

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF REVENUE FRAMEWORK FOR LOCAL GOVERNMENT

Tribunal Members

Dr Michael Keating AC - Chairman
Mr Michael Seery, Secretariat
Ms Joyce Tapper, Secretariat

**Held at the Novotel Pacific Resort,
Pacific Highway, Coffs Harbour**

On Tuesday, 18 August 2009 at 10am

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1 THE CHAIRMAN: Good morning everybody. We might make
2 a start. I would like to begin by welcoming you all to this
3 public workshop which is being conducted by the
4 Independent Pricing and Regulatory Tribunal into the review
5 of the revenue framework for local government. I'd perhaps
6 better first introduce myself. I am Michael Keating and
7 I am the Chairman of the Tribunal. With me today are
8 members of IPART's Secretariat. Michael Seery here on my
9 right was the program manager for the local government
10 review, and Ms Joyce Tapper who is not in the room at the
11 moment because she's contacting somebody on my behalf.
12
13 The former Premier requested that IPART undertake a
14 review for the revenue framework for local government. The
15 Premier requested that the review consider three terms of
16 reference and the workshop today will address the first two
17 terms of reference which we were given. The reason for not
18 addressing the third term of reference is that it is of
19 real interest to only a small number of Sydney councils.
20
21 The two terms of reference that are relevant to today
22 are, firstly, an appropriate intergovernmental and
23 regulatory framework for setting rates and charges that
24 facilitates the effective and efficient provision of local
25 government services; and secondly, a role that IPART might
26 have in setting rates and charges in future years.
27
28 This workshop is part of the Tribunal's public
29 consultation process for the review and indeed it is the
30 first of a number of such workshops which will be held in
31 Sydney and in other regional centres over the next four
32 weeks. Some of you may recall that we actually had a
33 workshop here in Coffs Harbour last November as part of the
34 process of getting to the draft report, which is now out.
35
36 Just recapping, during the past year we released an
37 issues paper and we received submissions from local
38 government, interest groups and members of the public in
39 response to that issues paper. At the end of last year, as
40 I mentioned, we held workshops in Sydney and a number of
41 regional centres - including Coffs Harbour - to discuss the
42 key issues that were raised in those submissions.
43 In addition, IPART has undertaken 11 case studies of
44 councils throughout New South Wales - these were deemed to
45 be representative across the spectrum of councils - to try
46 and understand better and in detail the issues that
47 councils face and how they are addressing them. We dealt

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1 in some depth with these 11 councils and went through their
2 books.
3
4 As you're all aware, I'm sure, IPART has recently
5 presented its draft report to the Minister for Local
6 Government and that was released to the public on 23 July.
7 At the same time, we released an information paper
8 detailing our comparative analysis of revenue and
9 expenditure with other states.
10
11 Our report is a draft report and has been released to
12 the public so that we can test the propositions put forward
13 in that report. Some of the propositions would represent a
14 substantial change to the arrangements for controlling
15 local government rates in New South Wales and I want to
16 emphasise that we would like to hear from you regarding
17 both the desirability and the practicality of these draft
18 recommendations. They are not set in concrete and we do
19 want to hear from you regarding their desirability and
20 practicality.
21
22 In total, IPART has made 45 recommendations in its
23 draft report in relation to its proposed framework and its
24 implementation. As regards the rate pegging arrangement,
25 which of course is of principal interest, IPART has put
26 forward two options for further consideration and it is
27 these two options that we would particularly like to
28 discuss in greater detail. The second half of the workshop
29 today will be devoted to those two options.
30
31 Before finalising our report we want to listen to
32 councils and the community on the proposals set out in the
33 draft report and consider submissions from interested
34 parties. Public submissions are due by 18 September, which
35 is about another four weeks away. All of the submissions
36 received will be carefully considered by IPART in reaching
37 its conclusions on the framework for regulating local
38 government rates and revenue.
39
40 I would also like to take the opportunity of thanking
41 those people here today who have agreed to participate.
42 IPART considers this to be a very important part of our
43 investigation. Following consideration of the matters that
44 stakeholders raise in submissions and at these workshops,
45 IPART will make its final recommendations to the Minister
46 for Local Government, via our final report, some time in
47 November, just a few months away.

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1
2 Finally, before turning to the real business of the
3 Tribunal, I'd better say a few words about how this
4 workshop will be conducted. I think you all have available
5 to you an agenda which indicates each discussion topic or
6 session of the workshop. As you have probably already
7 observed, today's proceedings have been divided into two
8 broad topic areas. The first will provide a general
9 overview of the findings in IPART's draft report while the
10 second session will outline how the two options that IPART
11 has put forward in its proposed revenue framework could
12 work.
13
14 The sessions are intended to provide IPART with
15 information to assist us in finalising our deliberations.
16 At the outset of each session there will be a brief
17 presentation to introduce the topic and we will pose a
18 series of questions at the end of that presentation.
19 I will then invite members of the audience to express their
20 views on the issues raised and, of course, if you want to
21 you can further explore the options with questions,
22 et cetera.
23
24 The proceedings are being transcribed and we will make
25 a transcript available of today's proceedings. It will
26 probably be available on our website within the next week.
27 For the benefit of the transcriber, I would ask that you
28 use the microphone and speak clearly and could you
29 introduce yourself and the organisation that you are
30 representing. I will now ask Michael Seery to introduce
31 the first workshop session. Thank you, Michael.
32
33 MR SEERY: Thank you, Mr Chairman. In this first session
34 I will talk about IPART's draft report in general.
35 In particular, I will be highlighting some of the key
36 findings and a couple of the recommendations in the report.
37 As the Chairman has mentioned, in the second session he
38 will be talking about the key elements of the proposed
39 framework.
40
41 As you're aware, IPART has two terms of reference that
42 are relevant to today's workshop. The first required IPART
43 to investigate and make recommendations on an appropriate
44 intergovernmental and regulatory framework for the setting
45 of rates and charges that facilitates the effective and
46 efficient provision of local government services in New
47 South Wales. The second was for IPART to make

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1 recommendations and a role for IPART in the setting of
2 local government rates and charges in future years.
3
4 As the Chairman mentioned, IPART released this report
5 on 23 July this year. At the same time, IPART released an
6 information paper which compared revenue and expenditure by
7 New South Wales councils with those in other states. There
8 are a limited number of copies of the report and the
9 information paper available on the table outside. If you'd
10 like to take one, please take one at the end of the day.
11 If there are none there and you'd still like one, let me
12 know and I can have some mailed to you.
13
14 As the Chairman has mentioned, the report includes
15 45 recommendations and most of these relate to the future
16 arrangement for rate pegging with a key element being the
17 local government cost index. During the next session
18 Dr Keating will discuss the two key options within the
19 framework which we have labelled Option A and the second
20 option is Option A and B operating together.
21
22 What are some of the key findings that IPART has come
23 forward with in this report? Firstly, rate pegging has
24 achieved the government's original objective of restraining
25 rate increases. To deal with this we looked back at the
26 original legislation in 1976 and it was clearly the
27 government's view that its key objective was to restrain
28 increases in rates.
29
30 Over that period rates have increased by less than
31 that in other states but certainly by more than the rate
32 peg amount and this has mainly been due to an extensive
33 number of special variations that have been in place. At
34 the same time, fees and charges and other revenues have
35 increased by more than other states. However, increases in
36 total revenue have been around that of other states. All
37 this information is available in our report and in the
38 information paper.
39
40 Interestingly, over the most recent nine years while
41 half of councils have increased rates by less than the rate
42 peg amount, similarly, half have increased rates by more
43 than the rate peg amount. Many of those have been around
44 about the rate peg amount, but there have been a number of
45 councils that have been significantly greater than the rate
46 peg amount.
47

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1 There is considerable diversity amongst councils which
2 the revenue framework must account for. For example, there
3 are significant differences in councils' ability to raise
4 revenue. For many rural councils this is reflected in
5 higher reliance on grants.
6

7 Councils are currently accountable to the New South
8 Wales Government as well as to the local community, but it
9 tends more to be towards the New South Wales Government
10 than their local community. There has been limited
11 engagement of the community in determining community
12 preferences about revenue and expenditure options. The
13 process for determining the amount by which rates may
14 increase each year is not transparent; that is, the
15 Minister announces a rate peg amount each year, but it's
16 not clear on what this has been based.
17

18 The allowed increases do not necessarily reflect
19 councils' costs. Processes for assessing special
20 variations are not transparent. Most but not all councils
21 are financially sustainable and rate pegging has not
22 adversely affected their financial sustainability. This has
23 been possible because New South Wales councils have met
24 their expenditure and revenue needs through a greater use
25 of user charging, as has been experienced elsewhere. Many
26 councils have applied for and received special variations.
27

28 A minority of councils are not financially
29 sustainable. However, for these councils the removal of
30 rate pegging may not necessarily remove their problems.
31 The financial position of local councils in New South Wales
32 is no worse than in other states. The evidence suggests
33 that a number of councils may be using revenues for capital
34 purposes to fund recurrent expenditure.
35

36 Reporting and accounting of capital expenditure and
37 maintenance is not consistent across councils, but the
38 evidence on the extent of the backlogs is not conclusive
39 and backlogs do not appear to be worse than what they are
40 in other states.
41

42 Finally, the capacity exists for a greater use of debt
43 to fund infrastructure works. These findings have
44 generally been used as the basis for us determining our
45 recommendations. I will just discuss briefly a few of the
46 recommendations that don't relate to the revenue framework.
47

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1 There is scope for improved financial reporting.
2 For example, greater emphasis could be placed on the net
3 operating result excluding capital revenues. This current
4 approach is to actually include capital revenues in the
5 calculation which masks the true state of the affairs of
6 council.
7

8 The maintenance costs relating to public works could
9 be reported better and annual expenditure on renewable
10 capital works could also be reported more. There should be
11 improved asset management based on consistent definitions
12 across councils and the Department of Local Government
13 should lead the way in developing those definitions. There
14 should be regular surveys - say every two years - of a
15 community's satisfaction which are published in the annual
16 report. In relation to rates of revenue, there should be a
17 catch-up mechanism for recovering foregone rate increases
18 and the regulation should be based on rate revenue and not
19 total revenue.
20

21 I would now like to talk briefly about the local
22 government cost index. The local government cost index
23 will be based on an annual movement in costs of councils
24 and a productivity factor. At the moment we would see it
25 as being a statewide index because we believe that it's
26 very difficult to create an index for the large number of
27 councils or individually for councils and the differences
28 may not be that great.
29

30 There would be a basket of costs. It would be a retrospective
31 index, that is, based on information that has been
32 published on how movements in costs have been over the
33 previous 12 months, not a forward-looking forecast of what
34 movements could be in the coming year. The weights would
35 be established every five years based on a survey of all
36 council costs. Importantly, the local government cost
37 index will be calculated by an independent body, such as
38 IPART. The Minister's role would be to determine the
39 annual increases having considered the local government
40 cost index that has been published by IPART.
41

42 With respect to the time frames, we believe that the
43 local government cost index could be in place for rate
44 increases in the next financial year. However, this would
45 require IPART to undertake a survey of all councils towards
46 the end of this year to enable this to occur. Options A
47 and B would commence around the time of the next council

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1 elections and they would not come into place until after
2 the 2011-12 financial year.
3
4 With respect to the timetable for this review, as the
5 Chairman has mentioned, we commenced with the recent
6 Issues Paper in July of last year and we have received
7 submissions and held public workshops and we released our
8 draft report on 23 July. The current process is for us to
9 receive submissions by 18 September and, as the Chairman
10 mentioned, we are holding public workshops over the next
11 four weeks in Sydney, Dubbo, Wagga Wagga and today here
12 at Coffs Harbour. Our intention is to provide a final report
13 to the Minister in mid November of this year. I will now
14 hand you back to the Chair so that he can make any comments
15 or you can ask any questions relating to this session.
16

17 THE CHAIRMAN: Thank you, Michael. I hand it over to the
18 floor for questions and comment.
19

20 MR BOLGER: I am Jim Bolger from Byron Council. One of
21 the issues that was brought up here was that most of
22 New South Wales councils are financially sustainable.
23 I wonder how that has been determined given that most New
24 South Wales councils are yet to do their long-term
25 financial plans and asset condition analysis to determine
26 what they do or don't need over the longer period. Are we
27 talking about them now being financially sustainable in the
28 short term or are we saying that they are in the long term?
29

30 MR SEERY: The analysis we have undertaken in relation to
31 financial sustainability was based on information from the
32 most recent past. It is not looking forward into the
33 future. It does not take into account the issues that
34 you're concerned about.
35

36 MR BOLGER: Given that that's now where the department is
37 heading, that where all councils are heading is looking at
38 their assets, their infrastructure, the large costs they've
39 got to maintain and looking at long-term financial plans,
40 shouldn't they be taken into consideration in determining
41 whether something is sustainable or not?
42

43 MR SEERY: Certainly in the longer term that's the case.
44 For the purposes of our analysis, given the information we
45 had, it was not possible to do that at this stage.
46 We would be waiting three or four years before we could do
47 that analysis if we were waiting for all the councils to

1 provide that information.

2
3 MR MILBURN: Craig Milburn, Coffs Harbour City Council.
4 Given that situation, is it correct then to actually state
5 in the report that most councils are sustainable? It
6 should really be quantified, by the comments you've
7 actually just made, that it is impossible to look forward
8 and should be placed in the context of the integrated
9 planning reporting that councils are now required to do, so
10 that there is a better understanding and appreciation that
11 the sustainability you're stating that councils appear to
12 have is based purely on historical data, not on what needs
13 to be collected in the future and it might make that
14 element a bit clearer for the community as they actually
15 read that report.
16

17 THE CHAIRMAN: Can I come in on this? I think a
18 legitimate point has been made about looking forward, but
19 we need to put that in the context that if there is a
20 problem looking forward, one indicator might be the extent
21 of the backlog because councils are covering their current
22 costs, as best we can observe; not all of them but most of
23 them.
24

25 If we look at the backlog - and we did try to look at
26 the backlog - to a certain extent backlogs are in the mind
27 of the beholder, particularly when we don't have very good
28 asset management plans and registers, and we don't, but as
29 best we could judge the backlog situation typically was not
30 all that bad and certainly no worse than in other states.
31

32 As our focus is on rate pegging and the influence of
33 rate pegging, we couldn't say with confidence that
34 rate pegging had led to a worse situation in terms of
35 capital than elsewhere and the information does suggest
36 that that's not all councils. There are certainly some
37 councils in financial difficulty but they're typically
38 remote, small rural councils. The bulk of councils do seem
39 to be able to cover their current situations, so the issue
40 really is regarding capital and to take that further,
41 we really need to proceed with the recommendations we've
42 made about asset management in the future and the reporting
43 of asset management to which Michael referred.
44

45 MR BURNS: Shane Burns from Armidale Dumaresq Council.
46 You may cover this a little bit later in other sessions,
47 but I just have some comments on the productivity

1 adjustment factor, how will that be done, and the other
2 issue is about is there going to be any consideration given
3 to cost shifting in setting any rate pegging costs as well?
4

5 THE CHAIRMAN: I will let Michael have first go at cost
6 shifting and then I'll add to it if I need to. I might
7 take the productivity one, if that's all right with you,
8 Michael. IPART has a lot of experience in price
9 regulation: that is our core business. A lot of that
10 price regulation is based on retrospectivity; that is,
11 looking at how costs have increased for a regulated
12 institution. For instance, with respect to taxis, we look
13 at how the costs for taxis have gone up and that is our
14 core business in recommending taxi fares.
15

16 In all cases where we look retrospectively we are
17 I think bound to look at whether productivity has
18 increased, because that would reduce the amount of increase
19 in costs. In doing that we don't apply a productivity
20 adjustment to services which are purchased elsewhere
21 because we are assuming a productivity increase for the
22 services the council purchases, so a contractor or
23 something has been passed through to the council in the
24 price the council pays in the competitive market.
25

26 We are really looking at productivity applied to the
27 council's own labour cost in this situation. We are
28 I think obliged to consider that. If our recommendation is
29 accepted, at this stage, I couldn't bind a future tribunal
30 as to whether there would be a productivity adjustment, but
31 I can say we're bound to consider the possibility. I can't
32 say whether a future tribunal would come to that conclusion
33 as to whether there was or was not a productivity increase
34 or indeed the magnitude of it.
35

36 I would fully expect that councils themselves would
37 make representations about whether there was a productivity
38 increase or not. In my experience, typically the
39 institutions that we regulate very often claim that there's
40 no productivity increase. Taxis, for example, regularly
41 claim that and various other forms of transport regularly
42 claim that.
43

44 The fact is that historically there have been
45 productivity increases but it's very hard to point to them
46 in individual years. If you took a period of 20 years,
47 there's absolutely no doubt there were productivity

1 increases. The actual amount - which might be as low as
2 zero - would a subject for future debate, but in terms of
3 the principles of regulation, we are bound to consider the
4 possibility of productivity increases.
5

6 MR BURNS: I think the differential between you doing an
7 assessment of an industry which only has limited tasks and
8 roles compared to local government - which provides 52
9 different services - is going to be difficult and there are
10 also variables amongst councils as far as productivity
11 gains. Some councils that bring in new computer systems
12 and have IT enabled efficiency are obviously going to have
13 a lot more productivity than councils that haven't. Good
14 luck, when you're doing that calculation, when you're
15 comparing those variables against different local
16 government organisations.
17

18 THE CHAIRMAN: Yes. I would just make the observation
19 that in some senses it's easier to estimate a productivity
20 increase the broader the range of services. It gets much
21 harder when you track it down to a very particular service.
22 Michael, would you like to pick up on the cost shifting?
23

24 MR SEERY: Yes. In our report we have considered the
25 issue of cost shifting and we've actually come in with a
26 much narrower definition of cost shifting to what the local
27 government industry would accept as being the case. Having
28 said that, going forward the question is how does that get
29 incorporated into your ability to increase rates?
30

31 Under the general regulatory framework we would be
32 looking to increase rates into the future based on
33 increasing the local government cost index. To the extent
34 that that would pick up any items that are included in the
35 cost shift or what you'd consider as being the cost shift
36 in the past, they would be incorporated into that index.
37 However, in general, we would argue that there would not be
38 a quantum shift to pick up any items that have not
39 previously been incorporated into your rates revenue.
40

41 MR MILBURN: I think the local government index is a good
42 concept. I understand that South Australia already has
43 that sort of factor in place and needs to use that. Could
44 you outline a little bit more about that for us so that we
45 have a better understand of it?
46

47 THE CHAIRMAN: I will have a go. We will need to identify

1 what are the principal costs which local government faces
2 and then work out a set of weightings which reflect their
3 relative proportionality. For example, typically, if
4 labour is 50 per cent - that's own labour - then that would
5 get a weighting of 50 per cent.
6
7 It is worth making a couple of points I think, some of
8 which Michael has already touched on. This index will tell
9 us the change in costs. It might through the productivity
10 adjustment but, except for the productivity adjustment, it
11 will not take a view on whether the costs are efficient or
12 too high or too low or whatever. What we would be looking
13 at is the change.
14
15 We did consider that quite carefully. We had the
16 benefit of considerable discussion in our previous round of
17 workshops as to whether we should have multiple cost
18 indexes. One proposal which we did consider seriously is
19 that we should develop a framework where each and every
20 council could calculate its own costing. In a sense there
21 were three options. One option is the one that we've
22 recommended which is the cost index for the whole state.
23 The second one was to group councils, so-called. You might
24 have five or eight groups and councils would be allocated
25 to a relevant grouping and produce different cost indexes
26 for each group.
27
28 The difference would then be in the weightings, not in
29 the actual measures that are used. The labour index would
30 be the wage price index from the ABS and that would be the
31 same whatever, but if Group A of councils had a much higher
32 weight of labour than Group B then that could produce a
33 different outcome.
34
35 The third one was to let each council propose its own
36 weights. In some way that would need then to be audited
37 and the council would calculate its cost index subject
38 using our price index, but using its own weights.
39
40 We decided in the end that the problem with that
41 approach was twofold. One was the auditing of the whole
42 process would be quite a big task additionally and two, the
43 benefit from having individual indexes we weren't persuaded
44 would be that high because even though the weights differ,
45 the price indexes can't differ. Typically, price indexes
46 aren't all that sensitive in the weights. The most
47 sensitive part is the weight of labour relative to other

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1 costs.
2
3 We didn't think the difference would be that great.
4 The same applies for the second option which is group
5 councils. The problem with that one is that again the end
6 result may not be that different, but councils will argue
7 forever and a day as to which group they should be in.
8 There will always be a council on the margin which says,
9 "This year I'd prefer to be in Group A rather than
10 Group B," or vice versa. That is why we came to the
11 conclusion that we'd have one index.
12
13 MR MILBURN: The second part of my question is that given
14 most of us start forming our budgets in
15 October-November-December and then give an exhibition in
16 April, the timing of when that index should be provided to
17 the Minister and therefore the Minister making an
18 announcement about whatever rate is anything over B is
19 critical.
20
21 I think I remember reading here it might have been
22 looking at March still which for most of our councils is
23 still far too late when we are actually forming those
24 budgets. Is there consideration of actually having it
25 announced at the latest by the end of December or something
26 like that?
27
28 MR SEERY: We also suggest in the report that we have an
29 interim index published around the end of September.
30 The key issue about this is that the data we're using is
31 generally from the ABS and it is for a period up to the
32 previous June or the previous December. If it is for
33 December, that data will not be available until the end of
34 January.
35
36 Once the data is available, producing the index would
37 take a couple of weeks of going through the processes that
38 we have within IPART. We could bring it forward a little
39 bit some time into February, but 1 March is actually our
40 end deadline with a September interim index being put out.
41 That is our suggestion. If you think it should be earlier
42 please come back in your submissions on that because we can
43 look at whether or not we actually do it earlier in the
44 year based on different data.
45
46 MR BOWELL: John Bowell, Mayor of Kempsey Council. I
47 have two problems. If I could refer to cost shifting,

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1 we applied for an 8 per cent increase in our rates this
2 year which was refused, but against that 6 per cent of our
3 expenditure is taken up on cost shifting. If we didn't
4 have cost shifting we may not have had to apply for that
5 rate increase. Could you comment on that?
6

7 MR SEERY: It is a valid comment and I think going forward
8 the idea would be that if you wanted to go for a special
9 variation under Option A or if you wanted to go through the
10 Option B processes, you would put forward a revenue plan,
11 which has been fairly carefully calculated, which would
12 include all your expenditures, even those which you would
13 consider to be a cost shift, and if you could get the
14 support of the community for that particular revenue plan
15 then that would be able to be incorporated.
16

17 If you only did that once in one four-year period, in
18 the future your costs would increase according to the local
19 government cost index which means that any cost shifting
20 that had previously been incurred would be picked up in
21 your total costs.
22

23 THE CHAIRMAN: We will elaborate on four-year planning
24 in the second session.
25

26 MR BOWELL: The second matter is that that 8 per cent that
27 we did apply for was intended to be spent on our roads.
28 Our council could be considered to be sustainable, but
29 we're spending less than 50 per cent what we should be on
30 our roads. If we did spend that other 50 to 60 per cent on
31 our roads, we certainly wouldn't be sustainable.
32

33 THE CHAIRMAN: Yes. We will come back to, in effect,
34 special variations and the future of special variations in
35 our second topic, if that's okay.
36

37 MR RAWLINGS: David Rawlings, General Manager of
38 Kempsey Shire Council. I think the issue of cost shifting is one
39 that is a black hole in this model. Here I'm just looking
40 at things like when a raft of regulations comes out with
41 new reporting, that that is going to increase the amount of
42 labour that we need which isn't going to be reflected in
43 the price index and effectively for us could be seen as
44 negative productivity.
45

46 I think it would be valuable to consider those
47 statewide changes in the quantum of what we have to do in

1 that productivity, because we may have effectively negative
2 productivity because we're required to do more by changing
3 regulations and that aspect I think is worth listening to.
4

5 THE CHAIRMAN: This really goes to the question of how
6 difficult it is to define cost shifting. It is not cost
7 shifting to say that local government should properly
8 account to its electorate. In the instance you just gave,
9 another person might say that that's part of properly
10 accounting to your electorate.
11

12 MR RAWLINGS: However, you would have to say that is an
13 impact on productivity and therefore would impact on costs.
14

15 THE CHAIRMAN: It may or may not be. It may be that with
16 better information systems you'll improve your efficiency
17 and your productivity.
18

19 MR RAWLINGS: Yes.
20

21 THE CHAIRMAN: The problem with cost shifting as a concept
22 is that it means different things to different people. You
23 need to look at the definition. When we did it we
24 tightened the definition quite a bit beyond what local
25 governments typically put forward as cost shifting.
26 We certainly acknowledge under our definition that there
27 can be cost shifting, but quite a lot of the things that
28 are claimed to be cost shifting we would not accept as cost
29 shifting.
30

31 MR RAWLINGS: I really don't want to use "cost shifting"
32 because to me this is really cost of doing business.
33 For example, when new reporting comes out to report more
34 dog attacks, whether that's beneficial to the community or
35 not, there is a cost involved and I think we need to
36 reflect that if we're serious about adjusting the costs of
37 local government service provision from year to year.
38

39 THE CHAIRMAN: I think the intention behind Options A
40 and B is that if there's the view that a council is facing
41 a quantum change in costs because they want to improve the
42 roads or that they have new reporting obligations and so
43 on, that's the sort of thing you would pick up in your
44 forward financial plan over the four years, which we will
45 discuss more under Options A and B.
46

47 MR MILBURN: Could I ask a question about some of the

1 definitions or descriptions you've actually used? In terms
2 of broad definitions, you're talking about rural councils
3 and regional councils and those sort of things.
4 Particularly when you stop on page 27, for example, you're
5 talking about rural councils having unusual things such as
6 airports, caravan parks, stockyards and those sorts of
7 things and again, rural councils also providing water and
8 sewerage services.

9
10 A lot of us here wouldn't class ourselves as rural or
11 regional councils and we have all those sorts of things.
12 I am wondering whether there's a definition that has
13 influenced some of the discussion in the report that is or
14 is not quite accurate in relation to that rural/regional
15 sort of definition and thrown in with that are the areas
16 where there's high growth compared to no growth. Have you
17 considered those sort of areas in those recommendations?

18
19 THE CHAIRMAN: I would certainly agree that the word
20 "rural" covers far too many differences, if I can put it
21 that way. Here in Coffs Harbour it is very different to
22 Back-O-Bourke.

23
24 MR MILBURN: Slightly.

25
26 THE CHAIRMAN: From my own observations as somebody
27 who is staying in Coffs Harbour at the moment, it has much
28 more in common with the sort of development on the edge of
29 Sydney or somewhere like that. It's a new developing area
30 rather than having the sorts of problems of depopulation that
31 the far west of New South Wales is experiencing.

32
33 MR BURNS: Just before we go off cost shifting, there was
34 a suggestion a number of years ago - and I think it has
35 been reinitiated in the last 12 months - about undertaking
36 a review when legislation goes before parliament of the
37 compliance costs of local government. I am just wondering
38 whether there's some opportunity for IPART to undertake an
39 assessment of compliance costs with legislation that may be
40 able to be factored into your rate pegging percentage
41 that's assessed at the end of the year.

42
43 THE CHAIRMAN: I am tempted to blow our own trumpet.
44 A few years ago we produced a review of the processes for
45 regulation for the New South Wales Government. As a result
46 of that they now require that all legislation has a
47 regulatory impact statement. They have an Office of

1 Regulation which vets that regulatory impact statement and
2 there is the opportunity for anybody who is affected by new
3 legislation or, for that matter, new regulation under the
4 legislation to raise objections to the costs, et cetera.
5 That exists right now. I don't see that there's a need for
6 IPART to do it. There is an ongoing mechanism to do that.

7
8 If there are no more questions, we might get to the
9 main event. I am just as happy to continue sitting here
10 than standing up at the lectern. Michael can change the
11 slides.

12
13 In our view, if we're going to have a future revenue
14 framework it can be improved in a number of ways. First of
15 all, we think that there should be a multi-year approach to
16 revenue raising. A lot of the uncertainty at the present
17 time is related to the fact that it is not multi-year, it's
18 year by year, and that goes also the other way.

19
20 In fact, the New South Wales Government is genuinely
21 trying to develop a four-year planning approach with
22 councils and has introduced a number of reforms through
23 their integrated planning and reporting framework and we
24 think that revenue raising should be consistent with that.
25 We want to try and move to a multi-approach to revenue
26 raising.

27
28 We think another of the present problems at the moment
29 is the lack of transparency. Each year the Minister
30 produces a rate cap but the basis on which the rate cap is
31 decided each year is a mystery to all, including IPART.
32 We didn't find out what the basis for it was. We are
33 looking at a more independent, vigorous and transparent
34 approach to rate setting if the State Government continues
35 to be involved in rate setting.

36
37 We want to link the framework to a council's strategic
38 planning processes so that there's a link between revenue
39 and capital and operating expenditures over a number of
40 years into the future. As we've just been discussing,
41 we want to have an explicit and independently calculated
42 price index. That price index can be the basis first of
43 all for the rate cap, but if the rate cap disappeared or,
44 alternatively, if councils sought not to be subject to rate
45 pegging in some way - which I'll elaborate on in a minute -
46 the index would be a useful benchmark for rate payers.

47

1 If the council has decided to and got agreement to go
2 outside the rate-pegging framework, the ratepayers would
3 still be able to see what the cost increases were and use
4 that as a benchmark. As I've already mentioned - and
5 defended - in principle, there should be a productivity
6 adjustment. What that exactly would be only time will
7 tell.
8
9 As I've also mentioned in passing, we do want to build on the
10 proposed integrated planning and reporting framework.
11 We think by incorporating revenue raising into that
12 framework we will improve accountability and community
13 engagement. The upshot of that will be there will be
14 greater transparency and certainty under this system.
15 We are trying to provide options of greater autonomy for
16 councils whilst maintaining the broad framework of rate
17 pegging.
18
19 Two points need to be remembered I think. One is the
20 Minister and indeed the previous Minister for Local
21 Government made it quite plain that they wanted to keep
22 rate pegging. They are convinced there's popular support
23 for rate pegging and they might be right. Certainly, we
24 got submissions from various groups that wanted to keep
25 rate pegging.
26
27 We even got submissions from councils that wanted to
28 keep rate pegging. One council put it that they have
29 difficulty justifying to their electorate any increase in
30 rates. I think they're going through a hard time in this
31 particular local government region and that it was easier
32 to justify an increase in rates if they said,
33 "We're putting it up by the amount of the rate peg." There
34 is a volume of support for rate pegging.
35
36 At the same time, however, the special variations have
37 meant that many councils have not been subject to the rate
38 peg in the sense that they've gone and got a special
39 variation. The problem has been no-one has been too clear
40 on the criteria for obtaining a special variation and
41 indeed for why the variation was rejected or otherwise.
42
43 I should add that the department disputes that finding
44 to some degree, but we were presented with a lot of
45 evidence from councils that the decisions about special
46 variations are in no way clear. Kempsey Council just
47 reminded us of their own experience and I wonder whether

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1 Kempsey Council knows why they were knocked back. We are
2 looking for a system that is more transparent in future
3 where you understand the rules. There may be rules but
4 it's a good idea if everyone understands the rules.
5
6 Let me now turn to Option A. Option A is intended to
7 basically improve on the existing rate pegging arrangements
8 so that it provides a medium-term revenue path in the sense
9 that councils can be confident that the cost index will
10 reflect the increase in their costs. They can be confident
11 that the cost index will rise by the increase in the costs.
12
13 As regards the productivity adjustment, that would be
14 set once every four years so you'd know what that was and
15 so what you're getting in effect is that the rate peg
16 should reflect the same rules, which is another way of
17 putting it.
18
19 In terms of four-year planning, if you were on the
20 rate peg and nothing else, the expectation is that you'd
21 know what the productivity adjustment was and you'd know
22 what your costs would be. Your rate peg would rise as
23 given by the cost index.
24
25 The intention is to then try and encourage improved
26 links between the rate setting and the strategic planning,
27 but this option though would be the default one for all
28 councils. As we've mentioned, the key features are that
29 IPART will publish the cost index including the
30 productivity adjustment. The Minister would determine the
31 annual rate increase having regard to that cost index.
32 We haven't said that the Minister must follow the cost
33 index. I don't think that's appropriate. In fact, I could
34 imagine councils making representations that there should
35 be something more than the cost index.
36
37 We have proposed that the Minister has to give reasons
38 for any decision above or below the cost index, so that
39 increases transparency again and possibly will act as a
40 constraint on the Minister in the decision making if the
41 Minister has to give reasons why he or she has not followed
42 the cost index. That will influence the decision making,
43 I imagine.
44
45 Councils can now apply for a special variation.
46 I will enlarge on that in a minute. The special variation
47 would involve preparing a four-year revenue plan and the

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1 Minister would then approve or disapprove of the special
2 variation. There is a set of assessment criteria for these
3 special variations. They are in the report in Chapter 16,
4 on page 171 of the report, for those who are interested:
5
6 The demonstrated need for a special
7 adjustment on the basis of service
8 requirements for the community, including
9 evidence of unmet demand and evidence of
10 community support for the provision of
11 these services ...
12
13 That would cover the roads, for example:
14
15 ... special or unique cost pressures faced
16 by the council ...
17
18 That would be a place that you could argue the government
19 puts extra costs upon you:
20
21 ... infrastructure backlogs and
22 implications for amenity, safety and health
23 of community ...
24
25 And finally, financial sustainability. They are the sorts
26 of criteria. You would need to demonstrate an adequate use
27 of other sources of funds and you'd need to have regard to
28 the impact on taxpayers as well. That is laid out on
29 page 171 of the report.
30
31 How would this system work? Each year IPART would
32 calculate and advise the Minister of the percentage change
33 in the local government cost index after the adjustment for
34 productivity. We have covered that. The Minister would
35 then determine the increase in rates pursuant to the rate
36 peg having regard to that index. We have covered that.
37
38 As I said, the councils may apply to the Minister for
39 a rate path over four years: that's special variations.
40 I assume that they'd only apply if they wanted to exceed
41 their rate peg. The revenue plan would need to be
42 integrated with the planning and reporting framework,
43 so you'd pull together the strategic decisions in the
44 planning and reporting framework with your revenue plan.
45
46 As I mentioned, there is a clear statement of fact as
47 to what the Minister would consider when deciding whether

1 or not to approve the applications. Again, we would expect
2 the Minister to provide reasons if the special variations
3 were not approved.
4
5 With respect to Option B, we have earned autonomy.
6 It is important to remember that Option A is the standard
7 proposal. Option B is an addition on top of it. For most
8 councils we would expect for some time that they would be
9 operating under Option A, but some may choose to go to
10 Option B.
11
12 Perhaps I can provide a little bit of background to
13 Option B before I go into the details. There were some
14 councils in our previous workshop discussions who I think
15 felt as a matter of principle - or at least some members
16 from those councils might be a more accurate way of putting
17 it - that local government as a third tier of government
18 should be essentially accountable to its own electorate and
19 not to some other level of government, such as the
20 state government, and that it is a matter of democratic
21 principle, democratic accountability. That was felt quite
22 strongly by some people.
23
24 In effect, in putting up Option B we've put forward a
25 proposal that is consistent with that philosophy. I should
26 say it's probably not entirely consistent but goes some way
27 towards meeting the demands of those people, so that a
28 council can be exempted from rate pegging for up to four
29 years.
30
31 How do they achieve that exemption? First of all,
32 they need to put together a strategic revenue plan,
33 in effect, which is a combination of the major projects
34 that they expect to pursue or spend money on in the next
35 four years and their operating expenditure and so on and to
36 get a revenue plan. They have to produce a full financial
37 revenue and expenditure plan over the four years.
38
39 They then have to obtain community support for that
40 plan. This is a difficult issue we've grappled with as to
41 how do you demonstrate community support and I'll enlarge
42 on that in a minute. If that process were knocked back by
43 the Minister then the council or, perhaps more importantly,
44 the community rejects the plan then the council drops back
45 to Option A.
46
47 I should also have mentioned that to become eligible -

1 it is on the slide now - you have to first demonstrate a
2 track record of sound financial management and we have a
3 number of indicators, which are up there, which we think
4 would need to be addressed in establishing the track work
5 or sound financial management. You then have to develop
6 this medium-term approach to expenditure and service
7 delivery that I've just mentioned and thirdly, you then
8 have to get a community mandate.
9
10 There are two approaches that we've put forward and they
11 are very much put forward seeking reactions to how councils
12 might obtain a community mandate. Both approaches
13 require councils to produce a summary of their financial
14 plan for the future; that is, the expenditure on service
15 delivery and major projects on the one hand and the revenue
16 to cover that on the other hand. There would be a summary
17 plan which would be available to all ratepayers.
18
19 Under what we've called the community survey option,
20 that summary would be provided to all members, to all
21 ratepayers, and a voluntary survey would then be sent out
22 asking ratepayers do they approve of the plan or not.
23
24 Obviously, there will need to be some sort of rule set
25 as to what constitutes community approval. With this sort
26 of survey it is not going to be compulsory voting, so
27 you're not going to get 100 per cent response. We put up
28 as an indicative figure, say, a response rate of 25 to
29 30 per cent, but that's open for discussion obviously and
30 we've also suggested what should be the majority of the
31 response that would indicate community support.
32
33 My own feeling is that by definition the very minimum
34 would be 50 per cent. You haven't got a majority if you
35 don't get 50 per cent of the respondents, but when you've
36 got only a minority of people responding, perhaps you need
37 a bigger majority in favour so you've got a broad
38 indication of community support. Here it is put as 50 to
39 60 per cent of the respondents in favour and I have a hunch
40 that 60 might be nearer to the mark than 50.
41
42 I will come to the Minister's role in detail in a
43 moment, but the Minister basically is not there to approve
44 the financial plan. The Minister is there to ensure that
45 one, there has been proper consultation with the community,
46 two, that the council is financially viable - that goes to
47 the first requirement - and that after there has been that

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1 consultation there's a proper consultation plan with the
2 community; and three, that the Minister would need to
3 satisfy himself that the community was broadly in
4 agreement. The Minister per se should not be determining
5 that the plan was a good plan. The community would be
6 determining that. The Minister's role would be to ensure
7 that the community had agreed with the plan.
8
9 The second option for testing community support is
10 what we've called the voting option. In this instance the
11 financial plan or the summary of it would be released by
12 the outgoing council not too long before the election.
13 When the incoming council has been elected they would first
14 need to decide whether they supported the plan that the
15 outgoing council had put out. If they did then they could
16 say, "The fact that we were elected on the basis of our
17 support during the campaign for this plan indicates the
18 community also supports the plan," and the Minister would
19 then be asked to say did they agree that the election
20 results were indicative of support for the plan.
21
22 I think it needs to be remembered too under that
23 option that there would be possibly some variation.
24 Inevitably, there are variations to plans, plans are
25 typically varied not too long after the ink has dried, but
26 the Minister would need to decide whether there was a
27 material variation to the plan from the incoming council,
28 but if it was broadly in line with the plan which was
29 available during the election context then the Minister
30 would again sign off and council would be free to pursue
31 the plan.
32
33 Could we go to the next slide, "Roles". Going through
34 the two options, first of all, the Minister determines the
35 annual rate increase as per the index. Under Option A, the
36 Minister continues to approve special variations but in a
37 more transparent and structured way. The Minister confirms
38 that the council is eligible to consult with the community
39 under Option B, that is, that they are financially stable,
40 and that they've produced a proper plan in the sense that
41 the information requirements have been met. Finally, the
42 Minister determines whether councils have achieved a
43 mandate for their plan under Option B, either via the
44 community survey option or the voting option.
45
46 The department's role will be to ensure that the plans
47 are integrated with the integrated planning and reporting

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1 framework to complement each other. It will monitor
2 council rate increases - as it does now - and it will
3 establish minimum performance requirements in terms of
4 financial performance and so on and monitor compliance with
5 those financial performance and accountability criteria.

6
7 By the way, we have suggested quite a number of these
8 criteria but we aren't claiming that our suggestions are
9 the last word on these. We do think it's the role of the
10 department to finalise that. We've given them some
11 assistance or we would like to think we have. The future
12 for IPART would be to develop the index to review the cost
13 index and weightings from time to time and to propose the
14 productivity adjustment and publish the index.

15
16 In the final slide I have put up a few questions, but
17 you're not confined to these obviously. What are the
18 relative strengths and weaknesses of Options A and B?
19 I think we're particularly interested in understanding how
20 practical you think Option B is, as well as desirable.
21 This sort of notion of a community survey or using the
22 election as a way of testing whether there is a community
23 mandate, we're very interested in councils' and the
24 public's views on that.

25
26 Are the proposed changes under Option A a significant
27 improvement over the existing arrangements? We certainly
28 think they are in terms of transparency and in providing a
29 set of rules that will be followed so that you have much
30 greater certainty in the future and if there is to be
31 regulation, the guiding principles ought to be certainty
32 and transparency of regulation.

33
34 Another question is the eligibility criteria for
35 entering into Option B. Are they stringent enough and,
36 I would add, how practical are they? Would the
37 arrangements for engaging with the community Option B
38 work in practice? That is the practicality point. Over to the
39 people on the floor.

40
41 MR BOLGER: Jim Bolger, Byron Council. I have just a few
42 questions. You talked about Option B making councils
43 accountable to their electorates in getting their support
44 as a third tier of government, being commensurate with
45 other tiers of government. I was wondering what other
46 tiers of government are accountable in this way. When they
47 want to raise a tax then they need their support and so on,

1 if we're using this as an excuse. If the State Government
2 wants to increase land tax, I certainly haven't been
3 surveyed. If the Federal Government wants to increase the
4 Medicare levy, I haven't been surveyed. We are still
5 accountable. Local government is accountable like the rest
6 of the tiers of government through the election process.
7 I don't see how this is now making it a third tier of
8 government inconsistent with other tiers.

9
10 THE CHAIRMAN: Other tiers of government are
11 accountable and elected through elections.

12
13 MR BOLGER: That's correct.

14
15 THE CHAIRMAN: Really, this Option B was to go towards
16 that by proposing that the local government put forward its
17 plan in the context of an election and be similarly
18 accountable to the electorate and if the electorate
19 supported that plan, as indicated by their voting, then it
20 is not the job of the Minister to say whether he or she
21 agrees with the plan or not. The only role of the Minister
22 would be to say, "Yes, the plan was adequately tested at
23 the time of the election."

24
25 It is true that there's no-one on the Commonwealth or
26 State Government side who is able to say that the
27 legislative proposals were adequately tested at the time of
28 the election or not. Indeed, a great deal of debate in
29 parliament tends to be about exactly whether the government
30 of the day has a mandate in terms of what went to the
31 election. The Rudd Government will claim, for example, it
32 has a mandate for a cap-and-trade scheme on greenhouse
33 gases and the Opposition apparently doesn't think it has a
34 mandate for what it actually proposes.

35
36 In this instance we're trying to take it towards what
37 applies to the other two tiers of government, either by a
38 community survey or via the election. It is certainly in
39 the spirit of what you say. It may not go 100 per cent as
40 far as there is a vetting mechanism. There is, if you
41 like, an arbiter on whether the mandate has been delivered
42 or not which doesn't apply to the other two tiers of
43 government.

44
45 I think that the background to having the
46 State Government act as an arbiter is that there's a
47 widely-held view, including in the State Government

1 I believe, that there are fewer checks and balances on
2 local government from the electorate. That is to say,
3 there is less public debate about local government
4 decisions through the media, et cetera, than perhaps the
5 Federal Government and the State Government experience.
6

7 MR BOLGER: There is a lot of debate in local government
8 and in local communities, which is where your local
9 electorate is, and sure, you're not seeing it in the Sydney
10 papers but you're seeing it in your local papers and your
11 local media.
12

13 THE CHAIRMAN: That is more true in rural and regional
14 New South Wales than is probably true, however, for a
15 metropolitan council.
16

17 MR BOLGER: Yes. Just going further on, in terms of track
18 record, one of the things in Option B was that the council
19 would have a positive operating result over their economic
20 cycle. I think it talks about five years or whatever the
21 term may be.
22

23 In my belief, the ones that would get a positive
24 result would be the ones less likely to need this option.
25 For me that's going backwards. You've got to go through
26 the process first of going through Option A for a number of
27 years to get yourself to a positive side before you could
28 even consider Option B. Option B is there to try to give
29 you some long-term planning, but you can't achieve that if
30 you're in a position that's in a negative result.
31

32 THE CHAIRMAN: I think you're right that if you're not
33 financially sound then you haven't got Option B. You can
34 however seek a special variation under Option A.
35

36 MR BOLGER: I understand that.
37

38 THE CHAIRMAN: One of the criteria there was that you had
39 backlogs, you had financial problems and you had a
40 four-year plan for digging yourself out of these problems.
41 You're right. If you're coming from a - for want of a
42 better phrase - financially unsound position or a position
43 that needs financial remedy then you really are into
44 looking at a special variation under Option A.
45

46 MR BOLGER: I think when you get the revaluation of where
47 your infrastructure is coming on in the coming years and

1 the depreciation going in your P&L with the increasing
2 values, you're going to have very few councils that are in
3 a positive operating result. This is going to apply to a
4 minimum instead of trying to do something where we're
5 looking at long-term financial planning for the whole of
6 local government as an industry.
7

8 I have concerns with that for Option B. I think it is
9 addressing the wrong section of local government. It is
10 addressing those that are already in a comfortable position
11 rather than those that need to go in a forward planning
12 position.
13

14 THE CHAIRMAN: I think whatever financial position you're
15 in you do need to have forward financial planning. I think
16 it is quite likely that Option B for some time at least
17 will only be taken up by a minority of councils. That's
18 speculation on my part and I'm interested in other people's
19 views on that, but certainly in putting it forward we
20 didn't expect it meant a lot of councils would move quickly
21 to Option B.
22

23 One of the reasons why I didn't expect a lot of
24 councils to move to Option B is because potentially you can
25 get what you want in terms of your four-year plan approved
26 by going down Option A and the special variation and that
27 might be easier in practical terms than seeking the
28 community mandate by either of the two ways that we
29 proposed. The councils themselves might say, "It's all too
30 hard getting the community mandate. Let's just go for
31 Option A." That is a thought I've had, but I would be
32 interested in people's reactions to that.
33

34 MR BOLGER: This is my last question. In regards to the
35 community survey, I think that needs to be looked at
36 because in any survey if you send it out to the whole
37 community, the majority of people you hear from are people
38 that are unhappy. The 25 per cent that you're going to
39 get, you get 25 per cent response, the majority of those
40 will automatically be those who are against it and it's
41 people's natural instinct to be against increases in
42 prices.
43

44 We have done community surveys at Byron Council where
45 they target certain things, they have to achieve so many of
46 a certain age, so many of a certain area, so many of this
47 and that and get a response, but again, I think this is

1 just another way for Option B not to happen.
2
3 THE CHAIRMAN: I hadn't thought of that. That is an
4 interesting thought. I tend to agree with you. The ones
5 who vote are often the ones who are unhappy, if I can put
6 it that way, or the ones who respond to questionnaires are
7 often unhappy.
8
9 I would just make the point that the attempt here is
10 not just to ask people do they want a tax increase because
11 of course they'll say no. Basically, the attempt here is
12 to pull the service delivery plan together with the revenue
13 plan and say, "What we're trying to achieve here is this
14 improvement in our roads, these sorts of services provided
15 in terms of child care," or whatever the gamut of the
16 various services. "This is what it will cost. This is the
17 best way we think to raise the revenue to cover what it
18 will cost," including a mix of user charges and rates and
19 so on.
20
21 I think it is quite likely that if we can engage a
22 debate where people begin to understand that if you pay
23 nothing you get nothing and so they're asked to choose
24 between what service they want and what they pay, we'll get
25 a better debate and we may find a measure of agreement
26 about what councils are proposing. If you just tell
27 people, "We want to hike your taxes," then they'll say no.
28
29 MR BOLGER: I agree with community surveys. I think the
30 way it has been proposed in here is the wrong way about it
31 in terms of sending something out to every householder and
32 expecting that those who are content with the situation
33 will say, "Oh, yes." Most Australians are blasé and unless
34 they're against something then I think what's going to
35 happen is you're going to get the result that for me stares
36 you in the face, that you're not going to get your 50 or
37 60 per cent support.
38
39 THE CHAIRMAN: In that case, I really ask you to think
40 about the alternative which is the voting option where you
41 put it out in the context of just before the election.
42
43 MR BOLGER: I suppose what I'm asking is that
44 consideration be given as to how a community survey should
45 be done.
46
47 THE CHAIRMAN: It would be quite hard to say, "We got a

1 25 per cent response rate of which 70 per cent were
2 against," and then say, "Well, there's a mandate for the
3 plan." I just don't think that stacks up.
4
5 MR BOLGER: There's another argument against that. If you
6 get 25 per cent of people responding who are unhappy, there
7 are 75 per cent that are happy, there is a mandate, that
8 doesn't stack up as well. I think there are ways of doing
9 surveys that can get the true result about how the
10 community feels.
11
12 MR WILSON: Peter Wilson, Bellingin Council. Could I just
13 make some general comments? Option B is virtually what
14 exists now under the 508A application with the department.
15 As to 508(2), which is the special variation application,
16 Bellingin, as a case study, last year we submitted a
17 special rate variation and incorporated a lot of the
18 criteria in Option B, including a very comprehensive
19 independent survey of our community.
20
21 Whilst our community agreed that we needed to
22 redevelop our works depot as a core component of our
23 business, at the end of the day they didn't want to have a
24 rate rise to pay for it. That was one of the most
25 extensive community consultation processes that the council
26 has ever conducted.
27
28 On the other side of the ledger our local newspaper
29 ran a survey which said, "Do you agree: Yes or No?", which
30 was not proper community consultation but in our view
31 swayed the Minister to decide that our application wasn't
32 successful. As I said, what's going to change in this
33 process where Option B is basically a 508A application and
34 we do go through the process of special rate variations and
35 still don't get ministerial approval?
36
37 THE CHAIRMAN: I think I will take that on notice.
38 We will have a careful look at those points.
39
40 MR MILBURN: I agree with the underpinning values you're
41 trying to instil in this process. I think most of us
42 welcome that, but we've got questions about some of the
43 methods. On the survey basis, there are far more
44 scientifically accurate methods that could be adopted to
45 actually undertake that survey. As an example here,
46 we often survey through an independent agency 400 to 1,200
47 residents, which is 1 to 2 per cent of our population.

1 That will give us 95 per cent accuracy on the results of
2 that survey.
3
4 It does need to be done independently and there are
5 particular methods they do to actually undertake that to
6 make sure they get the proper age profiles, geographic
7 profiles and all those sorts of things. We will certainly
8 give comment back about sending out all the rates.
9 We don't believe expecting a 25 per cent feedback is really
10 a satisfactory way of gauging a genuine response. There
11 are more scientific ways of actually doing that.
12
13 In terms of the voting method, I think there are some
14 issues about this. If you're putting it out before the
15 election, current councillors who would be re-standing for
16 election would be very au fait with that. In most cases
17 they'd probably be supportive of it. Part of our
18 democratic process is to actually have different points of
19 view, so if you have a range of new councillors elected on
20 a different platform, does that immediately say that there
21 is no support for that revenue plan? I think there are
22 inherent problems with the actual voting process with that.
23
24 The other part about it is what it is really doing to
25 councils, what rate pegging has done itself, and it still
26 requires a far higher hurdle for local government to be
27 jumping over than the State and the Federal Government.
28 The whole democratic process is based upon elections. If
29 councils go out and increase rates by an exorbitant amount,
30 they simply won't be voted back in. The community is
31 intelligent enough to actually do that. That is what
32 happens with federal and state governments. They are given
33 a mandate when they're elected to follow whatever platform
34 there is.
35
36 There isn't a consistency across the three tiers at
37 all. We appreciate that across a whole range of areas.
38 This is an attempt to lower that hurdle, I understand that,
39 but if as your findings stated there has been very little
40 difference in the effect of rate pegging in New South Wales
41 compared to increases in other States, if that is in fact
42 the case, why have rate pegging in any form at all, other
43 than you've been mandated by the government to actually
44 provide it.
45
46 THE CHAIRMAN: I would like to respond to some of those
47 points. Thank you for them. Let me just say I appreciate

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1 the arguments in favour of no rate pegging. We have made
2 an assessment of what we think we might be able to achieve.
3
4 MR MILBURN: That is certainly how it has come across.
5 You're not in an easy position.
6
7 THE CHAIRMAN: I accept the in-principle arguments.
8 I have tried to give you an explanation as to why the
9 State Government considers that in some way they're more
10 accountable to the electorate than local government is and
11 you can make your own assessment of that.
12
13 Thank you for your point on other ways of doing
14 surveys. Can I just say that all of you here, if you have
15 views along those lines, it would be helpful if you put in
16 a written submission, it doesn't have to be very long,
17 covering that.
18
19 On the question of the election, the outgoing
20 council's plan, I think our presumption is that that would
21 feature in the election campaign, that it would be, for
22 want of a better phrase, the centrepiece of the election
23 campaign. If the incoming council includes enough members
24 who disagree with the outgoing council then that will kill
25 it forthwith. They will not seek to put the plan forward
26 to the Minister, end of story, and so it should be.
27 Really, I don't think that's a problem. In fact, that
28 would be a useful way of testing whether the plan had
29 public support or not. I'm not fussed on that point. You
30 had a third point.
31
32 MR MILBURN: I think that was just a general point. That
33 was pretty much it.
34
35 THE CHAIRMAN: Thank you.
36
37 MR BOWELL: I think if you did a survey of the people
38 tomorrow and you listed a whole range of things which are
39 beneficial to the community, they would all vote for it.
40 If put a second question, "Are you prepared to pay for
41 it?", I suggest you would get a different answer
42 altogether.
43
44 When we did our survey we had an extensive community
45 survey of 8 per cent. Out of 13,000 eligible, or
46 thereabouts, we had 900 submissions, 600 against, 300 for.
47 We are not allowed to say to the other 12,100, "We're quite

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1 happy with what council is doing," but you're entitled to
2 believe that.

3
4 You're talking about this voting. I agree with Craig,
5 that you could have today's council come up with a
6 four-year plan, everyone agrees with it and you're
7 responding to community expectations. You go to the
8 election and you'll have a core that will stand there on
9 one reason and one reason only, that they're opposed to
10 increases in taxes and they will succeed; so you'll go
11 backwards.

12
13 THE CHAIRMAN: I think if you can pull the two together,
14 that is, the services and paying for them, I don't take it
15 as axiomatic that you will get a negative vote. I do
16 accept that there may be more sophisticated ways of testing
17 public opinion than what we've proposed and that's what
18 I'm interested in following through on.

19
20 MR BOWELL: Could I say that when we went to the people
21 we said that 8 per cent would represent about \$850,000 and
22 we said, "We will spend it on roads." They're crying out
23 every day of the week to do more work on the roads.

24
25 THE CHAIRMAN: Let me give you an example of where
26 taxes have been hypothecated in that way. You will all
27 remember the Greiner Government's "Three by Three". That
28 had widespread public support, but it was an extra tax.

29
30 MR ST.JOHN: I'm not sure if I'm in the right forum.
31 My name is Richard St.John and I'm a ratepayer. I'm rated
32 on five properties in Coffs Harbour. Will IPART's
33 recommended framework in future include an index of each
34 council's average cost per ratepayer?

35
36 THE CHAIRMAN: No, because what IPART will do is produce
37 an index for local government across the state of the
38 change in local government costs and I emphasise that it is
39 the change in local government costs. Quite clearly, there
40 are very big differences in the cost of local government
41 from one area to another which relate not just to the cost
42 of producing services in some areas relative to other
43 services, but also the types of services which some areas
44 need relative to other areas.

45
46 There are quite big differences in the absolute level
47 of costs and very good reasons for those quite big

1 differences in the absolute level of costs. What we are
2 interested in is the change in costs.

3
4 MR ST.JOHN: Can I make a comment? I have attempted to
5 find out where in the New South Wales Government I can get
6 this comparison and I can't.

7
8 THE CHAIRMAN: Yes. It wouldn't be difficult to do once
9 we get improvements in the accounting and reporting
10 frameworks to get a greater commonality. At the moment,
11 for example, we've got mixtures of capital and operating
12 expenditure and so on, but it wouldn't be difficult to do
13 and to work out and then divide it by the population in the
14 local government area. In principle, it wouldn't be
15 difficult to do. I think what would be much more difficult
16 would be to interpret the answers when you got them.

17
18 MR ST.JOHN: Yes. That said, there is an upper limit on
19 what average people can pay in any area. What restraints
20 will be put on those councils that were in that category in
21 the highest rating councils in the State?

22
23 THE CHAIRMAN: You need to have regard to services being
24 produced. For example, no council in Sydney provides water
25 or sewerage, but a lot of councils in the rest of New South
26 Wales do provide water and sewerage. If in Sydney they're
27 not providing water and sewerage, it doesn't mean that
28 people in Sydney don't pay for water and sewerage. They
29 just pay someone else for water and sewerage, not the
30 council.

31
32 MR WILSON: I was just going to make a comment in regards
33 to the gentleman's question. The Department of Local
34 Government produces annually a comparative report on all of
35 local government councils.

36
37 MR BOLGER: It's not in there; it only goes by residential
38 and business.

39
40 MR WILSON: Oh, right.

41
42 THE CHAIRMAN: If there are no further questions and
43 comments, I don't want to detain you unnecessarily.
44 However, I would like to make two points. The first is, as
45 I have probably indicated by now, our proposals are not set
46 in concrete. We want to test them.

47

1 The message I've got from today is some concerns about
2 the practicality or the best way of testing community
3 support which would convince the Minister and so if others
4 have other or better ways of convincing the Minister that
5 the plan has community support, we'd very much appreciate
6 your advice on that in your submissions as a follow up to
7 the draft report.

8
9 The second point I want to make is that, as you would
10 have noted, the Minister has made no comment on our report
11 at this stage. That came as no surprise to me because she
12 told me she wasn't going to make any comment and I think
13 that's quite appropriate at this stage.

14
15 What I infer from that is that a major consideration
16 in terms of the government's reception of our final report
17 will be an assessment of how much support there is for that
18 report and so it will be quite important for you not only
19 to indicate where you think the report can be firmed up or
20 improved, but if you do support it then it is important
21 that you indicate that you support it. If the report is to
22 be adopted by the government eventually, I think it will be
23 quite dependent on the government's assessment of how
24 much support there is for it.

25
26 MR MILBURN: Could I make one more suggestion? Options
27 A and B still only give councils four years to actually do
28 their plan. The IPR requires it to be 10 years. Perhaps
29 you could consider an Option C that should councils be able
30 to demonstrate the effective application of Option B over
31 four years, that the next time they go forward there's an
32 Option C comes in that they can actually do it over the
33 10-year lifespan of their plan, so that you've actually got
34 a longer horizon to do your plan in.

35
36 THE CHAIRMAN: We will give that consideration. Could
37 I just say that that would mean locking in future councils,
38 because the life of a council is four years.

39
40 MR MILBURN: Yes, but it would allow us to do that
41 long-term planning.

42
43 THE CHAIRMAN: Yes. As I say, I'm sympathetic and the
44 government is trying to move to 10-year planning too. On
45 something as critical as this, I think there is an issue as
46 to how far you can lock a future council into it.

47

1 MR MILBURN: How does that go practicality wise then if we
2 do a mid-term Option B and it gets approved, because we've
3 done the survey, that's a four-year approval, and that will
4 go over two terms of council?

5
6 THE CHAIRMAN: The way we saw Option B working is that
7 it be developed in conjunction with the electoral cycle. You
8 put the thing together just before an election, if you're
9 on the voting cycle. If you used an Option B two years
10 into an election cycle then you'd only get it for two
11 years. If you used, say, the community survey method you'd
12 only get it for two years then. That's the way we saw it
13 working.

14
15 I would like to thank you all again very much for your
16 attendance and I hope we'll get your support and your
17 suggestions for how we can improve things. Thank you very
18 much.

19
20 AT 11.40AM THE TRIBUNAL ADJOURNED ACCORDINGLY

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