community are actually for what you are  
18 proposing. So to do that in reverse and have a percentage  
19 in some way saying that, "We're opposed to what the council  
20 is putting forward," is quite reasonable. Whether it's  
21 10 per cent or whether it's something a bit more sort of  
22 representative than that, because 10 per cent could be the  
23 particular lobby group that either does or doesn't like  
24 something, so the quantum is open for variation, I suppose.

25  
26 MS MILLER: I don't know that a petition is the best way.  
27 I think the ability for these people who don't agree with  
28 any increase should be based on fact and they provide a  
29 case rather than a petition. The Government would find,  
30 and the department would find, it very difficult to  
31 investigate any claim out of a petition back across council  
32 budget. So I think if we are going to go that way, we  
33 should explore the presentation of case fact rather than,  
34 "I'm not going to pay an extra \$15 to have my road sealed  
35 for this year."

36  
37 MR RICHARDSON: I would have some concerns. I think  
38 petitions are largely based around emotion rather than  
39 facts. Also, for similar reasons that Annabell has  
40 mentioned, I don't know how practical it would be for the  
41 department to actually come in and do a full wholesale  
42 review of whether an increase was reasonable or not.

43  
44 I think you have to go the democratic process, with  
45 the election of the council, and it should follow through.  
46 The department has already got powers in terms of doing  
47 investigations on councils and inquiries into councils, if

1 they don't think that they are acting properly, and I think  
2 we should leave it at that.

3  
4 THE CHAIRMAN: If there is no more comment on that  
5 particular issue, I would like to push through a bit  
6 further on the role of IPART. My sense is there has been  
7 general support for IPART playing some role, for reasons of  
8 transparency and equity, which would really come down to  
9 IPART providing, at a minimum, information on what costs of  
10 Local Government have gone up, and we have talked a bit  
11 about how you could vary that according to local  
12 circumstances. We have had the instant suggestion of a  
13 methodology where each council would get a set of weights  
14 and therefore produce its own price index while waiting to  
15 get a six-component price index or cost indexes that we  
16 provided.

17  
18 There are two questions, really. If we didn't go down  
19 the individual council methodology route - and I'm not  
20 saying we won't, but we have to entertain the possibility  
21 that we might not, or the Government didn't favour that -  
22 what is the sort of sense in numbers of groupings? The  
23 Department of Local Government has 11. Should we have 11  
24 different cost indexes, according to each of those 11  
25 groupings, or should we have fewer? That is one question I  
26 would like your opinion on.

27  
28 The second question is: if we move to a world where  
29 rates were unpegged, let's say for the majority of  
30 councils, would it still be useful for IPART to produce a  
31 cost index, a piece of public information against which  
32 councils would then explain their decisions?

33  
34 MR BRAYBROOKS: No insult meant to IPART or any other  
35 body, but I think the reality is that Local Government  
36 would appreciate a fairer form of setting of rates. If -  
37 and this continues to be an assumption that rate pegging  
38 will continue - the LGSA does have a cost index which it  
39 has promoted strongly to the State Government, and has been  
40 ignored, the reality is we need some body which can give  
41 the impression of impartiality, which can give an  
42 impression of realistic investigation of these costs.

43  
44 If that's a role that IPART can undertake, then  
45 I think it is an excellent idea, because the fact is that  
46 we all have this terrible feeling that rate pegging is an  
47 arbitrary, political figure which bears no relationship to

1 the real cost of providing a service from Local Government,  
2 and certainly is always set far below the cost figure which  
3 LGSA comes up with as a real cost index. So I would  
4 certainly encourage IPART to undertake that role, if it  
5 feels able to, because we certainly need somebody to do it,  
6 on an impartial basis.

7  
8 THE CHAIRMAN: That is even in a world where rate pegging  
9 has disappeared?

10  
11 MR BRAYBROOKS: Yes.

12  
13 MR TRETHERWEY: Just in relation to the groupings of  
14 councils, the 11 groupings at the moment are, I think, a  
15 little artificial. If you look at our grouping, the one  
16 that we are in, there's really quite a large variance  
17 between some of the councils in there, in that some of them  
18 are virtually purely urban councils, some of them are  
19 pretty much rural councils, small urban, but urban in the  
20 country, some of them have irrigation, which makes them  
21 completely different to somewhere like us, which is dry  
22 land.

23  
24 So my view would be that those groupings need to be  
25 reduced to really just the basics, which is urban councils,  
26 as in city councils, regional councils and probably country  
27 councils, but maybe the far west is different to us here.  
28 But more importantly than that, I would like to see, if  
29 IPART had a role in there, that things like the cost of  
30 road-making was actually determined maybe in each of those  
31 groupings, if there is a minimum number of groupings, so  
32 that wherever you are, the cost of road-making is going to  
33 be pretty similar. So we get a contracted bitumen firm, we  
34 buy the bitumen and the contract price is not that  
35 different anywhere in rural New South Wales, it might be  
36 different in the city.

37  
38 Some of those basic things, like the wage impact on  
39 councils. Road making is a major activity, so road making,  
40 the cost of running a sewerage system - some of those sort  
41 of basic things. Like even if it's half a dozen major  
42 activities that all councils undertake - the city ones  
43 don't necessarily - but particularly for rural, the major  
44 activities that we undertake, if they had an individual  
45 indexed price that was an average, some are going to be  
46 slightly losing and some would slightly gain on that, but  
47 if it's an average that somebody like IPART used to

1 actually determine a reasonable rate increase, I think that  
2 would be a better way of doing it.

3  
4 THE CHAIRMAN: Of course, David Rawling's suggestion is  
5 precisely intended to capture that. If we had, say, four  
6 groups of councils, as you have just implied or suggested,  
7 if we did it, we would set out, let's say, the six or seven  
8 cost indexes, like road making, water, set out the  
9 different cost indexes for wages and so on, but would give  
10 them a common set of weights for everybody in the  
11 particular group, so rural councils would all have a common  
12 set of weights in that case. It might be that there is  
13 sufficient commonality that that is a simpler method and  
14 it's less expensive, too, than each council doing it.  
15 That's something we would have to investigate further.

16  
17 MR RAWLING: I would like to say that I think if we go  
18 into any system where there's councils that aren't under a  
19 mandatory rate-pegging system, it then becomes very  
20 critical about someone like IPART giving an independent  
21 accurate cost figure because, looking at it from the  
22 ratepayers' point of view, they need somewhere that they  
23 can turn to to say, "Compared to what the council is now  
24 suggesting they put up our rates, what is a reasonable  
25 figure," and if IPART doesn't provide some independent  
26 thing, they have no other place to look for a good  
27 independent figure that they can make more of a judgment  
28 about facts rather than say that just seems too much. I  
29 think it's very important, if we move away from any  
30 mandatory basis, to have IPART in there.

31  
32 MS MILLER: I would agree, and I think perhaps something  
33 that we have overlooked is the removal of water and sewer  
34 from rate-pegging limits and individual council's ability  
35 to not rot the system. I think we haven't touched on that  
36 at all. We are in a process now where the State Government  
37 is reviewing our water and sewer operations. However,  
38 I think it would be fair to say that the majority of  
39 councils have acted honourably in levying their ratepayers'  
40 actual costs and, to a certain extent, future costs, a  
41 component of future costs.

42  
43 I see a role for IPART and I'm probably similar to  
44 David, that it would provide a guidance system not only for  
45 councils but for the community. We will be continually  
46 faced with the problem of increasing expectations, but also  
47 comparisons with our neighbours.

1  
2 I know at Harden we are constantly being compared with  
3 our five neighbours on what their rate base is, what our  
4 user charges are, and that also becomes difficult in the  
5 small political world of how councillors can justify what  
6 our rates are and what our user charges are. So by having  
7 IPART, with a regional weighting and a formula that is  
8 quite clear that we can plug our individual data in, that  
9 would provide not only transparency to councils but also  
10 transparency to our ratepayers, and may mitigate a lot of  
11 the complaints that currently abound within our industry,  
12 that we aren't providing a value for money service or that  
13 we are not providing services to a similar standard of our  
14 neighbouring councils.

15  
16 MR ROWE: Thinking about that methodology you were  
17 talking about there before, Mike, and relating to what David  
18 said and the equity issue, are we working against that by  
19 looking at grouping councils again, and are we better to be  
20 looking at what David suggested in looking at six drivers  
21 or service areas so that each council then weights  
22 themselves depending on how much of their own plans or  
23 resources they put into each sector.

24  
25 That way, they are reflecting their own needs from  
26 their own council. Once you start grouping them, and how  
27 many groups do you have, there is no one council that is  
28 exactly the same as another and that provides that  
29 opportunity for each council to get it closer to the mark.  
30 But you probably won't have that clear back-up from IPART  
31 as to what that level has been set at because each council  
32 is going to set it up itself - something like I think David  
33 was originally suggesting, that it be left up to each  
34 council.

35  
36 THE CHAIRMAN: There's no doubt that a grouping is  
37 simpler. The problem with the grouping is if there's a lot  
38 of diversity in the group, and that is something I think we  
39 might just take on notice.

40  
41 The other issue is that under David's proposal, the  
42 council would impose its weight. If part of the object of  
43 the exercise is to satisfy the ratepayers, which was  
44 Annabell Miller's point really, transparency to the  
45 ratepayers, then it will probably be necessary to satisfy  
46 them that the weights are correct, and that might be done  
47 just by the possibility of a council being audited. It

1 doesn't mean that it necessarily is audited, but they  
2 would know that there's a possibility of being audited.

3  
4 If, for argument's sake, people were suspicious of the  
5 council showing a very high weighting for labour, let's  
6 assume labour goes up faster than the other costs,  
7 therefore you get a high cost index, the possibility that  
8 the department could come in and audit them might be  
9 sufficient protection. That's something we need to think  
10 through, I think, at this stage. It's a very interesting  
11 suggestion, let's be clear on that, but we would need to  
12 think it through, and just how far it's necessary as well.

13  
14 MR RAWLING: I was thinking, as you were talking about it,  
15 that you could possibly go with the direction that IPART  
16 has those categories and issues papers which have the  
17 weightings that have been found for a category and the  
18 factors, because that would then provide another benchmark  
19 that the people could look to and say, "I'm a small rural  
20 council, but my council is telling me that the wages are  
21 80 per cent and everyone else is getting 60 per cent,  
22 there's an issue here," and that probably wouldn't be much  
23 more effort on IPART's behalf to do that, but then the  
24 councils could still, within their own resources, say, "Our  
25 percentages are X, Y and Z."

26  
27 MS MILLER: Perhaps taking that a little further, David,  
28 maybe we could split the weightings, similar to the  
29 financial assistance grants where there's two distinct  
30 calculations on how it goes, so that there's one section  
31 that has the six weighting groups that totals, for  
32 argument's sake, 50 per cent of our rate increase and  
33 another factor that is actually set by IPART. So that you  
34 have an across-the-industry standard for 50 per cent of  
35 your increase, but then you have a localised standard for  
36 the other 50 per cent. That would give you a grounding all  
37 the time back to a state average.

38  
39 MR RAWLING: As you can probably guess, I'm really not a  
40 fan of averaging of anything because it takes away from the  
41 accuracy, and I much prefer the accuracy of looking at what  
42 is really driving the costs so you can say that what you  
43 are putting your rates up for is there for that position.  
44 I think if we make it too complex, we get back into the  
45 same position where it's difficult for people to  
46 understand. So you have to sort of offset that, I think.

1 THE CHAIRMAN: I must say I have some sympathy with  
2 keeping it reasonably simple. In another context, one of  
3 the problems with the Grants Commission's methodology is  
4 that it's a black box: you take it on trust that it  
5 achieves the right answer, because no-one can understand  
6 it.

7  
8 MR RICHARDSON: You just can't understand it.

9  
10 THE CHAIRMAN: Are there other comments on this? We  
11 haven't spent much time on the objectives which should  
12 underpin a Regulatory Framework For Local Government  
13 Revenues. Craig Richardson referred to a tax system being  
14 simple and efficient and equitable. I guess we had in mind  
15 objectives like financial sustainability, democratic  
16 accountability, and this is for the regulatory framework,  
17 it meets community needs. I'm thinking off the top of my  
18 head now, and we have probably written it down somewhere  
19 - those sort of things we would be trying to put in place for  
20 a regulatory framework. If there are comments on that, it  
21 could be helpful.

22  
23 We need to present a regulatory framework and its  
24 objectives before we get down to the answers. We have to  
25 say, "What are we trying to do with Local Government  
26 finance?" We have to convince Government this is what we  
27 are trying to achieve before we get to the answer.

28  
29 MR TRETHERWEY: Could I go to something I said earlier,  
30 and that is in order to put those objectives in place, the  
31 first thing that needs to be done is to define what it is  
32 that Local Government is supposed to be doing and what it  
33 is that we are not supposed to be doing, so that everything  
34 is in a proper context.

35  
36 THE CHAIRMAN: That, Ken, is why we started where we  
37 did, with the objectives. The difficulty is that in a sense,  
38 the act is really allowing Local Government to define what  
39 it is supposed to be doing. I think one thing that did  
40 emerge from today, particularly the discussion we had with  
41 Annabell Miller, is we need to be clear about roles and  
42 responsibilities. While Local Government may have the  
43 opportunity to define what it wants to do, where other  
44 levels of Government are also involved in it, it needs to  
45 be clearly defined who is responsible for what and who's  
46 going to play what role.

47

.14/10/08 54 QUEANBEYAN

Transcript produced by Merrill Legal Solutions

1 MR RICHARDSON: I think it's financial sustainability,  
2 that's the key objective in my mind, and I think that's  
3 what this process should really largely be about. They are  
4 really the arguments that we have brought forward so far,  
5 that rate pegging just doesn't allow councils to be  
6 sustainable on an ongoing basis, and there are plenty of  
7 reports out there that were referred to, the Percy Allan  
8 report, et cetera. It's really about financial  
9 sustainability, in my mind.

10  
11 MR BRAYBROOKS: It's interesting that nobody, other than  
12 you a few moments ago, even brought up the issue of what I  
13 assume you were leading to, which was the intergovernment  
14 agreement, an IGA, because the reality is that the  
15 expectation of communities is wide, and we all accept that  
16 and it varies, but there needs to be a baseline, an  
17 underpinning of Local Government functions through some  
18 form of IGA, because we can't talk in the long term about  
19 financial sustainability of Local Government unless we  
20 accept there is an agreed baseline to what Local Government  
21 should and could do and how it can and should raise its  
22 finances.

23  
24 This, to me, is what the IGA is all about and why I  
25 think it is still fundamental to the whole talk of  
26 sustainability of Local Government; that without an IGA,  
27 without an understanding and an agreement on a statewide  
28 basis what is the baseline, what is the minimum that is  
29 expected and what is the minimum way of raising finance to  
30 meet those expectations, in other words, a reasonable IGA  
31 between the Local Government and the State Government,  
32 I think we will be having these discussions for many  
33 decades to come.

34  
35 THE CHAIRMAN: At this point, I'm happy to get any  
36 comment or question from the audience.

37  
38 MR McCLELLAN: Just following on from what Annabell was  
39 talking about, and possibly the intergovernment agreements  
40 that Paul was talking about, I think it was probably six or  
41 eight years ago there was a rating taskforce that had been  
42 set up, it was being chaired by, I believe, John Tate, who  
43 was the mayor at Newcastle at the time. They proposed a  
44 two-tier way of calculating what the rate-pegging figure  
45 would be. So maybe that's something that IPART could go  
46 back and have a look at, rather than trying to reinvent  
47 that wheel that was done possibly about eight years ago,

.14/10/08 55 QUEANBEYAN

Transcript produced by Merrill Legal Solutions

1 which evidently didn't get a guernsey with the State  
2 Government. It's just something to follow up on.  
3  
4 THE CHAIRMAN: Thanks very much for that. If there is no  
5 further comment, I will hand over to Michael to the next  
6 subsection, if I can put it that way.  
7  
8 MR SEERY: This is a short session to summarise the  
9 discussion of today. What we would like to do is give  
10 everyone at the table the opportunity to indicate what they  
11 see as the two key priorities, if we were to reform the  
12 Local Government Revenue Framework in New South Wales.  
13 So what we would like you to do individually is to just say  
14 what you think your two priorities for reform would be.  
15  
16 THE CHAIRMAN: This particular one, it's obligatory that  
17 you all contribute. I will ask for a volunteer to go  
18 first, otherwise I will nominate someone.  
19  
20 MS MILLER: I'll do it. My two key priorities would be  
21 flexibility; you would need that to account for the  
22 diversity of councils in New South Wales. My second would  
23 be the accountability and transparency that we need as an  
24 industry to either make other arrangements or campaign for  
25 changes.  
26  
27 THE CHAIRMAN: I will go round the table.  
28  
29 MR TRETHERWEY: The number one priority to me would be  
30 to remove rate pegging, or at least to vary it substantially  
31 to pretty much Option 4, and the second priority would be  
32 to make the calculation of that rate-pegging limit totally  
33 transparent.  
34  
35 MR RAWLING: I suppose the first one for me is to have a  
36 system that is accurate, that is tracking our long-term  
37 needs for finances and the services that we are intending  
38 to provide, so we have to have something that is going to  
39 suit us for the long term, not just short-term situations.  
40 The second one for me is making sure there's that  
41 objectivity and transparency in how the figures, how we  
42 come up with things, so people can see where it is driving  
43 from and what is actually happening in the background of  
44 how we are coming to these figures that we come up with in  
45 raising revenue.  
46  
47 MR CARMODY: Number one: maintain rate pegging. I'm

1 obviously outnumbered something chronic, but it's amazing  
2 where the push to get rid of rate pegging is coming from.  
3 It's not coming from my community, but there's not one  
4 person who lives in the Yass Shire who has been telling me,  
5 "Put my rates up, will you." If they ask for a high level  
6 of service and I say, "It's going to cost you more money,"  
7 they say, "I don't want to pay any more money, so I'm quite  
8 happy with the service, thank you very much."  
9  
10 So the push seems to be coming from some of the  
11 elected representatives, but certainly a lot of the general  
12 managers and a lot of the staff. The trouble with a lot of  
13 governments, not just Local Government, a lot of  
14 governments are very short term and they look for the next  
15 couple of years. So if a particular general manager had  
16 another couple of hundred thousand dollars to spend, they  
17 are going to look good, there's no doubt about that, and if  
18 the council has a couple of dollars to spend on some  
19 projects, they are going to look good, there's no doubt  
20 about that.  
21  
22 I think that is where the push is coming from. It's  
23 not coming from the community, and that's where it should  
24 be coming from. If the community are demanding more  
25 services, then we should be doing something about it, but  
26 it's not coming from there. So I will say that.  
27  
28 But having said that, there certainly needs to be  
29 somewhere where councils can get some money for  
30 infrastructure projects, in particular. I will go back to  
31 the 30-odd councils that have already applied for special  
32 variations. I think there needs to be some sort of  
33 variation where it's automatic. So if the rate pegging  
34 level was 4 per cent, there should be a 2 per cent  
35 infrastructure variation which you could automatically just  
36 take, and I think that is something that all councils then  
37 can allow themselves access to so that then you could go  
38 and do your management plan, you can do your forecasting,  
39 you can do your infrastructure projects for the next  
40 10 years and say, "I only have 2 per cent, I can borrow  
41 against that, that will give me whatever the figure is,  
42 \$200,000 a year extra income, which I can pay off over the  
43 next amount of loan to improve my infrastructure." So they  
44 are the two priorities.  
45  
46 MR CHRISTIE: My number one item - despite Nick's  
47 comments - would be to remove the rate pegging or at least,

1 at a minimum, review how it is applied, which basically  
2 would be to look at Option 4, if we can't have Option 5.  
3 Number two would be to implement some form of  
4 accountability on councils, based primarily on financial  
5 sustainability, as Craig was saying earlier. And if I was  
6 allowed to throw number three in, it would be also review  
7 how the financial system grants are worked out - but that's  
8 probably outside the scope of what you are looking at.

9  
10 THE CHAIRMAN: It certainly is.

11  
12 MR CARMODY: I'll vote for it, too.

13  
14 MR RICHARDSON: My two, again no surprises here: the  
15 removal of rate pegging and, secondly, for IPART to play a  
16 direct role in determining and publishing the cost  
17 increases that the Local Government industry operates  
18 within.

19  
20 MR CROCK: Very similar to Craig: removal of rate  
21 pegging, but the focus being on the financial viability and  
22 sustainability that is not able to be determined through  
23 the autonomy of the council at the present time. Two is  
24 the role of IPART, the independent role they play and based  
25 on the true cost indicators out there, particularly  
26 industries in relation to manufacturing and building  
27 industry costs and so on.

28  
29 MR BRAYBROOKS: Paul Braybrooks, Cootamundra. I can  
30 see exactly where Nick is coming from, but I would say the  
31 one thing --

32  
33 MR CARMODY: Are you from REROC or Cootamundra?  
34 Who are you talking on behalf of?

35  
36 MR BRAYBROOKS: REROC, I beg your pardon. I have a  
37 philosophical dislike of rate pegging purely because in my  
38 opinion it doesn't acknowledge the maturity and the honesty  
39 which I feel Local Government can bring to setting its own  
40 income. As such, I quite agree with Nick's comments that  
41 if the community does not want increased services, does not  
42 want increased facilities, then there are no increases.  
43 But I think that the Local Government has the right to make  
44 that decision with guidance from its community. It's more  
45 a philosophical disagreement with rate pegging that I have.

46  
47 The second thing is that if IPART can bring an

1 independence, a flexibility and a transparency to the  
2 setting of a rate, assuming that rate pegging continues,  
3 then I certainly would encourage IPART to take on that  
4 mantle because we need a body that will provide that  
5 independent and accurate figure.

6  
7 Finally, I still think - and I think it's something  
8 which we probably haven't pursued at all in this meeting to  
9 any extent - I would go back to the IGA because I think  
10 that is pivotal to the whole sustainability of Local  
11 Government in the long term. You can fix the finances, but  
12 unless you fix and agree upon a level of service and a  
13 level of expectation of Local Government, then I think we  
14 will be having this discussion, as I said earlier, for  
15 decades to come.

16  
17 THE CHAIRMAN: Thank you for that. I would like to make  
18 some remarks of my own on behalf of the Tribunal before we  
19 close the meeting. First of all, there is a considerable  
20 measure of agreement here on the way forward, apart from  
21 Councillor Carmody, but everybody else.

22  
23 MR CARMODY: That's all right.

24  
25 THE CHAIRMAN: I think it's worth passing on to you that  
26 the message that we have got from this workshop is pretty  
27 similar to what we have had in the other workshops we have  
28 held so far, too, so there is definitely a pattern  
29 emerging.

30  
31 I think that we are bound to record in our report that  
32 the expectations on Local Government have been rising over  
33 quite a period. As I said earlier, that is something that  
34 other levels of Government are familiar with also. There  
35 is an issue about roles and responsibilities, and that goes  
36 to cost switching, and it is important in that context - I  
37 take Paul Braybrooks' point about the IGA and so on, and we  
38 will certainly pursue that.

39  
40 I think there is an issue about just how much  
41 diversity there is, so I'm not sure you can get an  
42 agreement with the State Government which covers all Local  
43 Government, about what all Local Governments are  
44 responsible for because it's pretty obvious that what is  
45 expected of rural councils is quite different from what is  
46 expected of inner Sydney councils. So we need to look for  
47 a mechanism that accommodates those sorts of differences.

1  
2 Can I also say, just personally, that I very much  
3 appreciate Paul Braybrooks' point about democracy, an  
4 elected body in a democratic system ought be able to  
5 determine the revenue it is responsible for raising. It's  
6 a sort of democratic principle, and I understand that.  
7 I think, however, we need to also appreciate how we got  
8 into rate pegging, and that's because probably enough  
9 people supported the view of the then Government, and  
10 governments since, that democracy wasn't working well  
11 enough, so you couldn't trust councils. Whether that was a  
12 right view or a wrong view, that was the perception.  
13  
14 So I think if we are to move forward, we need to  
15 create a system that satisfies people that democracy will  
16 work better in the future than when rate pegging was  
17 introduced 30 years ago. If we are to move to a system  
18 which allows more discretion - and I won't get tied between  
19 4 and 5 at this point - if we are to move to that, then  
20 it's very important we tie it to a better method of  
21 democratic accountability in terms of release of forward  
22 plans, a better understanding of roles and  
23 responsibilities, whether it's by way of an IGA or  
24 something else. We will need to tie that democratic  
25 accountability in with relaxation of government controls.  
26  
27 If we do that, Nick Carmody, I think you may be  
28 satisfied that you will find it easier to engage with your  
29 community as to whether there should be no rate increase or  
30 not, if we have that improved democratic accountability. A  
31 number of people here today have emphasised that they  
32 would feel constrained about how much they could put rates  
33 up if there were no rate pegging. The point has been made  
34 that there's ratepayer resistance to increasing rates. So the  
35 important point is to get a clearer and better  
36 communication between demands for more services and the  
37 costs of those services and who is going to pay, and that  
38 is what we will have to aim at, I think.  
39  
40 I think from what we have heard, and we can certainly  
41 do it, there is a role for IPART in providing information.  
42 Whether that is information which then acts as a control  
43 for some or most or it's just information to your  
44 electorates and to the council in establishing rates, it's  
45 still to be determined. But it does sound like there is a  
46 role for us in providing information, and I think we could  
47 do that. Whether we provide it in a way that allows each

1 council to calculate their own or whether we do it on an  
2 agreed basis, as I have already indicated, that is  
3 something we want to think further about.  
4  
5 Finally, I would like to thank you all again for your  
6 attendance this morning. I think it has been a very useful  
7 session, from our point of view, and I hope you found it  
8 worth giving up your time for, including in some cases a  
9 couple of hours' drive to get here. I hope you found it  
10 useful. We will certainly be thinking about what has been  
11 put to us, and I hope positively. Thank you very much.  
12  
13 AT 12.30PM THE TRIBUNAL ADJOURNED ACCORDINGLY  
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