

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF THE REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

TRIBUNAL MEMBERS

DR MICHAEL KEATING AC - CHAIRMAN  
MR JAMES COX  
MS SIBYLLE KRIEGER

Held at the The Wesley Centre  
Pitt Street, Sydney

On Monday, 30 September 2008, at 1pm

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

6 Perhaps I should begin by introducing us. I am  
7 Michael Keating, and I am the chairman of the tribunal.  
8 I am joined today at this workshop by my fellow tribunal  
9 members - first, on my right is Mr Jim Cox on my right, and  
10 he is the chief executive officer of IPART and a full-time  
11 member of the tribunal, and on my left is Ms Sibylle  
12 Krieger.  
13

14 As I am sure you are all aware, the former Premier  
15 requested that IPART undertake a review of the revenue  
16 framework for local government. The Premier requested that  
17 the review consider three terms of reference: firstly, an  
18 appropriate inter-governmental and regulatory framework for  
19 the setting of rates and charges that facilitates the  
20 effective and efficient provision of local government  
21 services; secondly, a possible role for IPART in setting  
22 rates and charges in future years; and, thirdly, a  
23 framework for setting the charges levied by certain public  
24 authorities, such as the Sydney Harbour Foreshore  
25 Authority, the Redfern Waterloo Authority, Sydney Olympic  
26 Park Authority and the Growth Centres Commission, and that  
27 would enable these authorities to recover costs for the  
28 provision of services that are normally provided by local  
29 government.  
30

31 In undertaking this review, IPART is also to have  
32 regard to a range of matters, including the role and the  
33 financial position of local government, the revenue sources  
34 available to local government, the scope for efficiencies,  
35 the social and economic impacts of rates and charges, and  
36 the differences between councils across the state. In  
37 addition, IPART is to have regard to the findings of recent  
38 reviews of local government and the matters in  
39 section 15 of the IPART Act.  
40

41 This workshop is part of the tribunal's public  
42 consultation process for the review. IPART will also be  
43 holding workshops in a number of regional centres over the  
44 next six weeks. The workshop today will address the first  
45 two terms of reference. As the third term of reference is  
46 of particular interest to a smaller group, IPART will be  
47 holding separate workshops with the relevant councils and

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1 authorities to consider the issues that are specific to  
2 those authorities, being the Sydney Olympic Park Authority,  
3 the Sydney Harbour Foreshore Authority, the Redfern  
4 Waterloo Authority and the Growth Centres Commission.  
5

6 As part of this investigation, in July IPART released  
7 an issues paper which set out key aspects of the review  
8 process. That issues paper outlined some of the matters  
9 that IPART considered important to this review, along with  
10 a timetable for the review.  
11

12 In the issues paper, IPART called for submissions from  
13 interested stakeholders and asked for them to be submitted  
14 by 29 August. To date, IPART has received 64 submissions  
15 which have been placed on the IPART web site and are  
16 available for viewing there. IPART is appreciative of  
17 those who have taken the time to make a submission. You  
18 can be assured that all of the submissions received will be  
19 carefully considered by IPART in reaching its conclusions  
20 on the framework for regulating local government revenue.  
21

22 Some of the organisations that have made submissions  
23 to the review are participating at our workshop here today.  
24 I would like to thank those who have agreed to participate  
25 here today. We consider this to be a very important part  
26 of our investigation.  
27

28 Following consideration of the matters stakeholders  
29 have raised in submissions and the matters raised at  
30 today's workshop, IPART will make recommendations to the  
31 Minister for Local Government via a draft report next May  
32 and there will be a final report in September 2009.  
33

34 Finally, I would like to say a few words about how the  
35 workshop will be conducted. You all have available to you  
36 an agenda which indicates each discussion topic or session  
37 of the workshop. The proceedings for the day are divided  
38 into three broad topic areas. These sessions focus on some  
39 of the major issues that were included in the submissions  
40 and focus on areas where IPART believe it would benefit  
41 from hearing more from the important stakeholders. These  
42 sessions are intended to provide IPART with the information  
43 we will need to make our final deliberations.  
44

45 The three sessions will deal with the role of local  
46 government in providing services to the community; threats,  
47 possible threats, to the long-term financial sustainability

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1 of local government; and then options for a more  
2 sustainable financial management system.  
3  
4 At the beginning of each session, a member of IPART's  
5 secretariat will make a brief presentation to introduce  
6 each item and pose a series of questions. The people  
7 sitting at the table will then be asked to express their  
8 views on issues raised, and I will ask you to respond on  
9 the basis that you are fairly brief. As you can see, there  
10 is quite a number of you, and if you all speak to each item  
11 we will not finish in the time, so I would ask you to be  
12 fairly brief, and generally the rule is are that speakers  
13 are not interrupted as they make their presentation.  
14  
15 At the conclusion of each of the round table sessions,  
16 I will allow a short period of time for members of the  
17 audience to express any views or opinions on that  
18 particular topic or discussion.  
19  
20 As you will see, our proceedings are being transcribed  
21 and a transcript will be available on IPART's web site  
22 within the next week.  
23  
24 Finally, I should point out that while IPART is to  
25 provide a draft report to the Minister for Local Government  
26 by May 2009, IPART has not determined its position on the  
27 issues to be raised at the hearing today. It would be  
28 improper for it to do that before it had gathered all of  
29 the evidence. For that reason alone, we will not be giving  
30 our views on the different issues and entering into the  
31 debate.  
32  
33 I would like to commence now by inviting each  
34 participant at the table to introduce themselves for the  
35 record, stating their name and the organisation that they  
36 represent.  
37  
38 MR BALL: Robert Ball. I am the general manager of  
39 Hornsby Shire Council.  
40  
41 MR MOEGE: I am Sascha Moege from the Local Government  
42 and Shires Association and I am on the finance and  
43 infrastructure policy team.  
44  
45 MS ROLFE: I am Hylde Rolfe. I am a principal of the  
46 consultancy National Allies.  
47

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1 MS HOLLOWAY: Penny Holloway. I am the general manager  
2 of North Sydney Council and I am also wearing another hat -  
3 president of Local Government Managers Australia for  
4 New South Wales.  
5  
6 MS HUSKING: I am Barry Husking. I am the chief financial  
7 officer of Penrith Council.  
8  
9 MR LEWIS: David Lewis. I am the general manager of the  
10 Southern Sydney Regional Organisation of Councils.  
11  
12 MR MILLS: Gary Mills. I've done a private submission,  
13 but I work for a council in New South Wales.  
14  
15 MR ROGERS: Wayne Rogers. Finance manager for  
16 Blacktown City Council.  
17  
18 MR BURGESS: John Burgess. General manager of  
19 Auburn Council.  
20  
21 MR WALKER: Dave Walker. General manager of  
22 Baulkham Hills Council.  
23  
24 MR GREENWOOD: Robert Greenwood. Group manager of  
25 Blue Mountains City Council.  
26  
27 MR KLUDASS: Steve Kludass. Director of governance,  
28 Camden Council.  
29  
30 MR SEWELL: Michael Sewell. Director of business  
31 services, Campbelltown City Council.  
32  
33 MS BARONE: Monica Barone. CEO of City of Sydney.  
34  
35 MR ANDERSON: Paul Anderson. General manager  
36 Eurobodalla Shire Council.  
37  
38 MS LARKIN: Clare Larkin from the Housing Industry  
39 Association.  
40  
41 MR SEERY: Michael Seery from IPART.  
42  
43 THE CHAIRMAN: I'd now like to ask Michael Seery to  
44 introduce the first session.  
45  
46 MR SEERY: Thank you, Mr Chairman. Today we have  
47 chosen three broad topics from the range of issues that are

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1 available in the issues paper. For these topics, we would  
2 like to hear stakeholders' views and, where possible, if  
3 there's a possible solution or an outcome that people can  
4 put forward.

5  
6 For each topic in the three sessions today, I will  
7 give a brief introduction and then leave you with a number  
8 of discussion points that you may address your comments to.

9  
10 As the chair has indicated, this is a round table  
11 where we will be able to discuss these discussion points  
12 and any comments from the floor.

13  
14 Councils have a wider role now than they had in the  
15 past, and this has a considerable impact on the costs of  
16 councils. We note that the Local Government Act provides  
17 councils with flexibility in determining their role. In  
18 reality, a council's role is in response to the needs of  
19 the community, and this role requires councils to provide a  
20 diverse range of infrastructure and the changing  
21 expectations create pressures for new services.

22  
23 Consequently, councils have to assess priorities in  
24 providing the services and infrastructure. The key issue  
25 for IPART is how the councils determine their role and the  
26 expectations of the community and how accountability fits  
27 into that structure.

28  
29 The discussion points for this session are: How does  
30 the determination of the various roles for local government  
31 impact on expenditure and revenue? How do councils  
32 establish their roles and become accountable to the  
33 community? Finally, how effective is the annual report as  
34 a mechanism of accountability to the community?

35  
36 THE CHAIRMAN: Thanks Michael. Anyone ready to open  
37 the batting?

38  
39 MS ROLFE: I will say something, Chairman. I was an  
40 alderman back when councillors were alderman. It's a long  
41 time ago, but some things don't change. I think I would  
42 say that councils broadly determine their roles quite often  
43 incrementally, sometimes by accident and very rarely as a  
44 straight out clear decision. Things get moved marginally,  
45 there is no great shocks in most of local government, thank  
46 goodness from the point of view of ratepayers. A great  
47 shock doesn't happen very often, a very big change doesn't

1 happen very often. The determination of roles by the  
2 council often creeps up on the councillors; it may not even  
3 be clear to the administration. I think the impact on  
4 revenues and the impact on expenditures is correspondingly  
5 usually incremental rather than a step function.

6  
7 I think it's important to remember that, because there  
8 is no statement of what it is that councils absolutely must  
9 do in a comprehensive sense, ratepayers, at least, would  
10 welcome very hugely a statement of minimum performance  
11 requirements; something that councils absolutely must do so  
12 that they could identify the sins of omission, if you like.  
13 If a council is doing nearly everything, you can't really  
14 tell what it's doing properly and what it's not doing at  
15 all.

16  
17 I think that is enough said on that for the moment. I  
18 do have a few words to say about the annual report. I  
19 think it's a bit early for that. Some of my colleagues  
20 might move on that.

21  
22 MS BARONE: I think the discussion about what councils  
23 don't do and don't do is so critical and really a  
24 discussion and debate we really need to enter into. I  
25 share the points across the table. I would just like to  
26 give some examples of the kinds of things we do in the city  
27 of Sydney where there is really a lack of clarity about  
28 whether should be doing it and yet a very high expectation.  
29 I have recently got three letters from three different  
30 local area commands who want us to install CCTV. The  
31 police are explicit they will not install CCTV and maintain  
32 it, and yet they rely on our network and staff to do a  
33 whole lot of monitoring. The legislation around it is  
34 unclear, our role is unclear and the infrastructure that  
35 they are requesting now, we think this new lot of  
36 infrastructure is between 3, 4, \$500,000.

37  
38 We run a statewide homeless information service and  
39 call centre. We run three after school services for  
40 children in our really disadvantaged communities because  
41 the way the federal funding model is set up for after  
42 school means you need parents who sign forms and claim  
43 childcare benefits. If you don't have parents, and in some  
44 of those communities you don't, or you don't have families  
45 that are responsive, you either leave those children  
46 playing outside and destroying local cars and breaking into  
47 houses, or you provide a service.

1  
2 But, the two I want to talk about that I think are  
3 really where we share some difficulty and where we overlap  
4 into issues like housing affordability and other things is  
5 the green square area. Green square is the largest urban  
6 renewal sight in Australia in the southern hemisphere, 278  
7 hectares. The entire infrastructure, stormwater, roads,  
8 everything needs to be provided by the developers as well  
9 as the community facilities. So, there's a very complex  
10 funding model. It's a very precarious and complex funding  
11 model that is supposed to provide that entire  
12 infrastructure and the council is supposed to manage. That  
13 means that we are negotiating with each developer to ensure  
14 that they make their contribution.

15  
16 Apart from just how complex that is and how precarious  
17 that is, that is what impacts on housing affordability.  
18 That is what impacts on the ability for those kinds of  
19 major investments to occur in our city, and how it came  
20 about, that that became entirely the council's  
21 responsibility, I think is a matter for investigation.

22  
23 Just one more point. This is about environmental  
24 issues. In the stormwater modelling we did for green  
25 square the gap between what is currently required under  
26 existing guidelines, and what should be required under  
27 existing knowledge about the impacts of climate change is  
28 about \$12 million. All of these things lack a policy  
29 framework. All of these things come about, not just  
30 because we are trying to decide what we do and don't want  
31 to in but because there is a lack of alignment from  
32 federal, state and local policy to determine what do we all  
33 want to do and who is going to do what bit.

34  
35 MR GREENWOOD: I think in many ways the question could  
36 be turned around. It really is about how does the funding  
37 approach for local government impact on its ability to  
38 provide and meet reasonable community needs, rather than  
39 asking the question the way you have. I think the fact  
40 that local government is unique, and that the fact that we  
41 can look at a very wide range of services in some ways is a  
42 bust to our communities and really is about the community  
43 deciding the issue rather than us looking at a top down  
44 approach. Through Blue Mountains Council we have spent two  
45 years on our city vision. We then developed our management  
46 plan in response to that, understanding what our financial  
47 constraints were. We had a yearly community survey which

1 is completed by an independent research company. Then we  
2 had quarterly and yearly reporting on the management plan.  
3 What we have done through our community is to set the  
4 priorities.

5  
6 I don't think local government is into the area of  
7 providing things that are nice to deal with. Most of  
8 things we do are the things that are the needs of our  
9 community, and I think that in asking the question it's a  
10 premise that we are doing too much. I actually think we  
11 are not doing enough. Local government, through its  
12 community, will decide what the priorities are, and  
13 certainly I think most local governments now are looking at  
14 their city strategies. They have ten year visions. I know  
15 the state government is looking at legislating it. It's a  
16 follow on. Our communities know what they want.

17  
18 We know our financials are constrained. If you look at  
19 our management plan, in funding our management plan our  
20 key objects are maintaining an annual adequate unrestricted  
21 working capital, improving the forecast of accumulated  
22 operating deficits including depreciation, reducing the  
23 annual underfund of asset renewal by allocating an  
24 additional 6.5 million to asset renewal, maintaining a  
25 viable debt ratio, maintaining an adequate liquidity ratio.  
26 We understand what our financial parameters are and we  
27 understand what we need to do to set priorities. We need  
28 to do it through our community. It's not something we need  
29 to put into a set formula of what local government is going  
30 to do.

31  
32 MS HOLLOWAY: Just to add to what the others have said,  
33 we do determine what our roles and responsibilities are. We  
34 have the charter in the Local Government Act which is very  
35 broad. Within that then councils do have a range of  
36 responsibilities which are to do with maintaining our  
37 infrastructure, and those are the sorts of things we can't  
38 get away from. They belong to councils and therefore we  
39 have to maintain them. On top of that we provide a whole  
40 range of services which have been identified as needed by  
41 our communities.

42  
43 We can take on other responsibilities but our ability  
44 to do that is limited by the money that we have to fund  
45 those responsibilities, and there are limitations because  
46 our revenue is fixed. We do have fixed revenue. It's not  
47 as though we can go out and say "We are going to create a

1 whole lot of new products that we are going to be able to  
2 sell and get some more money". Our revenue is fixed, our  
3 rate revenue is fixed and even our ability to raise money  
4 through user charges or other forms of revenue is really  
5 limited. We can go out and ask our community, which we do  
6 do, what they think, what sort of services they would like  
7 to have and our community does identify things that they  
8 would like from local government, but our ability to  
9 respond to that is really limited by our revenue, and all  
10 we can is re prioritise, which is something we do all the  
11 time.

12  
13 We can undertake new projects and services if we do  
14 seek grant funding. That is part of another discussion  
15 later on. Where we get grant funding, it doesn't fund the  
16 cost of a particular project or service and then there is  
17 an ongoing ability to fund such a service in the long term,  
18 which needs to be taken into account. I think we are able  
19 to determine what our roles and responsibilities are, but  
20 we are limited in our capacity to increase what we do do  
21 based on our revenue which is basically fixed.

22  
23 THE CHAIRMAN: Can I just probe that a bit more? I think  
24 it's fair to say all governments tend to be faced with  
25 demands and expectations of government that run ahead of  
26 their financial capacity. This is not something that is  
27 unique to local government. It's just as true in national  
28 government and state governments and it's true of overseas  
29 governments. It's perhaps a feature of democracy.

30  
31 In what way is New South Wales government different  
32 per se? If you look at the national level of taxation and  
33 share of GDP, it's been stable for over 30 years now. It's  
34 hardly changed. There's a sense there that national  
35 government level tax payer resistance haven't changed, they  
36 have changed the mix but haven't changed the quantum to  
37 GDP in more than 30 years. At the same time we have this  
38 continuing pressure for increases in pensions, whatever.  
39 Should we be thinking of keeping the total revenue of local  
40 government fixed, or is there some way local government is  
41 different and the pressures are, and we should be finding  
42 ways to increase total finance?

43  
44 MS HOLLOWAY: Yes, I would say "yes" to your latter  
45 proposition. I think the problem we have in New South  
46 Wales is local government's revenue will always be fixed  
47 because there are limited means by which we can raise

1 revenue. That is a reflection of local government. In New  
2 South Wales our revenue has been artificially limited by  
3 rate pegging, which is the subject of this discussion,  
4 which means that because of that we have been unable to  
5 respond to the demands of our community for either, it's  
6 not necessarily new services, but higher levels of service  
7 for what we are already doing, even being able to maintain  
8 our infrastructure at a satisfactory level. I agree that  
9 the revenue is fixed and that is not limited to local  
10 government. In New South Wales our revenue is fixed at a  
11 lower level than they have in other states.

12  
13 THE CHAIRMAN: Just to clarify: Let me rephrase, in the  
14 eyes of some constituents, possibly the majority,  
15 legitimate means they make account the present revenue is  
16 inadequate to meet those demands; it's inadequate to  
17 meeting those demands. Is local government in any way  
18 different to that case?

19  
20 MR KLUDASS: I think if you point back to the rates being  
21 and look at the state government's budget and put the same  
22 parameters on the state government's budget, and what the  
23 state government's budget would look like together you  
24 would have to agree it is different. We have been unduly  
25 restricted in the amount of income we can raise.

26  
27 THE CHAIRMAN: Acknowledging that point, some of the  
28 submissions we received put it very strongly for local  
29 government to keep access to what one might broadly call  
30 growth revenue. That goes beyond that. My question is  
31 partly addressed at that broader context, the total of  
32 funds available to local government, with or without rate  
33 pegging are adequate.

34  
35 MR ROGERS: Can I respond to that question? You are asking  
36 about the eye of the public, what they get for their rates.  
37 Going to the first dot point on the screen there, the first  
38 issue is the increased expectations our communities have.  
39 Expectations are greatly increased, the quantum of  
40 facilities and quality of facilities. Two quick examples:  
41 Leisure centres, 30 years was a very basic outdoor pool.  
42 We now are expected to provide indoor/outdoor leisure  
43 centres, much higher levels of staff, supervision.

44  
45 Environment is another issue, that people are now,  
46 fortunately it's a good thing, recognising the importance  
47 of. They are looking at the local council "What can I

1 do?". Better environmental management starts at the home.  
2 These are roles put on the council that you can charge  
3 additional fees for.  
4  
5 In terms of rates, most councils' rates are half our  
6 revenue. It's very hard for us to increase our revenue  
7 from user fees and charges. We get about 7, 8 per cent of  
8 our revenue from user fees and charges. We have  
9 disadvantaged sectors where we can't increase fees. We  
10 need to provide those services. At the end of the day you  
11 subsidise those services from rates revenue. The other  
12 thing was mentioned before was comparing state and federal  
13 and local budgets. I don't think the share of revenue to  
14 local government has kept pace with national GDP or state  
15 GDP. I don't think the financial resistance grant has  
16 increased in size with federal annual tax increases. These  
17 are some of the things we need to talk about. Rates are 50  
18 per cent of our revenue.  
19  
20 MR GOODING: Alex Gooding, Executive Director, Western  
21 Sydney Regional Organisation of Councils. Just to lead on  
22 from that point, your point about other levels of  
23 government having to match limited revenue to expanding  
24 demands is taken but the thing about the federal government  
25 is that it has the freedom to define, at least to some  
26 extent, its revenue resources. State government is more  
27 constrained admittedly but still has a significant capacity  
28 to various property and transfer taxes. Local government  
29 is the one that is the most constrained in terms of the  
30 mismatch between its ability to meet those expectations and  
31 the controls on its capacity to generate revenue through  
32 rates or other sources. It's also constrained, not only by  
33 the Local Government Act, but by the other bits of  
34 legislation which are imposed upon by state government. It  
35 has its fundamental mismatch between what it can do itself  
36 and what it has to do which is imposed by the laws of  
37 government.  
38  
39 MR BURGESS: Thank you, Mr Chairman. If I could pick up  
40 on a couple of points. I think every one of the general  
41 managers sitting around this table now would quite happily  
42 say give us a marginal share of GST, and the productivity  
43 payments that have increased the budgets of the states, and  
44 we can define the roles we can put that money to, I'm sure.  
45  
46 Can I go back to the issue of definition of roles of  
47 local government? Auburn is a tad different to most. I

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1 can't tell you from one to next, apart from basic services,  
2 what the community expect. We get people in from all over  
3 the world, some of them refugees and the like similar to  
4 Blacktown, and that role shifts daily. There is a request  
5 to segment the facilities. We come from Iraq, Afghanistan,  
6 Lebanon, Africa, and we all want our own facilities. We  
7 now have people chasing others of a different race off  
8 grounds, and we are expected to act as the police.  
9  
10 We are getting similar situations as Sydney city is;  
11 we want CCTV. Well, that is fine, but I prefer to use that  
12 money to provide children's and community services. I  
13 prefer the social work. Money is not there. The  
14 expectation from the community certainly is. In terms of  
15 defining a role for local government, that's an issue that  
16 is defined by the local community. I think also the issue  
17 of how you finance that process is defined by local  
18 community. At the end of the day they are accountable, the  
19 councillors, and they should be the people who make those  
20 decisions. It shouldn't be imposed through revenue  
21 constraints from the state and the federal, and nor should  
22 the process of servicing be defined by IPART, or by any  
23 other government authority. The charter for local  
24 government is broad enough for all of those services  
25 provided and be allowed to continued in very diverse and  
26 different communities because there is none the same.  
27  
28 MR ANDERSON: May I give a regional New South Wales  
29 perspective from a regional council? Insofar as  
30 Eurobodalla Council is required to fund a whole range of  
31 things that are funded in metropolitan councils such as  
32 others that aren't, such as free to air reception. I  
33 challenge most of my city counterparts whether they have  
34 ever had to deal with that. Not only do we have to cost  
35 the infrastructure to start with, but we have to provide  
36 the maintenance costs to maintain what is a normal basic  
37 right every person in Australia would have access to. 40  
38 per cent of our community, without our intervention, would  
39 have no free to air TV reception at all.  
40  
41 In addition to that we have extremely poor  
42 telecommunications system. In effect 80 per cent of our  
43 local government area is national park or state forest.  
44 The people that actually live within pockets of that area  
45 have very little chance of getting mobile phone reception  
46 other than the fact we support, through Telstra countrywide  
47 and other telecommunication providers, the infrastructure

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1 costs to prove a mobile phone antenna.  
2  
3 Roll those into the fact we have an increasing  
4 population of over 65s who are expecting council to provide  
5 them with an additional pension rebate on their rates and  
6 charges, you can start to see an image being developed in  
7 regional Australia where we are struggling to meet the  
8 normal costs of maintaining our infrastructure, let alone  
9 the cost of providing the additional infrastructure and  
10 services those communities demand such as our indoor  
11 aquatic centres, such as community centres, such as  
12 community transport services where we are providing a  
13 service for the state to transport their patients to  
14 hospitals and medical appointments outside of our local  
15 government area, outside of our state into the ACT. This,  
16 in itself, has meant 270,000 drain over and above the  
17 allocation we get through the state government.  
18  
19 How do we define what we do? The community generally  
20 tells us what we do. I have sat through a number of budget  
21 debate issues in both the house of representatives and the  
22 Legislative Assembly of New South Wales government and I  
23 have not seen them go out on exhibition with their budget  
24 yet. I have seen them go out on exhibition with what they  
25 intend to spend our charges on, but I have yet to see them  
26 go out and ask each individual member of the community to  
27 provide a commission and ask them "Do you think you are  
28 getting a value for your rate dollar or value for your tax  
29 dollar out of the New South Wales system?".  
30  
31 How do we establish our role and be accountable to the  
32 community? I think we do that through the management  
33 accounting process. Councillors, the same as state  
34 government politicians, they will go to the wire every four  
35 years and determine whether or not they have been  
36 accountable. You hear that process pretty loud and clear  
37 throughout the role. I suppose you have another watchdog  
38 being the Department of Local Government and Minister of  
39 Local Government who the community are able to and  
40 frequently do go and complain to those bodies saying they  
41 don't think they have a fair deal out of the council.  
42  
43 THE CHAIRMAN: I would like to move it on a little bit.  
44 Moving the discussion on a bit, the flavour, if I could  
45 summarise it as being there are too many constraints on  
46 local government in New South Wales on the one hand. On  
47 the other hand, what you do, you are likely to determine

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1 from the constituency, your communities. That does lead  
2 onto, if the constraints were to be eased, a proposition  
3 that I would like to address is whether the easing of the  
4 constraints would be accompanied by the New South Wales  
5 government being satisfied that there are appropriate means  
6 to communicate, be accountable to the community. I pick up  
7 the last question in the context of the annual report.  
8 There are other matters that have been touched on in terms  
9 of planning and so on. It would help us, I think, if we  
10 could get some discussion of what is the quid pro quo for  
11 easing constraints in terms of practicality?  
12  
13 MR BALL: Are the constraints on accountability or revenue?  
14  
15 THE CHAIRMAN: I am referring to the constraints on  
16 accountability. He made the point. The answer to my  
17 proposition that all levels of government feel that demands  
18 are running ahead of their revenue. The point was made  
19 that other levels of government aren't as heavily  
20 constrained as local government. Clearly a proposition in  
21 front of us is whether we should recommend to the  
22 government some lessening of the constraints, particularly  
23 in relation to rate pegging. Would the quid pro quo for  
24 that be assurances regarding the accountability or  
25 improvements to the accountability communication?  
26  
27 MS ROLFE: Can I say from what you have seen as the general  
28 view, local government does a lot of limiting of its own  
29 revenue. In contrast to other levels of government  
30 councils provide a lot of services with either no charge or  
31 a charge which is substantially below the cost of supply if  
32 they are in a position to identify what the supply is. I  
33 understand from IPART's investigations into development  
34 charges that there wasn't a lot of joy in that particular  
35 arena. Lots of councils aren't able to say how much it  
36 costs to develop services. Lots of services councils  
37 deliver are not charged to the users of those services.  
38  
39 THE CHAIRMAN: That is not what I was referring to.  
40  
41 MS ROLFE: They are charged to the ratepayers. What I am  
42 getting into, if the revenues are falling behind the community  
43 demands, those demands are merely wishes on which  
44 beggars might ride horses for practical purposes when there  
45 is no price tag attached. The only people who pay are the  
46 ones who define what real demand is. I think you would be  
47 familiar with the concept of effective demand. Otherwise

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1 the wish list which faces every council, not just regional  
2 councils, not just big councils, not just the special  
3 councils, all councils face a wish list which is as long as  
4 invention. Everyone would love their council to do  
5 everything, but the ratepayers have a different viewpoint  
6 because they are the ones in the end who pick up the tab.  
7 Really that is, if you are talking about restraints on  
8 council revenue, some of those restraints are self imposed.  
9  
10 THE CHAIRMAN: I accept that. The sense I have got from  
11 the submissions, even the discussion today, is that quite a  
12 number of councils would like constraints that are imposed  
13 relaxed. If they want that constraint, let's say rate  
14 pegging, want it relaxed, I would have thought the logical  
15 interpretation is that they would like to raise rates. If  
16 they don't want to raise rates why they are fighting for  
17 the removal of pegging. We could all go home. The  
18 assumption is, in fact, while obviously like any tax rates  
19 can't be raised willy-nilly, the proposition the Tribunal  
20 is facing is a lot of councils, the majority of councils  
21 are going to say in their submissions are looking to ease  
22 that constraint and the assumption therefore is that rates  
23 will go up. What I have asked you to assess is if we were  
24 to move along those lines, what, if you like, improvements,  
25 if any, would be desirable with the interaction with the  
26 community and the accountability of the community?  
27  
28 MS HOLLOWAY: I think that if local government is required,  
29 as Paul said before, to put its information out into the  
30 community on an annual basis for community scrutiny, and  
31 that includes revenue, what we are proposing for our  
32 revenue, any rate increase needs to be demonstrated to the  
33 community that the rate increase is justified and if the  
34 community has the opportunity to provide feedback and  
35 make comment on council's proposal to increase rates, it's not  
36 just a matter of council increasing rates it has to make  
37 the argument that a rate increase is required and doing  
38 that in a way that is going to be acceptable to the  
39 community through an annual process. We have to do that  
40 currently with our fees and charges. Fees and charges are  
41 increased, we are going to be charged for our fees and  
42 charges on an annual basis, apart from those set in  
43 statutory figures, we have to put them out on exhibition  
44 and we receive feedback on them, and on the basis of that  
45 feedback, often there are variations made to the fees being  
46 charged. I believe the accountability mechanism is there  
47 already through our annual budgeting process, whereby we

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1 have to make an argument to the community as to what our  
2 revenue is going to be and why.  
3  
4 That is the case in other states where each year,  
5 where councils are determined to raise their rates along  
6 CPI, they have to make their case to the community that  
7 that is going to be acceptable and the community will have  
8 their say. Maybe the community won't accept what the  
9 proposed rate rise is and argue against it, in which case  
10 the council won't be able to justify what that proposition  
11 is.  
12  
13 In relation to councils not choosing to put up their  
14 fees in accordance with the cost of service delivery, we  
15 are somewhat constrained there. As an example, we provide  
16 in North Sydney a range of sports fields. There is no way  
17 we are able to charge the users of those sports fields the  
18 true cost of maintaining those sports fields. What it  
19 would do, it would stop sporting groups from doing soccer  
20 and rugby and netball, and whatever else, if we charged the  
21 true cost of maintaining those fields to the users. We  
22 charge them 10 per cent of what the maintenance costs are.  
23 If you raised it to 1 00 per cent it would stop all  
24 sporting activity on our sports field.  
25  
26 MR BURGESS: Thank you, Mr Chairman. Can I respond to  
27 your initial question. I don't think local government as a  
28 whole is afraid of the accountability issues.  
29  
30 THE CHAIRMAN: No, I'm not suggesting that.  
31  
32 MR BURGESS: If you are talking about a system that would  
33 suggest that local government is efficient, if you look at  
34 the English system, and I think a lot of us have dabbled  
35 around and had a look at that through the audit commission,  
36 where you establish some standards, I don't think any of us  
37 would shy away from that.  
38  
39 The proposition I have is similar to Penny's: if in  
40 Auburn we decided that we would charge user fees across the  
41 board, you wouldn't play cricket. Summer sports would not  
42 be played unless there was a cross-subsidy. You cannot  
43 expect, nor suggest, that some of those people pay money.  
44  
45 Some of our people don't have an income. They are  
46 there on some form of support. So to impose a fee that  
47 recovers the full cost of the services provided would be a

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1 ridiculous suggestion and completely unacceptable to that  
2 community.

3  
4 Now, again, I think that is where it goes back to the  
5 issue of accountability: the community decides. If the  
6 community decides they are going to pay to use the sports  
7 fields, the community will tell the councillors and that  
8 will happen, but I suggest that is not a reasonable  
9 proposition.

10  
11 MR GREENWOOD: I agree with what the last two speakers  
12 have said, although I get the feeling that to actually put  
13 the rate capping or the rate pegging back to the councils  
14 is going to be a difficult one to sell, and that is  
15 obviously why we are here today.

16  
17 I think we have to look at putting it in a strategic  
18 context. You are talking about a 10-year community plan.  
19 Most councils have their vision and their management plan.  
20 I think you really need to look at what is reported to the  
21 community, looking at their long-term financial strategies,  
22 their asset management strategies and their asset plans.  
23 If you put it into a frame that the community understands  
24 and, if you like, the Department of Local Government, or  
25 whoever else wants to take the paternal approach to it, can  
26 have a look at, that is one way of getting clarity and  
27 transparency in how the rates are set.

28  
29 I really feel we will have to go that way. The  
30 preference is for local government to take charge of  
31 itself, and I think that that is going to be very difficult  
32 to sell politically.

33  
34 The New South Wales model is really only copying  
35 New Zealand with their 10-year community plans. If you  
36 have a really solid community plan and look at the key  
37 issues the community needs to note - and they will  
38 understand it within that context - then you are able to  
39 substantiate the increases that come through the rates.  
40 That is something IPART might look at.

41  
42 THE CHAIRMAN: Can I pick up on your comments, because  
43 that is really what I'm trying to get at. The present  
44 situation is that the New South Wales Government has rate  
45 pegging. They are going to need to be persuaded to get rid  
46 of it. In fact, the former minister made it quite clear  
47 that he wanted to keep rate pegging.

1  
2 I think to persuade them to, if you like, vary what  
3 I will call the constraints on councils, we also need to  
4 accompany that with some sort of assurance of what is the  
5 quid pro quo in terms of the accountability mechanisms.  
6 That can either be through improvements in accountability  
7 mechanisms or by arguing a very good case that the present  
8 ones work better than the government thinks they do.

9  
10 MS BARONE: That comes by having a formalised and clear  
11 relationship about who is going to do and get what. That  
12 is how you get it.

13  
14 Even though I totally agree that it is really important  
15 that we all communicate with our own communities  
16 to determine what those communities want - and we all do  
17 that, and, I have to say, I think we do it better than  
18 other levels of government - the fact that there are no  
19 clear constraints means that if you ask people, "What do  
20 you want?", they will tell you, and you need some limiting  
21 things.

22  
23 For example, in our community, we often get asked to  
24 fund the schools and I say, "No, we don't really think that  
25 is our area," but sometimes even the schools can put  
26 pressure on councillors and you find yourself giving grants  
27 to schools. So I think there needs to be something that  
28 limits.

29  
30 When it comes to accountability, we have, and I'm sure  
31 you all do too, very extensive processes of determining  
32 what goes into our plans and our budgets. Every quarter we  
33 have an open public meeting where I stand up with the  
34 directors and publicly go through everything we have done,  
35 every dollar we have spent, every indicator, and report  
36 back publicly to anyone who wants to come to the council  
37 what we do, so that conversation is there and it is  
38 rigorous, and I know all the different councils do that in  
39 a really good way, but the problem, and the reason we find  
40 this discussion so difficult, is I can't see the clarity.  
41 If we are there to deliver on state policy, we need the  
42 clarity and the reciprocal relationship. We need it signed  
43 off on.

44  
45 If the state policy is, you know, blah around urban  
46 renewal, where it is going to go and what the priorities  
47 are, then we are there to deliver that. Yes, we have to

1 find the local way of delivering it, but we have signed up  
2 to it, and each party needs to understand their role in  
3 that. That is how you get the accountability, and that is  
4 how council has clarity about what it needs to do.

5  
6 Of course underneath that there are lots of local  
7 responses to those things, but the bigger discussion needs  
8 to occur, and is absent.

9  
10 MS MILLS: Thank you. It is a very interesting question.  
11 The point I would like to make is that what we fail to do  
12 as an industry - and I think what you are looking for - is  
13 to actually demonstrate where we spend our rates.

14  
15 The one comment I have heard in the community is  
16 "Where do your rates go?" "It goes into a black hole." As  
17 an industry, we don't explain that very well, because we in  
18 fact don't understand it like a commercial enterprise does.  
19 The commercial enterprise understands overheads and the  
20 distribution of overheads. Very, very few councils fully  
21 distribute their overheads.

22  
23 Very few people when they buy a TV set think they are  
24 paying for the finance branch of LG, or whoever builds the  
25 TV set, but in fact they are, because if they didn't, that  
26 company would go broke.

27  
28 We need to have an agreed methodology of distributing  
29 corporate overheads so we know where our rates are being  
30 spent. Until we do that, we will never know, and we can't  
31 be accountable to the community in that way, which is the  
32 thing I think they really need. Now, that is the  
33 improvement I think you are looking for.

34  
35 Apart from that, rates generally are misunderstood  
36 because they are not very high. The Department of Local  
37 Government's own figures will show you that the highest  
38 rating council in New South Wales is Hunters Hill. If they  
39 are here they will get annoyed because they hate being  
40 told, but their average rate is \$20 a week. To buy a bus  
41 ticket from Hunters Hill to the city costs you \$32 for a  
42 week for one person, not for the whole household.

43  
44 So rates are actually a very, very low tax. The  
45 lowest rating council is Brewarrina - I think it is \$1.60 a  
46 week. Why on earth have we got rate pegging on that? It  
47 just doesn't make sense. Number one, we need to understand

1 that rates are a very low tax; and, number two, as an  
2 industry we can't honestly say where they are spent.

3  
4 MR LEWIS: Mr Chairman, if I can pick up two limbs.  
5 Firstly, in talking about rate pegging - and whilst it is a  
6 little bit off the point, I will be very quick - I have  
7 never been able to find any rationale for the introduction  
8 of rate pegging. I think it was a short-term issue on the  
9 political hot potato of the day: because someone raised  
10 it, rate pegging came in. Unless anyone else can identify  
11 it for me, I have never been able to find the rationale,  
12 full stop, new paragraph. We are, therefore, bound by  
13 having to change from what I think is an ill-conceived  
14 basis to a more rational basis without knowing what the  
15 original basis was. I will park that there.

16  
17 When you talk about accountability to the community,  
18 I think there are two communities: one is the local  
19 community that councils deal with, and I think  
20 Blue Mountains City council have an excellent model for  
21 their management plan and reporting - I also happen to be a  
22 ratepayer - but the other community is government. The  
23 last time I counted up, there were something like seven  
24 pages of reports that the Department of Local Government  
25 required from councils.

26  
27 There is an inordinate amount of reporting back to the  
28 department and, therefore, the community, and I have  
29 serious questions about its rationale and its worthiness,  
30 but, more importantly, the economic costs that that entails  
31 within councils to collect the data and forward the data.  
32 I'm sure there's someone in downtown Nowra who is  
33 beavering over those reports and coming up with some policy  
34 papers on it at some stage.

35  
36 The other exercise, I think, is that the demands being  
37 placed on councils are not only of their making or the  
38 community's making, but a lot of them are the demands  
39 placed by state government. There is a very substantial  
40 degree of cost shifting resulting in increased services  
41 that council provide because the state government is not  
42 doing it. I have had a number of incidents where police or  
43 education or someone else has gone to the local government  
44 and said, "Look, we need these extra services in because  
45 the government is not providing it."

46  
47 The other exercise is the shift of demands for service

1 delivery that the state government is demanding that is not  
2 currently being provided by the local government, which is  
3 now being expected to be provided by the local government  
4 but for which there has not been a commensurate shift in  
5 the revenue base.

6  
7 So the communities, I think, in both their forms, have  
8 demands. I think they're exceeding revenue bases and local  
9 government does not have the ability to rationally address  
10 the mechanisms to meet those demands, particularly given  
11 the rapaciousness of the New South Wales Treasury.

12  
13 MR BALL: I think it is fair to say that there is no level  
14 of account that is more accountable to its community than  
15 local government, so if you did any spreadsheet, any  
16 balance sheet, and totalled it all up, you would find local  
17 government is more accountable, more open and transparent.

18  
19 If, however, we accept your proposition that there has  
20 to be a change in accountability - I will put a couple of  
21 things on the table. One is something that occurs in  
22 California, which is that 10 per cent of people can  
23 petition the council, or the local government authority, in  
24 the event that they don't like an increase in rates or some  
25 new imposition. What occurs in that situation is that  
26 signatures are a dollar a piece, so private enterprise will  
27 arrange for you to receive a petition from 10 per cent of  
28 your electorate. So I would dismiss that one.

29  
30 The one that I think is worthwhile considering - and  
31 it is something that the Department of Local Government has  
32 looked at for probably now a couple of years - is the  
33 internal audit committee. Some councils have internal  
34 audit committees, some states require a mandatory internal  
35 audit committee. So if we do need to increase the  
36 accountability of local government, maybe that is one  
37 internal mechanism that can achieve the outcome you are  
38 looking for.

39  
40 MS ROLFE: Mr Chairman, can I add to that? My friend  
41 Robert has raised something that was in the back of my mind  
42 when the matter of the low level of rates was raised by  
43 Mr Mills. The domestic waste management charge is not  
44 constrained, it reflects costs, and ratepayers who pay it  
45 don't tend to complain.

46  
47 Now, by and large, the super levies on rates that are

1 justified to the minister in terms of genuine programs for  
2 levies in excess of the general rate increase get ratepayer  
3 acceptability. Why? Because the ratepayers can see the  
4 job for the money.

5  
6 Now, I say "ratepayers" and I keep saying "ratepayers"  
7 because there are at least two adult members of the  
8 community and God knows how many juveniles for each single  
9 ratepayer. Ratepayers are a minority, and I think the  
10 language of this room is confusing the two.

11  
12 Ratepayers pay. The community seems to  
13 ask/wish/demand, but ratepayers pay, and ratepayers are not  
14 specifically consulted when the community is being  
15 consulted. Ratepayers can merely say, "Oh, dear, what will  
16 it cost?" "Well, it will make \$5 difference a year." And,  
17 of course, as Mr Mills says, the odd few hundred dollars a  
18 year isn't much, until you put the levy and the domestic  
19 waste management charge and the other levy together, and  
20 then you start to get a sum which is not \$20 a week, in  
21 fact, but more like, in my case, \$10 a day - which is okay,  
22 I can pay it, but nobody cares about whether ratepayers can  
23 afford to pay.

24  
25 The capacity of people to pay for services is very  
26 familiar to the bleeding hearts. They will all say,  
27 "Of course there are people who are out of jobs and people  
28 who can't pay."

29  
30 The capacity of ratepayers to pay is not, of course,  
31 mirrored by the value of their land. There is an excellent  
32 submission to your review from the Local Government  
33 Managers Association which points out the detail of that in  
34 what I can only say for ratepayers is a blinding flash of  
35 light in an otherwise terribly dark tunnel. I do commend  
36 that particularly to your attention.

37  
38 MS LARKIN: I agree with David's comment about the  
39 rationale on rate pegging and where it came from. I tried  
40 to find out more information on it. I believe it came into  
41 force about 20 years ago at a time of high property  
42 inflation, and that doesn't seem to be the case now and it  
43 is still there and it is creating pressure on councils to  
44 look for an alternative source of funding.

45  
46 If you look at the different states, they seem to be  
47 able to work it quite well. They don't have rate pegging

1 themselves. It is a politically sensitive matter and I  
2 believe it works quite well in different states.  
3  
4 MR SEWELL: Mr Chairman, I'm a realist, so I think that  
5 there is a role for IPART in the setting of rates. In the  
6 Campbelltown submission we have suggested that there may be  
7 a maximum amount where councils need to be accountable for  
8 the differences that they might pick up between, say, a  
9 rate pegging amount and that maximum amount.  
10  
11 We obviously are responsible to the community. There  
12 are a number of recent inquiries into state government  
13 charges where it has been full cost recovery, and there are  
14 obviously a number of services that local governments  
15 supply to ratepayers as well as their community where cost  
16 recovery would just not be achievable.  
17  
18 As I said, I'm a realist, and I think that the term of  
19 the rating amount should be over a four-year period, like  
20 the management plan process, like a longer-term financial  
21 planning model, where there could be certainty for local  
22 government in providing increased services or increased  
23 facilities and the ability for that particular area to be  
24 able to cover the increase of the cost in running those  
25 facilities for their community.  
26  
27 MR WALKER: I'm probably at odds with the majority of  
28 people in the room. I think it is about time we stopped  
29 whingeing and just got on with life.  
30  
31 If IPART can achieve for us option 4 in your terms of  
32 reference in terms of rates capping, then those councils  
33 that are viable and can stand on their own two feet will  
34 and those that can't won't.  
35  
36 If councils want to maintain their independence and  
37 issue a range of services, okay, it is up to each council.  
38 The fact of the matter is that is the legislative framework  
39 we work within and we work within it.  
40  
41 I reckon I was in this same sort of meeting 30 years  
42 ago when I first joined local government - whinge, whinge,  
43 whinge, whinge, whinge. The fact of the matter is I don't  
44 believe we are accountable.  
45  
46 You say we ask the community, we put out management  
47 reports, we put out management plans, but where are the

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1 performance indicators? Where is our efficiency? If we  
2 take on a new service, we don't delete the old service.  
3 The fact of the matter is we are down the bottom of the  
4 pile. Let's just get on with life. Give us some  
5 modification to rates capping. Those councils that can't  
6 survive can fall by the wayside and the rest can get on  
7 with life.  
8  
9 MR KLUDASS: The concerns of accountability I think need  
10 to be considered in the context of what is on the horizon.  
11 I'm talking briefly in regards to the integrated planning  
12 and reporting reforms which I think Robert alluded to  
13 earlier. I think, among other things, there is the  
14 community strategic plan, and enshrined in that is the  
15 community engagement strategy. I would argue that there is  
16 probably an opportunity for council and the Department of  
17 Local Government to augment the accountability elements  
18 that they are espousing in that engagement strategy to  
19 overcome some of the fears that perhaps the state  
20 government and the Department of Local Government have in  
21 relation to accountability.  
22  
23 With those new requirements - and the bill is going to  
24 be passed sometime early next year, and the first plan is  
25 required in 2010 - I think it amounts to a case for if we  
26 are going to engage the community more and lift our  
27 accountability, maybe that is the context we need to be  
28 considering it in.  
29  
30 For 30 years we have operated this rate pegging  
31 regime, and I think with those new mandates it will become  
32 L-A-W, law, and in the next 12 or 18 months the whole rate  
33 pegging regime will become fundamentally redundant.  
34  
35 THE CHAIRMAN: I'm conscious of time. We haven't  
36 mentioned the annual report. I'm not sure if that is  
37 because people felt they shouldn't yet, but if anyone wants  
38 to mention the annual report, you have about two minutes  
39 before we have to move to the next topic.  
40  
41 MS ROLFE: I raised it quite early, Chairman. I will be  
42 extremely brief. The format of the typical council's  
43 annual report now as a report to its captive compulsory  
44 financiers is basically meaningless. As I would see it, it  
45 is pretty unhelpful to state and commonwealth governments  
46 too, and it is probably only really helpful for  
47 councillors' grandchildren because it has all those nice

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1 pictures of the councillors, but it should be showing  
2 explicitly what is being done and, more importantly, what  
3 is not being done and why it is not, and not the usual  
4 bleat about being short of money, but why the decision was  
5 made to cut back on infrastructure maintenance and,  
6 instead, to run an art competition.

7  
8 People should report that so that at least the  
9 captive financiers understand the reasoning. They can't  
10 go to every council meeting, and every council meeting is  
11 not recorded, as you know. They should report the  
12 voluntary revenue constraints that the councils actually  
13 actively adopt, and one that grates in my mind, partly  
14 because of the sheer inequity of it, is the conditions in  
15 the Library Act. I said I would be brief: it is useless  
16 for ratepayers in its present form.

17  
18 MR MILLS: I would just like to say quickly, it is not a  
19 well-read document. The community really concentrates on  
20 the forward-looking, not backward-looking, issues, and  
21 that's the management plan and budget.

22  
23 I have put together financial statements for over  
24 20 years, and in that time I have had two people look at  
25 them. I shook their hands and asked them to come back next  
26 year, and I never saw them again. I think concentration  
27 needs to be forward-looking, not backward-looking.

28  
29 MR ANDERSON: Mr Chair, I think the issue is not how good  
30 is the annual report, but how clear and how concise is the  
31 quarterly review process that we all go through, which  
32 actually provides the information that our previous speaker  
33 spoke of. For each and every quarter, including the last  
34 quarter of each financial year, it is there - it tells you  
35 what we did do, what we didn't do, why we didn't do it, how  
36 much it cost us and how much it didn't cost us.

37  
38 So the information is there. It is packaged in a  
39 different format, but packaged in a format aligned very  
40 much with the management plan that's been adopted so  
41 people can look at the two documents together and find out  
42 exactly how their council is performing.

43  
44 MR COX: I have debated with myself whether I should ask  
45 this question, but I think it might be useful. We have  
46 heard a fair bit about the pressures of local government on  
47 the community. We have heard a fair bit about the

1 restraints that local government operates under. What  
2 I don't have a sense of, from either the submissions or  
3 what has been said today, is what sort of things does your  
4 community want that are not happening because of the  
5 constraints on local government and what evidence do you  
6 have? It is an important issue for us.

7  
8 MS HOLLOWAY: Can I just say that I think what the  
9 community says it wants and what it probably doesn't get is  
10 not necessarily new services, but the level of service of  
11 the services that are currently provided. If you do ask  
12 the community what they want, they will usually say more of  
13 whatever it is you are providing and that what we are  
14 providing is not of sufficient level.

15  
16 That is certainly fed back to North Sydney Council through  
17 our community survey which we undertake every two  
18 years. They will say they want more maintenance of roads  
19 and a higher standard of footpaths and more cleaning and  
20 more parking. Those are the sorts of things. So it is not  
21 necessarily a new service they want; they want higher  
22 levels of service of the sorts of things that are already  
23 provided.

24  
25 MR BURGESS: In some cases people are asking for services  
26 that are strictly in the domain of the federal government  
27 or the state. They are the unquantified services that we  
28 can go through and list off - housing services. Where do  
29 you find a house? We are dealing with people who are  
30 coming into the country now who have never had a rubbish  
31 bin or turned on a light switch and they get dumped into a  
32 four-storey building and the community is split, the family  
33 is split, between two different units. They are the sorts  
34 of issues we are advising on and we do it daily. You can't  
35 reject the customer at the front counter on the telephone  
36 or some poor bugger who needs a bed.

37  
38 MS BARONE: Almost every local government I know has  
39 asked their staff to do a full housing strategy, but I don't know  
40 how many of us are expected to deliver that.

41  
42 We all have to do environmental management plans and  
43 report against that, and so we ask what they want, but we  
44 can't necessarily deliver those things.

45  
46 We all have to do social plans, which was required by  
47 the Department of Local Government. I don't know if anyone

1 at the department read those, but I don't know how we are  
2 supposed to deliver on those things that we were asked to  
3 ask the community about and report against.

4  
5 We all have waste management targets that I don't know  
6 how any of us are going to achieve. They are set by the  
7 state and we don't have the infrastructure to do it, nor a  
8 system right through the levels of government to determine  
9 how we are going to do that, and I think we would all like  
10 Energy Australia to fix the lights that we pay for.

11  
12 MS HUSKING: One of the big changes I have noticed in  
13 recent years is that the council strategic plans - and  
14 since the 1993 Act came in, we have been required to be  
15 more professional about this - have moved from being a plan  
16 for council services to a plan for the city. All councils  
17 are really taking that broader view of things. If it is a  
18 health matter, a public transport matter, we are into it,  
19 and that is because of the nature of the people we have got  
20 working and elected in that industry. That tends to be  
21 what we're seeing. That's where the real frustrations are  
22 coming about.

23  
24 So we talk about accountability. We are making  
25 ourselves accountability for things like our ability to  
26 influence other levels of government, to deliver these  
27 things in our own areas.

28  
29 THE CHAIRMAN: I'm going to ask whether there is anyone  
30 in the back of the room who wants to make a statement.

31  
32 MR NEWSOME: My main point is basically that local  
33 government as a whole has been deficient with the total  
34 revenue available to it. Rate pegging is one component of  
35 that, but that would actually enhance our local  
36 government's position, but, more importantly, if we are to  
37 be accountable to our communities, then by council going to  
38 its community each year through the management plan process  
39 and getting sign-off from the community and not having to  
40 actually then go to the state government to get sign-off on  
41 special rate increases would really reinforce the  
42 accountability issue.

43  
44 Basically, I'm suggesting that rate pegging in its own  
45 right is a consideration to be removed, but getting the  
46 accountability back to the council, back to the local  
47 government with this community.

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1  
2 As has been indicated, the community basically has  
3 been well communicated with by local government generally.  
4 We are totally accountable to the community. Maybe in this  
5 process the offset is that we look to try to reinforce that  
6 accountability and maybe we strengthen that through this  
7 process. They are probably the key points I wanted to  
8 mention.

9  
10 In regards to the annual report, as has been suggested,  
11 the real mechanism of engagement has been the management  
12 plan engagement of the budget, the communication  
13 of that plan out to the community. The quarterly report is  
14 the critical information that is going back to the  
15 community through that process and, really, the reason why  
16 I think the annual report is so ineffective is because it  
17 is five months after the end of the year and all the  
18 critical information, decisions and communication has  
19 elapsed.

20  
21 I think we should be looking at it as a package, not just  
22 isolating the annual report but looking at the whole package  
23 of communication as commencing with the management  
24 plan, budget process and quarterly reviews and finishing  
25 off with the annual report and looking at how we can  
26 strengthen that process.

27  
28 MR ABER: I think there is an expectation in our  
29 communities with the consultation that there is a genuine  
30 partnership between all levels of government. One of the  
31 issues, the frustrations that come along is that a lot of  
32 people they deal with the council, they believe they are  
33 dealing with the government. Then they get frustrated if  
34 you try and push it off to another level. Until we start  
35 to work as total spheres of government together, then I  
36 think these frustrations are going to come and we are going  
37 to be bouncing around each other all the time.

38  
39 Secondly, on the annual report thing we have trialed  
40 having an annual report to the community similar to what  
41 companies do, actually getting up and presenting what we  
42 are doing and having a bit of a dialogue with the community  
43 regarding that. That has worked reasonably well, the  
44 catering costs are minimal you don't get a lot of people  
45 there. It has been growing every year.

46  
47 THE CHAIRMAN: Just before I get the next topic under way.

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1 I want to make a couple of observations out of this  
2 session. The first one is a minor one. I wouldn't spend a  
3 lot of time looking into the origins of rate pegging.  
4 However it got there, it may well have been a win, I don't  
5 know, it's so long ago. The sense I have is that there is  
6 considerable attachment to it for whatever reason right  
7 now. I don't think we can say we got there the wrong way.  
8 There is a degree of attachment to it, in some quarters.  
9  
10 Looking ahead, the sense I have got is that there is  
11 quite a lot of accountability in principle, and I think the  
12 issue for us is how can we make that accountability  
13 effective. Whether the annual report is the vehicle is a  
14 moot point. There's a sense, the discussion here has been  
15 forward looking information, maybe backward looking  
16 information is more pertinent. If when you leave here you  
17 have further thoughts on how we can make the communication  
18 accountability more effective, that will be helpful to us,  
19 if you want to come back to us on that.  
20  
21 I would particularly like to pick up the suggestion on  
22 clarifying roles as part of this. Let me say that is not  
23 easy. I had extensive involvement in arranging COAG  
24 meetings at one stage in my career, I have to say a major  
25 item on the agenda for most of those was clarifying the  
26 roles and responsibilities of two levels of government, and  
27 they're still working at it. It's not going to be easy,  
28 and my own hunch is you will never get perfection where  
29 there are clean lines of separation and so on. If you  
30 start from the position you will never get perfection how  
31 do we make areas of shared responsibility better, even if  
32 it's contractual type of operating, then you can get  
33 somewhere.  
34  
35 Again, if you have ideas of how that could work, or  
36 even examples of what you would have liked to have seen,  
37 that could help us, I think, in presenting stuff.  
38  
39 Michael, introduce the next session.  
40  
41 MR SEERY: Thank you, Mr Chairman. Some of the discussion  
42 in the previous session may have actually already picked up  
43 some of the issues which we wish to raise in the following  
44 session. This next session is about the threats to long  
45 term financial sustainability of local government. I  
46 thought I would sit back and think about what financial  
47 sustainability means, and I paraphrased a bit about from a

1 number of sources and suggested services and the  
2 infrastructure levels and standards are delivered according  
3 to a long term plan without the need to increase rates or  
4 reduce services.  
5  
6 Now, when I say increase rates I don't mean increase  
7 them incrementally but a major increase in rates or major  
8 decrease in services. That is what sustainability is. A  
9 number of submissions have identified various threats to  
10 financial sustainability. Clear among these are rate  
11 pegging and cost shifting which has been mentioned so far  
12 today. Areas where IPART requires further information  
13 include what is the adequacy of rate pegging, how is the  
14 variation in capacity to raise revenue across the state,  
15 and certainly there is the difference across the state in  
16 that ability as a couple of people have mentioned so far  
17 today, what is the alignment of revenue and expenditure and  
18 I think we need to have a bit more information on that  
19 particular issue. What is the scope of the greater  
20 efficiencies? Often in pricing reviews we get told there  
21 is scope for efficiency improvement or someone suggested  
22 there should be a 5 per cent or two and a half per cent  
23 efficiency factor put into pricing arrangements.  
24  
25 Has local government reached the limit of its  
26 efficiency? Or, are there legislative things that are  
27 preventing gains in efficiency? One thing that always  
28 strikes me about local government is people talk about you  
29 go down the road and you see someone pushing the shovel and  
30 two or three people watching them. That's overmanning. In  
31 fact, these days occupational, health and safety  
32 requirements require simply more than one person to be on  
33 that shovel. You need someone to watch their back, someone  
34 else to do something else. You talked about our friends at  
35 Energy Australia earlier, I know when someone goes down  
36 one of those manholes they have to undertake significant  
37 amount of occ. health and safety considerations.  
38  
39 Do they limit our ability to achieve efficiencies? We  
40 have actually raised a number of discussion points for this  
41 session, and actually the next session and it goes over  
42 three pages, the discussion points. I will go through them  
43 and then I will come back and highlight a couple we would  
44 like to focus on this afternoon.  
45  
46 People have mentioned today rate pegging may not be  
47 good for councils, and restricts their level of income,



1 however, I guess there are questions if there is a strong  
2 desire by somebody to keep rate pegging, then how effective  
3 is it? What implications are there for councils and  
4 ratepayers? There was an interesting comment that Hylda  
5 made earlier about ratepayers and the community, because in  
6 actual fact a lot of ratepayers don't have an input or  
7 don't have an effect, or can't vote in the next election  
8 because the ratepayers actually don't live in your council  
9 area. I think that needs to be some sort of consideration  
10 in accountability.

11  
12 Does rate pegging effectively constrain the level of  
13 rates and total revenues from local government? The answer  
14 is that it certainly constrains rates, but does it  
15 constrain your revenues in total? I guess there's a  
16 question there, with special variations, does it really  
17 constrain your revenue when you can put in an application  
18 for a special variation?

19  
20 What demographic factors may impact on revenue  
21 opportunities for councils in different types of locations?  
22 That is certainly the difference we talked up here, about  
23 Auburn council having difficulties, Eurobodalla Council has  
24 different sets of issues. Gary mentioned Brewarrina which  
25 has an effective rate of \$1.64 per week.

26  
27 What processes are currently used to align services  
28 and charges? That's an area I would be interested in.  
29 What processes are currently in place for aligning services  
30 and charges with the costs of service provision?

31  
32 What are the implications of introducing further user  
33 charges to supplement rates revenue? There has been some  
34 comments so far today on that.

35  
36 What types of best practices are used by local  
37 government now to achieve greater efficiencies, and what  
38 else would be possible? I guess that is an area where I  
39 would have an interest.

40  
41 Something that hasn't been mentioned today is debt  
42 financing. I guess one area we would be particularly  
43 interested in is how is debt funding used in councils to  
44 provide services, infrastructure/facilities and what is the  
45 attitude of councils towards debt funding? All the reports  
46 suggest that debt is under utilised by councils.

47

1 This is a bit technical here, but what is the  
2 appropriate level for net liability ratio and what  
3 obstacles prevent councils from making greater use of debt  
4 to finance priority infrastructure including new and  
5 replacement works? Finally, on the issue of debt is rate  
6 pegging a constraint on debt funding due to the lack of  
7 affordability of associated payments?

8  
9 The last set of discussion points is what demographic  
10 inter-government, economic, social, technical,  
11 environmental changes are now affecting councils and their  
12 future revenue requirements?

13  
14 Finally, what statutory requirements may impact on  
15 councils and how important are these requirements? I guess  
16 we've heard a lot of those.

17  
18 I guess the areas where we particularly would be  
19 interested would be how effective is rate pegging and does  
20 rate pegging constrain your abilities to earn revenues, the  
21 area of efficiencies and the use of debt funding are three  
22 areas really which we would like to expand on today.

23  
24 MR BURGESS: I would like to lead the charge. There are a  
25 couple of issues I think in Michael's statement that need a  
26 bit of clarification. Absentee landlords can vote at a  
27 local government election. Very, very few of them, if ever  
28 choose to. I think IPART should be aware that people can  
29 vote if they want, non-residents.

30  
31 Can I talk about the issue of special variations? You  
32 can put the damn best submission that money can buy,  
33 including use of consultants and your auditors to the  
34 Department of Local Government, politics rules the day in  
35 terms of special rate increases.

36  
37 In terms of efficiency within councils, most of us  
38 have organisation development units where, through the  
39 process of rate pegging and time, has been considerable  
40 time and resources and effort in ensuring we do get value  
41 for money. I think a lot of us can very clearly and  
42 capably demonstrate that process.

43  
44 As for the rest of the debate, I fail to understand  
45 why we are having it. I fail to understand why there has  
46 been a brief. I fail to see why we are sitting here  
47 discussing it. How many other financial reports have been

1 produced about the state of local government finances,  
2 about the effectiveness and efficiency of local government  
3 and yet we sit here. Someone else said 30 years, I reckon  
4 I have been to 20 of them in 30 years and we are going  
5 through the same issues again and again. I am criticising  
6 IPART as a reference. Let me tell you this, we have heard  
7 it all before, we've been there and done that. I agree  
8 with David, let's stop whingeing and get on with it.  
9

10 MR GREENWOOD: The impact of rate pegging means local  
11 government is more businesslike in the way we approach our  
12 community. We understand our costs and our overheads. We  
13 have long term strategic plans and management plans. We  
14 understand our long term financial positions. We  
15 understand where we sit in relation to our assets. So, it  
16 has been a driver and there have been a lot of  
17 efficiencies. It's out used its usefulness. We understand  
18 the problem, we are looking for the solutions. We are  
19 coming here today to try and articulate what we need and to  
20 impress upon you the need for change. I think it has been  
21 useful but its outlived its usefulness.  
22

23 MR ROGERS: In terms of rate pegging and how successful it  
24 is, I use my council of Blacktown as an example. In the  
25 last ten years we have framed budgets around zero per cent  
26 expansion increases. Any operating costs that aren't  
27 salary costs, we give to people and they do a budget of  
28 zero per cent and they have to campaign to get an increase.  
29 That has been successful. It has driven efficiencies of a  
30 million dollars a year. Rather than get additional funds,  
31 they have to go back, find the savings in other areas  
32 and/or increase revenue streams or increase their budget.  
33 We haven't had any increase in rates in the last ten years  
34 since this conception in the 70s. We are currently debt  
35 free. That all sounds good.  
36

37 Just some steps: Over that period of time our  
38 percentage of employment costs as a percentage of rates has  
39 increased from 77 per cent to 87 per cent. We apply the  
40 same rigour to appointing any new staff that we do to  
41 operating costs. It's hard to get additional staff at  
42 Blacktown. I have a few stats here. Increases in our  
43 costs even with that discipline we have got are still  
44 outstripping rate increases. Our building section tells us  
45 the costs of buildings at the moment, construction are  
46 going up by 6 per cent. In some aspects steel is going up  
47 by 8 per cent per year. Roads suffer the oil prices, the

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1 price of bitumen is going up, cost of steel, severe  
2 shortage of road base. Road costs, on average, are going  
3 up by 5 per cent per annum. Employment costs are going up  
4 4 per cent, four and a half per cent per annum. Local  
5 government is subjected to the skill shortage. We have to  
6 pay a premium to retain and attract specialised staff,  
7 being such a diverse industry we are not just talking about  
8 engineers, but town planners, accountants and the list goes  
9 on. Software: Our software costs are going up because of  
10 the costs of PCs we have got, and the number of PCs we have  
11 got.  
12

13 In terms of efficiency, one of the points was has  
14 local government sought efficiencies. I know Blacktown and  
15 I'm sure other councils would say the same thing, yes, we  
16 try to be efficient. We don't go and increase our rates.  
17

18 A recent example the rate pegging for the 8/9  
19 financial year was 3.2 per cent. We didn't find that out  
20 until late April. We anticipated a 3.5 per cent increase.  
21 That cost us 300 grand. That was going to maintenance of  
22 new parks we built, increased building maintenance,  
23 increased roads. We had to go back to the budget man to  
24 say "We still have to do that, find the savings elsewhere".  
25 That is how local government has been running for a lot of  
26 years. We are gradually running down the things.  
27

28 Someone else mentioned the reports out there. The  
29 estimated cost of infrastructure shortfall in New South  
30 Wales is 6 billion, that is forecast to increase to 15. I  
31 think that is significantly under estimating the figure.  
32

33 Has rate pegging worked? I think it might have worked  
34 in the past. I have looked over the years, a couple of  
35 years rate pegging was six and a half per cent, and then  
36 zero per cent later on.  
37

38 I don't want us to give the projection that we are  
39 whingeing or complaining. We have used rate pegging to our  
40 advantage to go back to our business managers, develop  
41 their business acumen. It's going to point where a growing  
42 council like Blacktown, we are starting to struggle. Our  
43 long-term projections are showing that we might be spending  
44 enough on our roads now, but we need to increase that on  
45 our existing road. We need half a million a year to  
46 maintain standards. We have done projections that is we  
47 don't do that over ten years, there is a massive spike in

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1 future road maintenance costs.

2  
3 There is enough evidence here that rate pegging in its  
4 current form isn't working.

5  
6 MS LARKIN: If you have a look at our submission, we talk  
7 about the abolishment of rate pegging. When I did a  
8 comparison of different states, cost of rates and  
9 development levels, there is an interest in New South  
10 Wales. New home buyers are saying they are being unduly  
11 penalised for providing infrastructure for the whole of  
12 community. I know we reiterate that point every time we  
13 write a submission, but it's definitely increasing the cost  
14 of housing in New South Wales. It's something that may be  
15 putting pressure on councils. They need to provide the  
16 infrastructure. They are constrained in increase in rates,  
17 and it's maybe putting pressure on contributions.

18  
19 MS HOLLOWAY: Look, I think you could say rate pegging  
20 has been very effective in making councils super efficient,  
21 because we haven't had any choice about the matter. We  
22 have had to only apply the increases that we have been able  
23 to, and with the last increase in rates that we had, 3.2  
24 per cent, I also anticipated 3.5 per cent, so we were  
25 short by that, but I applied 3.5 per cent to our recurrent  
26 expenditure increase anyway, which was 1.5 per cent less  
27 than we were going to because of the costs of materials  
28 increasing. Effectively, if you apply the rate peg  
29 increase that we are allowed in a situation of increased  
30 expenditure, we are each year producing greater efficiency.  
31 Basically it's productivity saving each year.

32  
33 As far as increases, special rate variations are  
34 concerned, yes, we can apply for special rate variations.  
35 You have to do a huge amount of work to justify a special  
36 rate variation and that is far enough. You have to consult  
37 with the community. You have to do all of that. The  
38 instructions are that the increased money that you get from  
39 the special rate variation, you have to justify that it is  
40 going to go to projects or capital works. It's not  
41 necessarily for recurrent expenditure. It's a long  
42 political process. At the end you don't know whether you  
43 are going to be successful or not, and if you are  
44 successful then you get a bagging in the Daily Telegraph,  
45 as we councils do. You go through that gauntlet. If there  
46 are reasons councils don't choose to do go through it, I  
47 think it's largely that.

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1  
2 As far as other revenues are concerned, and we in  
3 North Sydney, about 48 per cent of our revenue is from  
4 rates and charges; that is including domestic waste charge  
5 and the rest we have to find through other means. We  
6 really can't depend solely on that money being available  
7 each year. For example, with North Sydney, yes, we do  
8 rely, in part, on income from fines and yet my view is we  
9 shouldn't rely on that at all, because if people obey the  
10 law you wouldn't be getting the money, and yet the reality  
11 is that we do factor that into our budgets. The other 52  
12 per cent of our income comes from revenue sources that I  
13 would say are not totally reliable.

14  
15 MS ROLFE: I think it would be too much to expect the  
16 councils to agree that their financiers need protection  
17 from them. So, it's not surprising the councils'  
18 supervision and the regional councils' submissions show no  
19 sympathy for ratepayers per se. That leads me to say that  
20 the effectiveness of rate pegging is a political one. It  
21 is at least seeing that someone cares for the ratepayers,  
22 certainly not the councils judging by their submissions to  
23 this Inquiry.

24  
25 It's conceivably useful for council, there wouldn't be  
26 a council in this room, I don't think, or represented by  
27 any of the organisations that I can detect anyway, that  
28 doesn't always implement at least the maximum permitted  
29 rate increase just like that. Whether they need it or not,  
30 the maximum permitted becomes the minimum. That is  
31 typical with controlled prices and all sorts of things like that.

32  
33 Rate pegging is a highly effective whipping post for  
34 councils who can't do their forward planning properly and  
35 who get their programs into a bit of a mess sometimes.  
36 It's only partial anyway in terms of effectiveness because  
37 it doesn't cover things like the domestic waste charge. It  
38 doesn't cover things like fees for development applications  
39 and stuff like that.

40  
41 Does it constrain the level of rates? The councils  
42 say it does, but given the way they automatically adopt the  
43 maximum increase as their minimum it makes you wonder.  
44 Ratepayers hope it constrains the level of rates although  
45 they don't always appear particularly keen about that.  
46 They think the council condemnation of rate pegging  
47 suggests maybe it's at least helping.

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1  
2 Does it constrain the level of revenues? Councils say  
3 so. Any constraint, even if it happens is that marginally  
4 main rate role remains unsullied, of course. The thing  
5 that appeals to ratepayers about special levies is in the  
6 end the main rate role is reversed which is a good thing  
7 because the rate increase increases the revenue rate.  
8 Councils do constrain themselves, I mentioned that before.  
9  
10 I do want to say a few words about debt funding.  
11 No-one else has got to that. Will I take a rain check?  
12  
13 THE CHAIRMAN: Keep on efficiency for the moment.  
14  
15 MR LEWIS: The Southern Sydney Regional Organisation of  
16 Councils, 16 councils with a population base of 1.3  
17 million, and one of the major objectives is to try and  
18 assist in the operational effectiveness of councils and we  
19 do that through a range of procurement activities, sharing  
20 of facilities, sharing of services, the coordination of  
21 various programs and working through some activities of  
22 single transfer stations for a number of councils for waste  
23 transfer et cetera.  
24  
25 There's a couple of constraints on that though.  
26 Firstly, the government in whatever per annum is put  
27 forward has been constraining councils in the industrial  
28 relations arena, that services to be contracted out where  
29 you can improve the efficiency of service delivery is  
30 constrained by government policies. If you were to attempt  
31 to, as we were looking at trying to set up some companies  
32 to be able to take over some of those activities, the  
33 government has put constraints on us to be able to move  
34 down some fairly effective paths being able to provide  
35 those services.  
36  
37 The third thing, whilst the government talks about  
38 providing support to amalgamation of services, not  
39 amalgamation of councils, the coordination of services and  
40 shared alliances, there is nothing within government policy  
41 or legislation that facilitates or enables those activities to  
42 be undertaken. There are very substantial legal  
43 constraints on SSROC to be able to provide, for instance, a  
44 major waste service across a number of areas. We cannot  
45 undertake a range of major procurement activities across a  
46 number of services given the constraints within the  
47 legislation.

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1  
2 There are, I think, real opportunities out there, as  
3 SSROC and its constituent councils are looking at and there  
4 are some real benefits, but the constraints mitigate  
5 against those coming to the fore. We move to a different  
6 path. It was mentioned before about Energy Australia.  
7 SSROC operates on behalf of 30 councils for dealing with  
8 Energy Australia. One of the major difficulties we have in  
9 dealing with a monopoly provider like that, we do not have  
10 the ability to be able to enter into reasonable contracts  
11 for the provision of services and associated costs. So  
12 Energy Australia, notwithstanding the reviews that IPART  
13 and AR will be undertaking, do have the ability to be able  
14 to increase the costs of demands for their services to us  
15 without us being able to effectively moderate those.  
16  
17 The final point that I will finish on is the ability  
18 to be able to look at other forms of revenue. There are a  
19 whole range of government, both state and federal agencies,  
20 who occupy land areas within local government who are  
21 exempt from providing any form of rates or fees, charges  
22 back to local government. If, on the one hand, the state  
23 government particularly is asking for local government to  
24 be making extra contributions, or to be undertaking service  
25 provision, it would seem to us fairly logical that  
26 therefore state government and commonwealth government  
27 agencies ought to be paying for the services that they  
28 ought to be getting in other communities.  
29  
30 MR ROGERS: Could I make one comment on the word efficiency  
31 in the terms of rates? It was in the IPART review on state  
32 taxes, which was looking at the different taxes state  
33 government raises. It was talking about the increasing the  
34 amount of revenue they get from payroll tax and reducing  
35 the amount of revenue from other taxes, such as land tax  
36 and that sort of thing. In that paper they did make the  
37 comment that council rates are a relatively efficient form  
38 of taxation. I think we should remember that in terms of  
39 most of us have rates representing 50 per cent of our  
40 income, the other sources of income are (a) user fees and  
41 charges, and aren't a very efficient form of taxation, and  
42 (b) if increased can severely disadvantage less well off  
43 parts of our community and deprive them of using essential  
44 services. Again, that is another issue.  
45  
46 MR BALL: I felt I had to respond to David Walker's comment  
47 about whingeing because I don't think drawing an accurate

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1 picture of the environment within which local government  
2 operates is whingeing. We have a serious problem and we  
3 need to impress upon anyone and everyone the necessity for  
4 the system to change. I don't call that whingeing.  
5  
6 If we look at local government, trying to answer some  
7 of these issues, at Hornsby, we have calculated that cost  
8 shifting is costing us \$70 million per annum. That is not  
9 a small amount.  
10  
11 THE CHAIRMAN: Can you document that for us?  
12  
13 MR BALL: Yes. We have already documented it. I think  
14 the Local Government and Shires Association asked for that  
15 information from all local governments and I would hope  
16 everyone has provided it. So \$70 million.  
17  
18 On top of that, we are faced with the situation like  
19 local government preselections - 100 per cent increase in  
20 the cost at Hornsby. It went from \$350,000 to \$750,000.  
21 You ask for information from the electoral commissioner,  
22 you get nothing. The personal statement made to me was,  
23 "We run the elections. We know how to run them. We are  
24 not giving you any justification."  
25  
26 Think of things like New South Wales Fire Brigade  
27 contributions. They go up way in excess of the rate  
28 pegging limit. The Department of Planning contributions -  
29 way in excess of the rate pegging limits. There are  
30 enormous impositions upon local government that go  
31 unchallenged, and we need to challenge them.  
32  
33 If we talk about what are the demographic,  
34 inter-government, economic, social, technical and  
35 environmental changes now affecting councils, we could  
36 probably spend all afternoon going through those.  
37  
38 John talked about some of the demographic issues in  
39 Auburn. I've just highlighted some of the inter-government  
40 issues. Economic issues - it's just the total economic  
41 environment in which we're working at the moment, and such  
42 things immediately come to mind as the investment  
43 difficulties we are having. What you find in that sort of  
44 situation is that one of the recommendations from the state  
45 government in the new ministerial order is you can still  
46 use TCorp. TCorp is one of the most poorly performing at  
47 Hornsby of all of our investments.

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1  
2 Social changes. Well, we have got obviously seachange  
3 and treechange, and that puts pressures upon regional  
4 councils more than on city councils.  
5  
6 Technical. Earlier someone mentioned the costs of IT,  
7 and if you look at other service industries, even look at  
8 the federal government, you will find probably three,  
9 four per cent of their revenue goes on IT. For local  
10 government I think it is around about 1 and a half or  
11 2 per cent. In England, at least the central government  
12 was prepared to fund local government to the extent of  
13 hundreds of millions of pounds - you get no support in  
14 Australia for that sort of change.  
15  
16 Environmental changes are obviously affecting all of  
17 us and, in particular, Hornsby is very proud of its  
18 environmental record. If you compare local government with  
19 state or federal, you will find that local government is  
20 streets ahead in terms of what they do to assist  
21 environmental change. That is never recognised.  
22  
23 Rate variations. Hornsby has been lucky enough to  
24 have three rate variations approved out of three  
25 applications. What I have found, though, is that you have  
26 got to have your back to the wall. You have got to have a  
27 desperate situation. If you go forward with a situation  
28 where you are comfortable in handling a situation but you  
29 need a rate variation to maintain that level of comfort and  
30 your community is behind you, I would suspect you are not  
31 going to get an approval. We have had to have three  
32 critical situations before we could get that rate  
33 variation.  
34  
35 Now, does that encourage us to be efficient or does it  
36 encourage us to create a desperate situation? I think  
37 there is a strong likelihood that we can choose roads and  
38 say, "Well, let's run them down for five years, and then  
39 we'll put in a request for a rate variation. It'll be  
40 fine. I'm efficient everywhere else, but not in the one  
41 area I want the rate variation."  
42  
43 I also had a comment on loan borrowings. Certainly  
44 rate pegging, as far as Hornsby is concerned, has a  
45 significant impact on loan borrowings because we just can't  
46 repay the debt. I can talk a bit about that later.  
47

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1 MS MILLS: Mr Chairman, I would just like to talk about  
2 the efficiencies of rate determination as one of the items  
3 on this point. I think IPART has got a wonderful  
4 opportunity to make some fundamental change  
5 recommendations. Currently, rates are determined by a  
6 formula looking at valuation times a rate and a dollar.  
7 Councils pay hundreds of thousands of dollars for this  
8 valuation. The valuation purports to be the value of a  
9 block of land in its natural state. No-one in Sydney owns  
10 such a thing - there is a house or a building on nearly all  
11 of them. The value doesn't represent the sale value. It  
12 doesn't represent any ability to earn income. It is just a  
13 figure.  
14  
15 Now, it comes down to the professional valuers, and  
16 I'm sure I'll get howled down about how much effort they  
17 put into calculating it, but we have moved beyond the  
18 archaic idea of the value of land representing the wealth  
19 of the owner. It doesn't address whether there is a  
20 mortgage, it doesn't address whether the person is in  
21 employment or whether the person is a pensioner.  
22  
23 If we went to an alternative view and had a look at  
24 the domestic waste charge, it is a flat charge. Why aren't  
25 the rest of rates flat? Why do we single out garbage as  
26 saying it should be a flat charge but the other services  
27 that we deliver have to be based on some mythical figure?  
28  
29 If we didn't have valuations and we worked out a flat  
30 charge, straightaway there would be hundreds of thousands  
31 of dollars of savings for every council. The government  
32 might suffer a bit, but I think it contracts that business  
33 out anyway.  
34  
35 I think there is a great opportunity there and,  
36 as I said earlier, the highest rating council in the state,  
37 Hunters Hill, would have a flat charge of \$20 a week for  
38 every ratepayer. I think that would be more acceptable to  
39 the ratepayers, I really do.  
40  
41 THE CHAIRMAN: In the UK they introduced a poll tax --  
42  
43 MS MILLS: It is not a poll tax, it is a property charge,  
44 because it doesn't take into account how many people live  
45 in the property. Rates don't do that either. I mean, you  
46 could have 10 people living on one property - a big family.  
47 I think there is an opportunity to consider a flat charge

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1 and I think it is a reasonable alternative.  
2  
3 THE CHAIRMAN: Just before we conclude on the issues of  
4 efficiency, and so on, can you give me a sense of  
5 contracting out? How much of the work of councils is put  
6 to competitive tender?  
7  
8 MR BURGESS: Twenty per cent. We work on the basis of a  
9 core complement of staff. I suspect we all do. When the  
10 money rolls in, we turn the tap on. When the money rolls  
11 out, we turn the taps off. We know where our core skills  
12 are, where we have got capacity and ability, and if we had  
13 to do something new, then we're more likely to go to  
14 contract.  
15  
16 THE CHAIRMAN: For example, garbage collection is almost  
17 all by contract now.  
18  
19 MR BURGESS: Not all.  
20  
21 THE CHAIRMAN: Most of the roads would be by contract.  
22  
23 MR BURGESS: Not all. Auburn is day labour, and  
24 I benchmarked the efficiency of that against contract  
25 services elsewhere and we're as good as the rest. So I  
26 think it is horses for courses, but, as I say, I think you  
27 will find, as a general rule, that we all know where our  
28 skill sets lie and what our capacity and ability is, and  
29 once we exceed that capacity and ability, you go to the  
30 contract market. I pushed a million dollars extra into  
31 roads last year and we did all of that through contract.  
32 It is probably that simple, I would suggest.  
33  
34 MR LEWIS: Mr Chairman, the decision to go to outsourcing  
35 is based on an economic decision by councils, but more  
36 often than not it is based on the political ideology that  
37 rules council at the time. That is one of the challenges  
38 in trying to move forward for long-term strategic planning,  
39 where you're largely bound by the constraints of elected  
40 individuals for the day.  
41  
42 Could I just add a postscript following up on the  
43 comments before in relation to cost shifting: as part of  
44 our submission, we asked the Treasurer to provide details  
45 of payments and receipts from local government to the state  
46 treasury. They were collecting it. I was about to get it  
47 until it moved up to the senior parts of treasury, who

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1 refused to give it. I have now submitted an FOI  
2 application. One would have thought details of payments  
3 from local government to state government in the context of  
4 this review would be an important piece of data. I would  
5 urge IPART to attempt to get that data.

6  
7 THE CHAIRMAN: We'll take that on board. Yes?

8  
9 MR GREENWOOD: I think most local governments either  
10 market test or benchmark their high-cost services. They  
11 understand that there are big money savings in the area of  
12 waste and obviously they understand what their costs are as  
13 compared with going out to contract, and the same with most  
14 services.

15  
16 I might add that with our council, we have actually  
17 gone out to contract with waste, we have been out with  
18 swimming pools, and we have now taken them back because  
19 they were completely inefficient. So I think councils  
20 understand they have to be business-like in all their  
21 approaches.

22  
23 In relation to the cost shifting, in recent times we  
24 have got the new planning reforms, we have got the  
25 independent panels, we have got the planning assessors, all  
26 of which have to be funded by local government - another  
27 impost on us - and the other issue is it is now going to  
28 become a lot more easy for people to take matters of appeal  
29 through the planning assessors, so there will be more  
30 costs, more appeals, more legal costs, more staff time that  
31 is wasted in that process.

32  
33 Bushfires. They are now looking for full recovery.  
34 They have set up the Rural Fire Services and they are  
35 looking for full cost recovery and, again, we won't be  
36 compensated for that. The federal government just changed  
37 the family day care parameters. Again, there is a  
38 reduction in funding to local government.

39  
40 In the Blue Mountains, we're a World Heritage National  
41 Park, we have the Sydney Catchment Authority requirements  
42 to comply with, we have scheduled vegetation areas, state  
43 environmental planning policies to comply with, all of  
44 which are high-cost items, and they are just things that  
45 have been happening in the last 12 months. So these things  
46 just keep rolling out.

47  
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1 MS HUSKING: We do the comparisons in unit cost as well,  
2 but generally what it boils down to is where it is easy to  
3 specify, you can contract it out, so the long lengths of  
4 roads and footpaths, and things like that.

5  
6 The other option available to councils - and we have  
7 taken this one up - is to actually set up some separate  
8 companies for particular services. In our case, it is the  
9 leisure centre and the performing arts centre activities,  
10 and we have also set up a separate cooperative to run a  
11 full childcare operation. The benefit of that is you then  
12 have a board with some external input to it that can  
13 actually devote more time to those particular services than  
14 if they were just part of the overall general council  
15 service.

16  
17 THE CHAIRMAN: I would like to invite some discussion on  
18 debt finance now.

19  
20 MS HOLLOWAY: As far as using debt is concerned,  
21 speaking for our own council, we wouldn't have a problem  
22 with that, but the issue - and Robert mentioned this - is the  
23 ability to be able to pay.

24  
25 As far as borrowing money, say, for what we would call  
26 an "income-producing project", something that is going to  
27 itself produce some sort of revenue and we can use that  
28 revenue then to pay the debt, that is fine because you can  
29 develop a business plan and understand what money you are  
30 going to get in to be able to pay the debt.

31  
32 As far as borrowing money to undertake infrastructure  
33 improvements is concerned, with the constrained level of  
34 revenue coming in from rates, we have certainly looked at  
35 that and realised that we're just going to be running down  
36 our capital and, in the long term, it is just not in our  
37 interests to borrow money to fund the state infrastructure  
38 improvements because we just don't have the money to pay  
39 the debt.

40  
41 MR BALL: I just want to add a little bit to what I said  
42 before. Certainly rate pegging imposes severe constraints  
43 on local government; you have to make repayments.  
44 In Hornsby, we have basically tried to maintain a level of  
45 repayments. We have worked out we can basically borrow  
46 \$1 million a year and keep the same level of repayments  
47 going.

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1  
2 The difficulty I see for local government in not  
3 borrowing - sorry, I will go back one step. Probably local  
4 governments felt constrained by the environment in which  
5 they operated, where the state government and the federal  
6 government had looked at reductions in loan indebtedness as  
7 being a part of the policy of government. We have seen  
8 some of the impacts certainly with tunnels and tolls and  
9 the problems associated with that.  
10  
11 Local government is working in that same environment,  
12 so local government, I'm sure, felt constraints in saying,  
13 "Well, if we do something different from the rest of  
14 government, then we are going to be isolated and  
15 criticised." Certainly I have heard many councillors and  
16 staff say, "Well, to be debt free is good," and there are  
17 councillors certainly in Sydney that promote the fact that  
18 they are debt free.  
19  
20 The concern that I have - and I have no empirical  
21 evidence to substantiate this - is that when we become debt  
22 free and we don't have those loan repayments, what do we do  
23 with the funds that were otherwise used for loan  
24 repayments? In effect, those loan repayments are capital  
25 expenditure, but I would suspect that as soon as we don't  
26 borrow, what money might be freed up is then used for  
27 service provision, it is not used for capital expenditure.  
28 So as a consequence, we are building upon this  
29 deterioration and lack of funding of infrastructure.  
30  
31 So we get to a point where we say, well, we can't  
32 afford to borrow and we can't afford to spend the money on  
33 infrastructure, so it becomes a self-fulfilling prophesy  
34 that we just finish up not being able to afford either.  
35  
36 MR ROGERS: I'm not necessarily saying that being debt  
37 free is ideal, but just to clarify, Blacktown is debt free,  
38 we retired our debt more than 10 years ago. Each year the  
39 amount that we had paid in debt servicing is transferred to  
40 what we call the infrastructure sinking fund - the ISF -  
41 and each year we increase that amount by the rate pegging  
42 amount. So this year we put \$15.9 million worth in our  
43 capital works program of money that would have gone into  
44 debt servicing. I think since we've done it, we've put  
45 \$166 million into that sinking fund now to build  
46 infrastructure. So at least in our council we have that  
47 discipline of taking money that would have gone to loan

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1 repayments.  
2  
3 There are arguments to and from - are we providing  
4 infrastructure fast enough, inter-generational equity  
5 questions, that sort of stuff, but definitely we're not  
6 putting any of that money that would have gone into loans  
7 to subsidise our operating operations.  
8  
9 MR SEWELL: The strategy of debt service is an issue  
10 that's been taken up in sustainable financial health checks  
11 developed by the local government finance professionals  
12 with CPA Australia and the Local Government Auditors  
13 Association.  
14  
15 It indicates parameters that you have for the amount  
16 that you should be repaying, depending on your location and  
17 your circumstances as far as whether you're a developing  
18 council or not a developing council, whether you're  
19 actually regional or country. Then there are the issues as  
20 far as how much of your budget do you want to retire in  
21 terms of the amount you're paying for debt and the  
22 flexibility that you have around that. At Campbelltown,  
23 we restructured our debt in 1993, which allowed for  
24 \$4.5 million to actually go back into our budget in 2004.  
25  
26 I actually highlighted the reduction in that money and  
27 also separately identified those moneys within our budget.  
28 Half of that money has now been taken up with the  
29 increasing costs that are associated with superannuation  
30 and other costs that have been passed down from state  
31 government. We have created a fund as well to provide  
32 community facilities with the retirement of that money.  
33 However, by identifying the money it has highlighted that  
34 that has been taken up for operational purposes,  
35 unfortunately, but nevertheless that was part of the  
36 strategy when we refinanced the amount.  
37  
38 It is a strategic decision for each council and if you  
39 are in the fortunate position where you can sustain being  
40 debt free - I mean, there are inter-generational arguments  
41 that we could all go into, but it is a decision for each  
42 local authority.  
43  
44 MS ROLFE: I think, natural disasters aside, debt funding  
45 for councils is really an inferior substitute for forward  
46 planning. It only gives you money this year in advance of  
47 next year and the year after, and then you pay it back next

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1 year and the year after.  
2  
3 It does help councils to meet voter expectations that  
4 couldn't otherwise be met this year, but next year you  
5 can't. You just can't keep it up. I think what it does is  
6 masks the need to adjust priorities in the council  
7 programs.  
8  
9 Despite the enthusiasm of the Percy Allan report and,  
10 I think, IPART itself for local government to get stuck  
11 into a bit of borrowing, ratepayers don't care, I think,  
12 very much at all about inter-generational equity, nor  
13 should they, really, because they observe the defective  
14 maintenance of the infrastructure around them now and they  
15 say, "Well, that's falling to bits. I want this year's  
16 rates spent on fixing it, filling the potholes,  
17 straightening the footpaths, doing that sort of stuff.  
18 I don't want this year's rate income spent on jobs that  
19 were done 20 years ago, 10 years ago, five years ago and  
20 have been left to rot because we diverted funds to other  
21 activities."  
22  
23 Let's face it: it's not rate pegging and it's not the  
24 absence of debt that has starved infrastructure from funds;  
25 it is council decisions. Councillors have decided that  
26 they will less favour infrastructure provision and  
27 maintenance and shift funds to the more glamorous, if you  
28 call it that, other activities.  
29  
30 So the use of debt gives no guarantee that there will  
31 be infrastructure provided or maintained; it merely frees  
32 up some funds that would otherwise be going there for the  
33 sorts of purposes that the council currently favours, and  
34 these days they tend to be human services as a group.  
35  
36 So you're not really going to get anywhere in the end.  
37 In the end, of course, all debts have to be paid, as  
38 I think Mr Bush is finding in America and the odd bank  
39 around the world is finding now.  
40  
41 Ratepayers are very unhappy with councils' borrowing,  
42 and I think councils have shown a degree of wisdom when  
43 they have tried to minimise their borrowing and keep it,  
44 keep borrowing potential as a contingency for serious -  
45 serious - unpredictable matters, because they will happen,  
46 they do happen, and if you don't have a formidable backstop  
47 like your credit rating and your ability to borrow, if you

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1 have taken all your loan funds out and used them, you have  
2 got nothing left to fall back on on a rainy day when there  
3 is a cataclysm.  
4

5 From the viewpoint of ratepayers, it is much better to  
6 have that as the backstop, not the operating capital of the  
7 council.  
8

9 THE CHAIRMAN: Does anybody in the back of the room  
10 want to contribute?  
11

12 MR LEE: Ben Lee from the Property Council. I'd like to  
13 make a few comments about that. We support lifting rate  
14 pegging as part of a wider reform package which includes  
15 greater fiscal discipline and accountability for local  
16 government, compulsory infrastructure strategies with a  
17 forward capital expenditure program and linking rate  
18 increases to decreases in levies.  
19

20 We also have quite a lot of work that we have done  
21 previously on debt financing for infrastructure that we'd  
22 be happy to provide to IPART. Thank you.  
23

24 MS DILLON: Rosemary Dillon from the Blue Mountains City  
25 Council. On the issue of efficiency, the picture Wayne  
26 painted I could relate to a lot of councils. Similar to  
27 Blacktown, in the past couple of years at Blue Mountains we  
28 have implemented zero per cent increases to operational  
29 budget in parts of the organisation, minus 2 per cent and  
30 we are now looking at it again.  
31

32 I think the issue of efficiency has to be looked at  
33 within a time frame, and I think the integrated planning  
34 and reporting reforms are trying to do that. They are  
35 trying to get councils to take a four- and a 10-year  
36 horizon. What we are doing is systematically we have got  
37 targets to increase revenue and different strategies, and  
38 we have different strategies and targets to reduce our  
39 expenditure.  
40

41 So, like many local governments are doing much action,  
42 we have restructured I don't know how many times from  
43 four groups to three; we have implemented a  
44 purchaser/provider business model, which we still have. So  
45 we have all the efficiency, but I think the real issue is  
46 we need to get councils taking the bigger frame - less  
47 political intervention and four years. But the real issue

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1 is share of the federal taxation. We are not getting the  
2 right amount. Here we are fighting over rate pegging, but  
3 the real issue is we haven't got the right share of money  
4 to fund local government. And how taxed are people?  
5 I mean, they are already overtaxed.  
6  
7 Wayne and others made the point about ability to pay.  
8 So are people going to be able to afford the higher rates?  
9 There is no doubt there is inadequate funding. I think a  
10 four-year frame, and that is where accountability rests.  
11 As David Lewis from SSROC said, reduce all the reporting  
12 requirements, take it more to the four-year frame and  
13 that's where you'll get sustainability.  
14  
15 MS LARKIN: Just looking at the issues paper, 28 of the  
16 152 councils applied for a special rate increase, 28 were  
17 approved. To me, that seems like a waste of time and money  
18 and administration costs when only 28 were approved. There  
19 could be a more efficient way of addressing that by  
20 removing rate pegging and then putting that money into  
21 accountability.  
22  
23 SHORT ADJOURNMENT  
24  
25 THE CHAIRMAN: Michael, would you like to introduce the  
26 third topic?  
27  
28 MR SEERY: In the issues paper, IPART identified five  
29 options for regulating local government revenues. These  
30 options are not necessarily the only options available,  
31 they are the ones we thought, prior to putting the issues  
32 paper out, were worth exploring. There were a few  
33 alternatives offered in submissions for this approach.  
34  
35 The five options which are up on the screen can be  
36 summarised basically as option 1, retain rate pegging with  
37 modifications. Really, it's tinkering around the edges.  
38 Option 2 is the disaggregated form of rate pegging, which  
39 is pretty much giving opportunities for different councils  
40 to have a different rate peg, so you group councils, say,  
41 in outer fringe areas or in regional areas or in inner city  
42 areas, a different cap.  
43  
44 Option 3 basically is removing capital expenditure, or  
45 revenue from rate pegging and only have the rate pegging  
46 operating on the operating side of the equation. Option 4  
47 was to exempt councils from a rate peg subject to meeting

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1 certain criteria, and the following option, 5, was removing  
2 mandatory rate pegging with a default cap. That is that  
3 everyone could do what they like unless they were bad, and  
4 then you would bring them in and give them a default cap.  
5  
6 Most councils supported a self determinatory role and  
7 therefore were pretty much in favour of option 5, although  
8 rate pegging, if rate pegging was to continue the use of  
9 objective criteria in option 4 seemed to be strongly  
10 favoured.  
11  
12 Considerations in establishing a regulatory framework  
13 are, firstly, the objectives for the regulatory framework  
14 and in the issues paper we listed a number of objectives.  
15 In the discussion paper we circulated last week there were  
16 a number of issues such as the financial sustainability,  
17 its linkages of rate seeking and costs, efficiency, prudent  
18 use of borrowings, accountability, openness, transparency  
19 and the like.  
20  
21 Recognition of diversity. The recognition framework  
22 needs to reflect the diversity of councils across the State  
23 and recognise that one single approach may not suit  
24 everybody.  
25  
26 The discussion paper also identified some governance  
27 issues: Accountability to community, best practice  
28 financial benchmarking, effectiveness and efficiency and  
29 other corporate governance measures. Once again, there was  
30 a large number of discussion points that were raised in the  
31 paper. One of the objectives which doesn't appear in the  
32 regulatory framework for local government revenues, how  
33 does the current regulatory system and the alternative  
34 frameworks meet the objectives for meeting the framework  
35 for local government revenue? What role should IPART play  
36 in setting local government rates and charges in future  
37 years? How can we incorporate diversity into a regulatory  
38 framework? Can we base a regulatory system on the 11 New  
39 South Wales Department of Local Government categories or a  
40 reduced number of these classifications, remembering New  
41 South Wales local government has 11 categories. They could  
42 be aggregated into four or five categories. Could you then  
43 use those four or five as a means of aggregating councils?  
44  
45 What are the options for improving the accountability  
46 of councils? We had some discussions about that earlier.  
47 Would financial benchmarking assist councils to evaluate

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1 and compare their performance? If so, what are the  
2 appropriate measures? Should accounting practices be more  
3 in line with asset management objectives? And if so, how?  
4 What types of best practices are used by local government  
5 now to achieve greater efficiencies, and what else would be  
6 possible?  
7

8 Finally, what opportunities are there to improve local  
9 government professional skills and support resources for  
10 both elected councillors and staff? And, what  
11 opportunities are there to improve the community's  
12 understanding of the longer term financial implications of  
13 council decision making?  
14

15 I think the key issues that I would like to discuss  
16 this session really hang around the regulatory options.  
17 How we can move forward with those regulatory options,  
18 whether they are the exclusive set or there are some other  
19 options we can think about, and what role IPART would play  
20 in the process. Some people have suggested that IPART  
21 shouldn't have a role, as people to my left mentioned  
22 earlier. Others have suggested that IPART should have a  
23 role in determining the cost index, or alternative views  
24 have been that IPART should set the maximum, overall  
25 maximum that everyone else should just provide, other than  
26 that just have a watching brief. There's some of the  
27 options around those two particular issues.  
28

29 If you wish to make some comment on the objectives of  
30 regulatory framework this time, that would be useful.  
31

32 THE CHAIRMAN: Before you come in, could I add to  
33 Michael's list? Maybe there's a strong consensus there should  
34 be a new regulation. Against the possibility, a worse  
35 summary, how much should we allow for diverse circumstances  
36 and in what way? I would like to add that to the list.  
37

38 MR MILLS: To broadly cover a lot of the issues, I would  
39 like to talk about diversity and one of the issues raised  
40 in IPART's framework was talking about the categories of  
41 councils. The fundamental problem I have with that is that  
42 the State being so vast has different climate zones and, in  
43 fact, in this year we have had areas of the State that are  
44 still in drought and areas that don't. Councils that might  
45 be categorised under the department's labelling still have  
46 quite different needs and rate pegging doesn't address any  
47 of those issues.

.29/9/200852

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1  
2 I also believe, as I have talked about earlier, rates  
3 are very low and maybe one of the alternative thoughts  
4 about it, rather than over complicate matters in trying to  
5 address how we deal with the differing levels, the simple  
6 answer to that is to set a bar where rate pegging won't  
7 apply. If rates are lower than, say, \$500 a year, then  
8 rate pegging won't apply. In the bush, the councils  
9 themselves are very -- I have worked in bush councils --  
10 the councils are very, very cognizant of the issues and the  
11 ability of the community to pay. They shouldn't really  
12 have to go cap in hand to get a rate income of \$500 from  
13 people. They won't levy \$500 if they think their community  
14 won't be able to afford it, but rate pegging has over 30  
15 years said to the bush "You can't have what they have in  
16 the city because you can only put up your rates by 3 per  
17 cent".  
18

19 Now, the councils have always been reluctant, where I  
20 have worked to ask. For one reason or another they will  
21 not go above this limit that is there. But, give them some  
22 ability to say "Well you have an option to do it. Still  
23 talk to your community. If it doesn't exceed this level  
24 you don't need approval", have a minimum bar not just  
25 looking at a table bar. That makes a simple approach to  
26 dealing with it. We are not over complicating the issue  
27 with different categories, different levels. It's not a  
28 bad way of addressing issues that apply across the State.  
29 Just a bit of food for thought there.  
30

31 MR GREENWOOD: There are three issues: One is the rates,  
32 the other is the percentage of the total tax revenue, and the  
33 other is cost shifting. I think that probably your report  
34 needs to look at all of those. Obviously you can only  
35 really look at rates, but I think the three go together in  
36 terms of the other levels of government need to look at  
37 those issues.  
38

39 We need a simple system. I don't think that  
40 necessarily the categorisation of councils takes us  
41 anywhere really. I think that the local government is very  
42 happy to have transparency and accountability in terms of  
43 our performance and our reporting. We are happy to look at  
44 our long term financial position. We are happy to look at  
45 long term asset position.  
46

47 The issue of sustainability hasn't been mentioned. At

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1 the moment we are concentrating on rates and concentrating  
2 on built assets, but there are human assets, social assets,  
3 and environmental assets. If you look at New Zealand and  
4 other states, they are miles ahead of New South Wales. As  
5 a Premier state in a first world economy those issues need  
6 to be addressed.  
7

8 I think we need to take politics out of it. I think  
9 IPART does have a role. I think that helps take the  
10 politics out of it. We talk about freedom of council to  
11 put up rates, the freedom is often to keep them down.  
12 Councils don't put up rates, that is a problem for us as  
13 well. Take the politics out of it, set the performance  
14 criteria and IPART could have a role.  
15

16 I think we need to look a CPI for local government, based  
17 on local government expenditure not a CPI based on how  
18 much coal we are exporting or how much minerals we are  
19 exporting. Look at the issues that affect local  
20 government. Look at the CPI for local government. They do  
21 it in South Australia. Look at the percentage of the asset  
22 renewal and maintenance. I think that is the area where we  
23 are really coming, we are saying there is a gap forming,  
24 the gap is getting bigger and bigger, we want to close the  
25 gap. We have done everything we can. We have looked at  
26 use charges, we have restructured, we have looked at  
27 purchaser/provider models, we've turned ourselves inside  
28 out. We need to close the gap. Look at a CPI, look at a  
29 percentage of the rates to make sure our asset renewal and  
30 maintenance is covered, so we at least are not losing  
31 ground and we can catch up some of it. The real issue in  
32 terms of major funding for new assets, and for some of the  
33 bigger sustainable social issues, probably we will need to  
34 look at the percentage of total revenue from other levels  
35 of government.  
36

37 I think if we can get to that point, it will go a long  
38 way in helping local government in it's current  
39 predicament.  
40

41 MS HOLLOWAY: You said before that the models, or the  
42 options that the majority of people went for were either  
43 option 4 or 5. Clearly the discussion around the table has  
44 been mainly about reducing regulation. However, I'm  
45 certainly in favour of that. You asked what the objectives  
46 would be for regulatory framework. I think the ones  
47 outlined in the paper that was circulated prior to today's

.29/9/200854

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1 round table are pretty good, in terms of a set of  
2 objectives.  
3

4 I don't think there would be any problem in making  
5 those objectives absolutely clear. Any consideration of  
6 rate increases should be based on those objectives. But, I  
7 do think that local government should be given the  
8 opportunity to make its own decisions against that  
9 framework, about what its revenue levels should be.  
10

11 I would like to reflect on what happened in Victoria,  
12 because I come from Victoria and have been in New South  
13 Wales for seven years. Immediately after local government  
14 reform took place in 1993/94 there was rate pegging in  
15 Victoria. That was for the first couple of years, whilst  
16 the reform process was being driven through. After that a  
17 system was introduced which was a system whereby councils  
18 could increase their rates up to 5 per cent without any  
19 questions, just by going to the community, doing a normal  
20 budgeting process, going out, putting the budget on  
21 exhibition and getting submissions back from the community.  
22 Anything between 5 and 10 per cent they had to give an  
23 explanation to the minister. The minister would either  
24 accept that explanation or not, and after 10 per cent,  
25 basically the Department of Local Government sent in the  
26 investigator because you couldn't manage. It was as blunt  
27 as that. That was in place for a couple of years and after  
28 that the minister removed any capping, and it's really now  
29 a matter of each council having to be accountable to its  
30 community for the rates it sets each year.  
31

32 I think councils generally are pretty reluctant to put rates up  
33 beyond what the community's capacity is to pay or being  
34 prepared to pay. I mean it is a political decision, and councils  
35 do expose themselves to considerable community  
36 criticism if the rate increases are beyond what the  
37 community believes that they should be.  
38

39 In terms of a framework, I think that framework set  
40 against the sort of objectives that are outlined in the  
41 paper, personally I would say the council should be able to  
42 decide and be accountable to their community and take the  
43 community's backlash if they don't get it right, but if  
44 some other system needs to be put in place to put a type of  
45 framework around it, I would be saying it should have some  
46 sort of system where there's a percentage increase which is  
47 beyond CPI, up to which councils can increase their rates

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1 without any question from the government, and beyond that  
2 they have to give some explanation. But, it's not a  
3 question for putting in a submission as giving an  
4 explanation as to why the rates should be increased beyond  
5 a certain level. That is the nub of the issue.  
6

7 MR BALL: The question I have difficulty in answering is  
8 are we talking about a removal of rate pegging or not?  
9 That is a political decision and you have referred to that  
10 earlier. But, I found myself substantially agreeing, and  
11 only substantially because I don't agree with everything  
12 they say, with the Treasury submission. I suppose if we  
13 like to play semantics, if we want to change rate pegging  
14 to rate control, to rate management, then we can probably  
15 satisfy the requirements by looking at a different process  
16 without losing what might be perceived as the benefits of  
17 rate pegging at a State level.  
18

19 What Treasury, if I can summarise what they said,  
20 finished up saying was this submission finds the arguments  
21 points towards an option that regulates a process of rate  
22 making rather than rate outcomes. I think that is quite  
23 important. If we transfer from rate pegging to rate  
24 management, or rate control, then we can think more about  
25 the process rather than the actual outcomes.  
26

27 The second part is the role of IPART and Treasury  
28 finished up saying it's separating policy determination  
29 from policy implementation increases transparency and  
30 efficiency of governance. I think that is important as  
31 well. There has certainly been criticism of fact the  
32 Minister determines it. It isn't transparent. It  
33 certainly is not an open process and if we are going to  
34 have rate pegging, rate control, rate management, however  
35 you like to call it, then we certainly need a more open  
36 process, one that can even be challenged, if necessary, but  
37 a more open process and I would for IPART to do that than a  
38 political instrumentality as an independent pricing  
39 regulatory tribunal and be determining it.  
40

41 MS ROLFE: Could I put in a plea? We are talking about  
42 what objectives a regulatory framework might have. I would  
43 think that an objective regulatory framework would aim for  
44 an equitable contribution of rate revenues to activities  
45 that have a general benefit. By that I mean not a niche  
46 benefit. A reasonable stability of rate impost from year  
47 to year. Recognition of the social inequities inherent in

1 the present property value based rate system. I refer  
2 there particularly for your areas of reference to the Local  
3 Government Managers Association submission. Equitable  
4 contribution by users of council services to the costs of  
5 providing those services, and accessible. That means  
6 understandable reporting to ratepayers in their role as  
7 captive financiers of councils.  
8

9 I think it's important to remember that rate pegging  
10 presumably started with some concern about ratepayers, and  
11 if there is no concern evidenced about ratepayers in the  
12 future, then rate pegging, as it stands presumably, will  
13 continue. I would advocate some changes in the technology  
14 of it but I don't think it's for me to do that today.  
15

16 There is within that a great deal of scope for IPART  
17 to be useful and to contribute important things. Robert  
18 has just mentioned the element of the Treasury submissions  
19 that I found intriguing, because I didn't know what the  
20 process of rate making that they meant was meant to  
21 signify. I think, with my devious mind, there is some  
22 scope for intelligent work by IPART. I would like to see,  
23 as I have said, IPART advocating at least a defined minimum  
24 obligatory role for council and revision of the terms of  
25 Library Act, which talks about separating operational and  
26 capital expenditures. Shall we say, restraint falls on its  
27 head when you remember that a library's purchase of books  
28 is capital expenditure. This is one of those strange  
29 accounting anomalies that council has.  
30

31 I would like to see IPART adopting a version of the  
32 auditor's role that is used in the domestic waste  
33 management charge arrangements extended to the  
34 expenditure on traditional local government services.  
35

36 It could be a back stop of assurance for users that  
37 user charges are, in effect, set appropriately. That is, I  
38 think, an assurance that is needed for those services that  
39 councils supply at a charge as a locally monopolistic  
40 supplier. That is my approach to your diversification  
41 issue. A council maybe the only available supplier in  
42 parts of the bush. I know plenty where it is. In the city  
43 it's a bit different.  
44

45 I think, I agree with - I can't remember who it was -  
46 a mechanism for supervision of council rate increases based  
47 on costs that are relevant to local government. The

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1 consumer price index of expenditures is nonsense in this  
2 account. The plumber of local government should be able to  
3 index its rates by at least that much is a meaningless sort  
4 of exercise. That is really what I want to say for the  
5 present.

6  
7 MR BURGESS: The preference of Blacktown is the abolition of  
8 rate pegging. We do cite two other alternatives. To  
9 justify why we would like the abolition of rate pegging, it  
10 is worthy to note some statistics of our council and  
11 compare them to others. Blacktown has stats that are  
12 consistent with other councils and others which are  
13 exaggerated. We have a very high proportion of young  
14 people: we have one in three people under 25. In terms of  
15 people from non-English speaking background, it's high. It  
16 was 140 languages spoken in Blacktown. There's a measure  
17 of the relative social disadvantage of areas, and we have  
18 suburbs which are right on the average of Sydney and other  
19 suburbs which are way, way down. That poses lots of  
20 challenges.

21  
22 The other big challenge we have got is we are a  
23 rapidly growing council, population 300,000. Estimation  
24 that could reach 400,000, possibly 450,000 over the next 20  
25 years.

26  
27 The stats are in our paper. Our annual fuel costs has  
28 gone up by 11 per cent per annum. That is not necessarily  
29 just the cost of fuel, but the increased number of vehicles  
30 we have had to use to maintain our parks and reserves. Our  
31 road network increases by 25 kilometres plus a year. Our  
32 software costs have gone up 23 per cent a year because we  
33 have had to provide new PCs. The reason we think maybe a  
34 one size fits all approach may not work is that local  
35 government, by its nature, is quite different. Some  
36 councils are small, there's reasonably affluent areas that  
37 can charge more for service, other areas in the bush are  
38 different.

39  
40 In principle we support IPART having a recommendation  
41 role in terms of rate pegging, but it should be only a  
42 guide. Our preference would be if that was to happen in  
43 lieu of complete abolition of rate pegging that local  
44 government extensively is involved. We find through the  
45 budgeting process, we are doing our budget for next year  
46 now. We don't know what the rate pegging will be and that  
47 is the case each year. It's very hard to do long term - we

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1 are told we should do long term management plans, financial  
2 plans, but when you have got no surety over your revenue,  
3 this year we lost 300,000 because the rate pegging was 3.2  
4 per cent not 3.5 per cent. I don't believe we don't know  
5 why it was lower the year before and year before that.  
6 It's not like 3.2 per cent is calculated with regards to  
7 this and this. It's a subjective reference.

8  
9 If the responsibility for at least setting a limit was  
10 transferred to IPART our preference would be it's done in  
11 advance in consultation with councils and we are given the  
12 opportunity, a bit like the management plan, 28 days  
13 exhibition period, that IPART would have to exhibit the  
14 rate pegging for 28 days. We could say during the course  
15 of this year you may need to make it higher or lower.

16  
17 The other point too, I think accountability seems to  
18 keep coming up a lot in this discussion. If there was a  
19 complete abolition of rate pegging, I know personally with  
20 our council and most others there would still be a limit  
21 where we could go. When we set our rating structure each  
22 year, the first thing councillors ask is "How do we compare  
23 to Paramatta?". You have to explain there is differences  
24 in how much you get from businesses and residential. They  
25 take pride in our rates being low, lower to the other  
26 councils. They don't want to see us going to the upper end  
27 of councils. There is a pecking order. There are plenty  
28 of checks and balances. If there was an abolition of rate  
29 pegging, councils are responsible by definition. We are  
30 the most scrutinised tier of government in my opinion.

31  
32 In summary our preference is the abolition of rate  
33 pegging. If there was not the abolition of rate pegging an  
34 option is where IPART set an indicative guide of what  
35 capital works should be and, thirdly, if that still is not  
36 satisfactory, IPART setting a limit but councils  
37 demonstrate good governance, demonstrate commitment to  
38 improve our set management, that sort of thing, can still  
39 go a way without the usual special variation.

40  
41 THE CHAIRMAN: Can I clarify your proposal in one point?  
42 It's where IPART had some sort of guidance. What I have  
43 heard is that IPART, in providing guidance, would have  
44 regard to the costs that councils face, described as a  
45 local government CPI, I correct that slightly, in saying  
46 local government price index, price index by local  
47 government. What I get from Blacktown is different because

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1 you have a very fast population growth and if you just  
2 looked at how much the costs were rising, the inference I  
3 drew was that that wouldn't satisfy you because your  
4 population is rising.

5  
6 If that is a correct inference, I want to understand  
7 it better. At the same time as your population is rising  
8 so is your number of ratepayers rising, so why wouldn't a  
9 price index that applies to all other councils equally  
10 apply to you?

11  
12 MR BURGESS: In new release areas expectations are that all  
13 community structures are built up front. In the olden days  
14 a building would happen, later a footpath would come,  
15 kerbing would come later. The expectations for our  
16 communities is it's there now. The emphasis on community  
17 infrastructure and human services is a lot higher now in  
18 growing councils than it was 20 years ago. The statistics  
19 now say the percentage of our budget has gone up an  
20 increase of 7 per cent towards human services than what it  
21 was ten years ago.

22  
23 You could say that we are socially disadvantaged. We  
24 have a lot of people, immigrants coming to the country,  
25 which for various reasons they might find it hard to  
26 integrate. We have to provide greater community services  
27 to those people, help them find employment, that sort of  
28 stuff.

29  
30 The inference that for every new house that is built  
31 you get the rates to cover the service. That isn't it  
32 case. We are finding for every new block we subdivide the  
33 additional rates, income we get is covering a smaller and  
34 smaller percentage of the increased cost of services in  
35 those areas.

36  
37 There are plenty of old established areas in Blacktown  
38 too. I guess my point was that we have some unique  
39 characteristics. I'm sure every other council here could  
40 target other unique characteristics they have - it might be  
41 large areas of bushland, something like that.

42  
43 If IPART were to come down with one single indicator  
44 for all councils, it would be difficult, given there are  
45 152 councils in this state. Of them, most of them have a  
46 unique indicator. That was the point I was trying to make,  
47 growth being one of our unique characteristics.

.29/9/200860

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1  
2 MR CARTER: If I might support some of that, one of the  
3 issues we raise in our paper is the fact that City of  
4 Sydney is quite different in its demographic. I support  
5 Wayne's view in the fact that the challenge here is the  
6 fact that each of the local government areas is so  
7 different. Not all of the growth is horizontal going out  
8 to new areas, some of it is vertical with more units. We  
9 are in a situation now where 75 per cent of our ratepayers  
10 pay the minimum just because they keep going up. The  
11 unimproved land value doesn't keep changing. You know  
12 what I'm saying.

13  
14 The point, whether IPART sets the rate or the minister  
15 sets the rate, no one rate is going to be applicable to all  
16 the different local government areas. One of the  
17 suggestions that was asked was should they set a rate for  
18 every council. I would like to know how they will do that  
19 administratively.

20  
21 THE CHAIRMAN: So would we. You won't get opposition  
22 on that.

23  
24 MR CARTER: Exactly right. Are you going to do it by the  
25 11 areas? The 11 areas isn't going to cover it either.  
26 Area by area they are all very different.

27  
28 The other thing that hasn't been mentioned today, that  
29 I haven't heard, is when they instituted rate capping you  
30 started from the base you had. Nobody ever asked you  
31 whether you had the right base to start with. The City of  
32 Sydney wasn't so much disadvantaged on that point. We  
33 started with a pretty good base, but there were a lot of  
34 councils that were just lumped with whatever it was at that  
35 point. That has gone on and on forever. In fact, it has  
36 got exacerbated because as you get 3.2, it has gone up by  
37 4.3, you fall further and further behind. Even if you  
38 start rate cutting from now on, for God's sake, fix the  
39 base first so people start from the right point.

40  
41 I think probably what we do need to do is move ahead  
42 with this integrated planning. It is obviously the right  
43 framework to do it. As many people have mentioned, you  
44 have got your asset management plans, you have got your  
45 long-term financial plans, you can set those plans in place.  
46 You can communicate with your local communities and  
47 all the other stakeholders involved. You can show them

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1 what you are going to do, what you aren't going to do, what  
2 it is going to cost, and you can have that dialogue. In  
3 fact, you can make the dialogue longer if you want to make  
4 it longer than the 28 days, but have the dialogue. What is  
5 happening at the present time - and this is just  
6 arbitrarily deciding what the rate is - is there is no  
7 dialogue at all. So I think we are falling further and  
8 further behind.  
9  
10 In terms of the regulatory framework other than the  
11 rates, we have got a whole lot of fees and charges set by  
12 the state when you talk about development application fees.  
13 Now, those development application fees seem to be set from  
14 the point of view that it is important that everybody have  
15 equal access to or a fair charge if they want to put a  
16 development application in, but they are set right across  
17 the state. You can't tell me the costs of providing a  
18 service in Sydney are the same as they are at Brewarrina,  
19 or any other council for that matter, and that is fine, but  
20 when we come to rate capping it seems to be that "one size  
21 fits all" is a really good argument. It doesn't make sense  
22 at all.  
23  
24 We would prefer to see it set fit for purpose. We  
25 would like to see long-term plans, both financial and  
26 corporate plans, auditable so people understand what they  
27 are and you start from a set point and you either deliver  
28 it to them or not, and when you go to the electorate the  
29 next time around, they get a chance to see did you actually  
30 do what you said you were going to do, and they can mark  
31 you accordingly.  
32  
33 THE CHAIRMAN: I'd like to get a little bit of  
34 clarification about what IPART can do - whether it should  
35 do it is a different matter. What it can do is IPART can  
36 work out the change in costs, we can produce a price index  
37 for local government. That is something we could do. That  
38 is the bread-and-butter business of IPART. It does it for  
39 utilities, and so on, in the public sector.  
40  
41 We are not well equipped to look at whether someone  
42 has got the right base where they are starting from. If  
43 that is an issue, then you would have to look at another  
44 mechanism in a regulatory system to redress their base.  
45  
46 One possibility Ms Holloway put on the agenda, in  
47 effect, was the compromise in Victoria, where you can

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1 redress your base but you have to explain why you are  
2 redressing your base, you have to convince people that it  
3 was necessary to redress your base. We wouldn't be well  
4 equipped to deal with someone who for one reason or another  
5 their base was unsatisfactory. We can look at what the  
6 change in costs are in recent times, how much rates revenue  
7 might respond having regard to that change, but we can't  
8 look at base issues council by council. You would really  
9 need to think of another regulatory approach to do that.  
10  
11 MR CARTER: That's right, in which case you need another  
12 mechanism.  
13  
14 Could I just put one more while I'm here? If the  
15 3.2 is set from an efficiency and equity point of view,  
16 being what the ratepayer can afford to pay to keep those  
17 local government services rolling on, it is very difficult  
18 to understand how that can be put at the same time as when  
19 you're looking at putting payroll tax liability, fire  
20 services, and saying that local government can afford to  
21 change their rate cap to accommodate those services, but in  
22 terms of their normal service delivery, the ratepayer can't  
23 afford to pay anymore. It just flies at the odds.  
24  
25 MS HOLLOWAY: We were just talking before about the  
26 option of perhaps having a differential rate cap across  
27 New South Wales. Can I just urge that that not be  
28 considered. I think there would be an argument between  
29 councils about whether they fit into this group or that  
30 group depending on what the percentage was, and I think it  
31 would be an absolute nightmare to not only try to figure  
32 out what a differential rate cap should be, but also then  
33 dealing with all of the arguments about whether people were  
34 in group A or group B because of their circumstances.  
35  
36 I think the system has to be one that is right across  
37 the whole state. I think the problem is that the rate cap  
38 is set not at the local government price index, but some  
39 other one, and if there was the opportunity to move within  
40 a certain range, then councils could choose, once again  
41 with respect to feedback from the ratepayers, where they  
42 put themselves within a particular range. I think that is  
43 going to be a much better approach than trying to set some  
44 sort of cap which then applies differentially across a  
45 number of different councils.  
46  
47 THE CHAIRMAN: Just to tease that out a bit further - I'm

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1 not disagreeing with you, I just want to understand it -  
2 there are at present 11 categories of councils, so what I'm  
3 trying to understand is you don't choose which category you  
4 are in - you are in it and that is that, isn't it?

5  
6 MS HOLLOWAY: Yes, but I can just imagine group 1 might  
7 get a 3.5 per cent increase and group 2, a 3.3 per cent  
8 increase. If I were in group 2 I would be arguing why that  
9 was a really poor decision.

10  
11 THE CHAIRMAN: You couldn't say, "I want to switch".

12  
13 MS HOLLOWAY: I would be trying to make a case to switch  
14 from group 2 to group 1.

15  
16 THE CHAIRMAN: As I understand these categories, they  
17 don't have a lot of acceptance as being distinctive.

18  
19 MR GREENWOOD: They're not even accurate anymore.

20  
21 THE CHAIRMAN: That's what I want to understand, what is  
22 the validity of these categories.

23  
24 MS HOLLOWAY: Can I just say, in relation to 3.2 per cent  
25 and the decision that was made with the last one, as far as  
26 an explanation being given as to why the percentage was set  
27 at 3.2 per cent as opposed to anything else, the only  
28 explanation given by the minister in a press release was  
29 that the people were having a hard time paying their  
30 mortgages and, therefore, local government rates shouldn't  
31 go up too much. I couldn't actually see the relationship  
32 myself between people being able to pay their mortgages and  
33 what local government rates should go up, but that was the  
34 only explanation given in the press release for why the  
35 amount was 3.2 per cent.

36  
37 MR GOODING: Just a brief comment. We were talking  
38 previously about the origin of rate pegging. I think one  
39 of the points to remember is that when rate pegging was  
40 introduced, it was introduced in a fairly arbitrary manner  
41 and, as a result, it was sort of like a snapshot that was  
42 taken of the rates at the time in the various councils.  
43 Because they were expecting it to happen, those rates  
44 didn't necessarily reflect then, and certainly don't  
45 reflect in the time since, the varying circumstances those  
46 councils found themselves in.

47

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1 Whilst there have been rate variations, and so on,  
2 there is still a fundamental problem facing the system  
3 about how those rates were captured at that time and how  
4 they have been adjusted ever since. If there were to be a  
5 continuation of it, at the very least, we would need to  
6 re-examine the whole basis of the system.

7  
8 THE CHAIRMAN: I got the impression from Hornsby if the  
9 pips really were squeaking in terms of your base then you  
10 put in a special application and I was advised that they  
11 were all successful.

12  
13 MR McBRIDE: I would just add that in the last two or  
14 three years the history has been that the past couple of  
15 ministers have been quite accommodating. The history over  
16 the long term doesn't demonstrate that same success rate.

17  
18 If looked at more closely, there was some work done  
19 by someone - I can't remember his name - that shows that it  
20 was fairly erratic over many years, not explainable by the  
21 quality of applications or any other rational factors.  
22 There were often obviously political factors singling out  
23 particular councils or groups that may have come into play.  
24 Certainly in the last two or three years, that doesn't  
25 appear to have been a problem, but the discretion still  
26 exists in that system for that to emerge again; it is only  
27 because we have been fortunate for the last few years.

28  
29 THE CHAIRMAN: The point I was trying to address is just  
30 how problematic the base is at the moment, given our  
31 inability to vary them. We can produce an index which  
32 tells you what the change has been, but picking out which  
33 councils have an unequal base is a task that would be very  
34 complicated.

35  
36 MR SEWELL: I think most councils' base should be around  
37 about what their community can afford at the moment. There  
38 has been an enormous amount of time to catch up and deal  
39 with disadvantages when rate pegging was first set. That  
40 is hardly a sustainable argument.

41  
42 I think there are a lot of professionals in the  
43 industry now at a very high level, but like your community,  
44 there is a very high level of education in your community  
45 and you are very transparent now in the dealings that you  
46 have with your community.

47

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1 I agree with Bill and Penny in as far as the  
2 integrated reporting framework seems to have set a  
3 framework in place now where you need to incorporate a  
4 long-term financial plan. That may allow for the setting  
5 of a local government index within a certain standard  
6 deviation of maybe a couple of per cent where councils  
7 should be able to go in terms of asset management and being  
8 sustainable in terms of the services they provide and the  
9 level of service they provide for the money.

10  
11 I think that there is a general recognition that we  
12 would like to get rate pegging or rate setting, or whatever  
13 they like to call it, out of the political framework and  
14 for an independent authority to set those parameters within  
15 which we need to report.

16  
17 I think IPART could have that role and I think that  
18 the local government index, combined with integrated  
19 reporting, may provide a foundation where we might be able  
20 to move forward in changing the system.

21  
22 MS HUSKING: Can I just lend some support to that. If  
23 rate pegging remains, I think with this whole exercise  
24 there could be two really good improvements to come out of  
25 it. One is IPART's role in setting that maximum. It is a  
26 more transparent political process, and I think that is a  
27 step forward. The other improvement that I think could  
28 take place would be - and Michael raised this one  
29 before when he talked about the longer term - if there was  
30 some sort of three- to four-year indication of what that  
31 increase is going to be, again determined by IPART, but  
32 perhaps on a rolling basis. We're required to give  
33 three-year plans and most of us are doing that, doing a  
34 10-year plan, but at least if you had that indication, it  
35 would just provide that bit more certainty in the whole  
36 process.

37  
38 I just think they're two easy wins. I think about  
39 this whole paper and what's come forward there. They are a  
40 couple of things I think are really possible to come out of  
41 it.

42  
43 THE CHAIRMAN: That is an interesting thought. I guess  
44 the thinking to date, as I interpret it, was that we would  
45 measure the increase in costs over the last 12 months and  
46 that would provide a guide for fixing rates in some way  
47 over the next 12 months. However, we do do price

1 determinations which run over four year and, therefore, we  
2 have to look ahead, so it is possible to do it that way.  
3 If that is what you are suggesting, we ought to think about  
4 an option which looks four years ahead, and we would only  
5 do it once every four years in that case, but then you're  
6 stuck with it for four years.

7  
8 MS HUSKING: I thought it might be hard to set something  
9 for four years, but I thought if every year the following  
10 three years or four years was reviewed, that provides --

11  
12 MR COX: I think it would be difficult for us to do an  
13 individual price path for a large number of individual  
14 local authorities each with different circumstances.

15  
16 MS HUSKING: Coming back to your point, I like the  
17 simplicity of the system, the one local government price  
18 index. We're always going to have variations. You'll go  
19 mad trying to account for every variation in local  
20 government. And I guess under a regime where rate capping  
21 stays, you still have that fallback of the special  
22 increase.

23  
24 THE CHAIRMAN: We'll think about how long a period we  
25 do it for.

26  
27 MS MILLS: The one issue I have with the local government  
28 index is in fact it is a backward-looking event again. The  
29 price of oil in the last 12 months has been one heck of a  
30 roller-coaster, and oil drives so many of local government  
31 costs it is not funny. Bitumen comes out of it. Fuel is a  
32 minor part. The fuel for our vehicles is the minor part of  
33 it. The bitumen and road costs are just exorbitant and,  
34 again, predicting where that might go in the next  
35 12 months - we buy in the market on today, so setting 3.2  
36 or whatever and we see the price of oil going from \$70 a  
37 barrel up to \$140, as it was, is just an incredible change.  
38 I can't see that IPART or anyone else will be able to do a  
39 good job of predicting the future.

40  
41 THE CHAIRMAN: The same way as when you set your  
42 rates. You set them once and you have to live with them for  
43 12 months. That is just a risk in a volatile world.

44  
45 MR LEWIS: Our position is, I guess, a philosophical one  
46 that says that councils ought to be held accountable for  
47 their actions and their decisions. The proposed framework

1 that the department is looking at is an interesting step  
2 forward. It provides directions for the councils to take  
3 in that you sit down and you work out where you are going  
4 to be. Overlaying that with some forward estimates of a  
5 price index would have to be somewhat sophisticated,  
6 because the difference between the metropolitan area and  
7 the country is quite vast and there needs to be a degree of  
8 accommodation of those cost increases, particularly out  
9 west.  
10  
11 Any council that then moves well beyond the determined  
12 index that IPART may produce ought to be then subjected to  
13 a greater degree of scrutiny by the government. The  
14 concern I have about IPART taking over full responsibility  
15 is that it somewhat lets the government of the day off the  
16 hook from having to make political decisions and being  
17 accountable for those.  
18  
19 In summary, we would take the view that councils  
20 should be able to make their own decisions, they should be  
21 held accountable for those, there should be some degree of  
22 assistance in setting the likely future price indices that  
23 are likely to be affected. Any council that moves too far  
24 beyond those levels then ought to be subjected to a higher  
25 degree of scrutiny from the department.  
26  
27 MR COX: If I can just come in, you mentioned there might  
28 be a number of indices - one for the city, one for the  
29 country. I guess I would be concerned not to have too many  
30 separate indices.  
31  
32 MR LEWIS: I understand that. What I would suggest to  
33 you, though, when you move west of the divide, when you  
34 get into some of those, particularly in the western areas, the  
35 cost of delivery of services out there is fundamentally  
36 different, times two, inside, if you like, the east coast  
37 corridor.  
38  
39 THE CHAIRMAN: Even out there, the question is whether  
40 the change in the cost each year is very different.  
41  
42 MR LEWIS: I think it is --  
43  
44 THE CHAIRMAN: I accept that the actual cost is much  
45 higher, but whether the change in the cost from one year to  
46 the next --  
47

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1 MR LEWIS: To pick up the issue about fuel, I think you  
2 will be getting extraneous cost increases like that that  
3 will have a disproportionate increase on those who rely on  
4 transport a lot.  
5

6 MR McBRIDE: With our submission, the association  
7 submission, we did submit a copy of a local government  
8 price index that was developed by the association a few  
9 years back by National Economics. That probably needs  
10 refinement and a greater level of sophistication, perhaps,  
11 but I just wanted to remind you that that is on the table  
12 as a starting point. Also, the Local Government  
13 Association of Queensland publishes an index annually.  
14 They don't have rate pegging, it is just provided as a  
15 benchmark guide to councils in determining their rates in  
16 Queensland - LGAQ.  
17

18 MR ROGERS: Just a comment on the idea of the development  
19 of an index. It hasn't been mentioned yet, and I don't  
20 know enough about it myself, but I think the sleeper in the  
21 room is climate change. Local governments are very high  
22 users of energy - petrol, electricity, gas. I don't have  
23 the figures, but my environment section at work tells me,  
24 "You have to start getting ready for some serious increases  
25 in electricity costs and serious increases in water usage,"  
26 and so on. It is good to have an indicative rate for the  
27 next four years, but until some of these costs become more  
28 transparent in terms of what utility rates we'll be paying  
29 in the future - it is more of a comment than anything else  
30 that any new regulatory framework needs to have a focus on  
31 what additional costs will be incurred in local government  
32 through increased charges for addressing climate change.  
33

34 THE CHAIRMAN: That advice in favour of our starting  
35 point, which was a one-year index.  
36

37 MR ROGERS: Some of the statistics I have been given are  
38 quite scary. There is no way with rate pegging we could  
39 afford those increases.  
40

41 THE CHAIRMAN: Other comments?  
42

43 MR GOODING: I would just like to come back to the point  
44 that you made to start off with. At least in the case of  
45 western Sydney, the majority of councils did favour either  
46 complete abolition of rate pegging or a version of option 4  
47 with some modifications, and that remains the default

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1 position. In other words, the index would be a guide and  
2 would also be relevant if councils didn't meet those basic  
3 criteria that you propose for option 4. The representative  
4 from Hornsby said the treasury submission was about  
5 regulating the process of setting the rate rather than the  
6 rate itself. I think that option 4 is the preferred option  
7 and option 5 is not politically possible.

8  
9 THE CHAIRMAN: Before we move to the final session,  
10 I would just like to summarise a little bit what I have  
11 gathered from this - I can't speak for my colleagues yet  
12 because I haven't consulted them.

13  
14 I think, to start with, that treasury submission is  
15 something we will give thought to, the process. You can  
16 have a deregulated system where it is local government that  
17 runs the process, each local council runs the process and  
18 they just have to satisfy the authorities that the process  
19 met democratic criteria, or whatever, or you can have it so  
20 that it is like option 5 where it met democratic criteria  
21 in terms of accountability, and so on, but also had regard  
22 to a publicly available price index. That means that there  
23 probably is value in IPART preparing a cost index or a  
24 price index for local government, at least as part of the  
25 accountability mechanism, even if it weren't a controlling  
26 mechanism.

27  
28 The reason I say IPART is there was a general  
29 consensus, with possibly one or two caveats, about making  
30 it nonpolitical, and certainly as an information advice  
31 there are very good reasons for making it non-political.  
32 No-one wants the government of the day to control its  
33 statistics bureau, for example. The reason why we believe  
34 in a price index is precisely because they are not subject  
35 to political interference.

36  
37 I think the issues for us are how far we would seek to  
38 differentiate the price index by region or type of council,  
39 or just have one. We certainly don't want to have a lot.  
40 My colleague registered that already, and I agree with him.

41  
42 There is a question about how forward-looking we try  
43 to be. As has been pointed out, it is always difficult to  
44 forecast, and it is possibly more difficult than ever right  
45 now.

46  
47 The issue also is how far the system allows for

1 exceptions and how do you become an exception and on what  
2 basis. The present system allows for exceptions - you can  
3 argue exceptional circumstances. One extreme is everybody  
4 can be an exception if they want to be - that is  
5 deregulation, pretty much. The difference between 4 and 5  
6 is really the ease of becoming an exception, I think. That  
7 is the way I would see it. That is something that we'll  
8 obviously have to think about.

9  
10 I also have to say, with the exception of Eurobodalla,  
11 all of the councils here today are from the City of Sydney  
12 and we have an extensive program of consultation with  
13 regional councils, so I just put the caveat up for them.  
14 They may have a different view on some points. That is  
15 what I have got out of this session.

16  
17 Michael, would you like to introduce the last session?

18  
19 MR SEERY: The last session is a fairly short session.  
20 What we thought we'd do is give everyone on the table the  
21 opportunity to summarise what they see as the two key  
22 priorities if we were to reform local government revenue  
23 frameworks in New South Wales. It is a fairly simple task:  
24 what are your two priorities for reform?

25  
26 MR BALL: I suppose, simplistically, I would come back to,  
27 one, that a non-political body determine the local  
28 government price index or some rate control amount; and,  
29 secondly, that hopefully we can concentrate on the process  
30 rather than the actual rate outcome.

31  
32 MR McBRIDE: The first priority is that the system provide  
33 a basis for financial sustainability of the councils. From  
34 our point of view, I think that another priority would be,  
35 now that we have the opportunity, that we link it to the  
36 integrated planning and reporting system and the long-term  
37 financial planning and asset management and use it to  
38 bolster that as an opportunity to adopt those systems  
39 throughout the state.

40  
41 MS ROLFE: I'm taken aback by consolidating everything into  
42 two.

43  
44 THE CHAIRMAN: Two highest priorities.

45  
46 MS ROLFE: One clearly is the recognition of ratepayers and  
47 not the community. They are a sub set. They deserve

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1 respect and should have it. That is one.  
2  
3 The other one, I think, is it would make a big  
4 difference if councils were required in the process of  
5 setting their revenues, as opposed to their rates, to  
6 justify those occasions where they charge less than the  
7 cost of provision of services in their user charges, and  
8 that means assessment of user capacity to pay. If they  
9 don't assess their users' capacity to pay then it would be  
10 my view that de facto they should charge users full costs.  
11 If they do assess capacity to pay, then the outcome of that  
12 can be public and can be presumably seen to be justified.  
13 That's two, Mr Chairman.

14  
15 MS HOLLOWAY: I would like to go on a little bit from what  
16 Robert Ball said. Having an independent pricing index as a  
17 guide to councils, that is number one, and then councils  
18 able to set rates within a range accountable to rate payers  
19 and subject to external scrutiny.

20  
21 MR HUSKING: I mentioned two before which are the  
22 independence of the local government price index the set  
23 annual guide by IPART and the forward years projections  
24 which will be on the basis of annual --

25  
26 MR LEWIS: The first one would be to allow councils to make  
27 their own decisions, and then to be held firmly accountable  
28 for those in the public sense. The second is that the  
29 reporting framework that you need to underpin that is  
30 efficient and effective and not extensive, and if you can  
31 have lead indicators not lag indicators within those  
32 indicators, the reporting framework.

33  
34 MR GOODING: I would be concerned about the impact, the  
35 long term financial sustainability in terms of the income, both  
36 in terms of certainly looking at the capacity of the  
37 councils to set their own rates, but also to look at trying  
38 to set or establish some guaranteed share of resources from  
39 the federal government.

40  
41 The second priority would be to try to address the  
42 issue of cost shifting to make that much more transparent  
43 and to make it much harder for other legs of government to  
44 shift costs without shifting some sort of economic base,  
45 appropriate level of basic overlap.

46  
47 MR MILLS: I would like to see IPART recommend that a

1 simplification of the rate determination methodology, and  
2 to put controls on limits on the lower side of things, so  
3 the likes of Brewarrina Council wouldn't have to seek an  
4 approval to increase \$1.60 to \$3 a week. Those councils  
5 need some freedom.

6  
7 I would like to see IPART provide a local government  
8 index as a guide to councils, but councils still take  
9 responsibility for whatever level of rates they choose,  
10 which could be in excess of it but they need to justify it  
11 to their community.

12  
13 MR ROGERS: The first one would be to enable councils to  
14 better raise the level of revenue they need to remain and  
15 ensure their long term financial sustainability whilst  
16 still living within their means. The second one is give  
17 councils greater discretion to set their rates through a  
18 more objective and transparent process than what currently  
19 happens under rate pegging.

20  
21 MR GREENWOOD: The pricing index for local government  
22 should be set by IPART, and that IPART would then set a  
23 range in which local government can then set its rates, and  
24 also to retain the ability for councils at a special case  
25 to put that case.

26  
27 The other thing would be for IPART to raise the issue  
28 of cost transfers from other levels of government and also  
29 to look at councils getting a reasonable share of the total  
30 tax revenue. The Whitlam and Frazer governments were  
31 looking at 2 per cent of the total tax dollar going to  
32 local government and it is now down to about 1 per cent.  
33 We need to look at that in terms of local government being  
34 sustainable in the future.

35  
36 MR KLUDASS: First of two parts: One, would be to encourage  
37 IPART to work in conjunction with the Department of Local  
38 Government in the work they are currently doing with  
39 respect to the planning and reporting reform agenda. I  
40 think there are concerns I am hearing today with  
41 accountability and efficiency that I think can be addressed  
42 through that process, through that forum generally.

43  
44 The second thing is I believe that once that framework  
45 is in place and it's enshrined, the accountability and  
46 efficiency and so forth, the decision for annual rating  
47 increases is clearly one that is a matter for councils and

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1 the community to determine.

2  
3 MR SEWELL: Yes, certainly for me an independent local  
4 government index which flows into your rates and your fees  
5 and charges. I mean with that has to come accountability  
6 in our reporting.

7  
8 MR CARTER: For city it would be the long-term integrated  
9 reporting to come in which recognises the difference of  
10 each LGA, let's each council go to their community with a  
11 financial model which they think it's appropriate taking  
12 into the local government being accountable for what you  
13 believe yourself.

14  
15 The final point would be the long term financial  
16 sustainability and try and control the limitations of the  
17 cost shift coming from the state over and making us  
18 unsustainable.

19  
20 MS LARKIN: Two points I would like to raise which I have  
21 raised in our submission. We agree with the removal of  
22 rate pegging to reduce the reliance on new home buyers to  
23 pay for whole of community infrastructure, and rate  
24 increases, if necessary, should be a broad based approach  
25 across the greater proportion of people broader than expect  
26 home buyers to supply infrastructure that will benefit all  
27 of ratepayers. If rate pegging is removed it's important  
28 to ensure that council's expenditure is accountable and  
29 transparent for all the community.

30  
31 THE CHAIRMAN: In closing the meeting, I won't try to  
32 summarise. We have just gone around the table and that  
33 actually was a very good summary of the issues we need to  
34 look at, I think. It's superfluous of me to say any more.  
35 Nevertheless, I think there are a couple of things I want  
36 to emphasise. Firmly under the agreement that an index  
37 should be provided, some would say as a guide to councils  
38 as part of their accountability mechanism, others would  
39 say, I suppose what we call the pragmatists, they would say  
40 have some role in setting rates, providing a benchmark for  
41 that.

42  
43 I think that the general recognition ought to be  
44 linked with accountability mechanisms and there is scope to  
45 rationalise some of the accountability mechanisms to make  
46 them more effective. There is a fair amount of agreement  
47 on what the objectives in the regulatory system should be,

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1 but particularly in terms of financial sustainability of  
2 local government, which lead to a number of suggestions  
3 that priorities were to, I guess, particularly the federal  
4 government, who are not represented at this Inquiry, but  
5 are that they should provide enhanced assistance. How far,  
6 that's something for IPART to reflect on.

7  
8 I just also want to pick up the sense that regulatory  
9 reform should look at where tasks have been loaded onto  
10 local government and who takes the cost of that. I want to  
11 go a step further on that, when the representative from the  
12 Sydney City Council emphasised the need to look at roles  
13 and responsibilities, and I think if we were to pursue the  
14 issue of cost switching and what have you, we need to look  
15 also at roles and responsibilities. That's the only way to  
16 intelligently define what is a cost switch and get a degree  
17 of agreement on that.

18  
19 In conclusion, I would like to thank you all for your  
20 participation today. I was reminded fairly early on you  
21 have been through a number of these inquiries over the  
22 years. There is a sense of deja vu for some of you. We  
23 found it helpful for our part. We certainly do have the  
24 Inquiry in the expectation, and the hope that we can  
25 achieve something that will be useful to you by the end of  
26 the time.

27  
28 Thanks very much for your cooperation and assistance.

29  
30 AT 4.41PM THE TRIBUNAL ADJOURNED ACCORDINGLY

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