

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

**REVIEW OF REVENUE FRAMEWORK FOR LOCAL GOVERNMENT**

**Tribunal Member: Ms Sibylle Krieger**

**Secretariat Members: Mr Michael Seery  
Mr Tony Camenzuli**

**Held in the Gallery Room,  
Country Comfort Motel  
Cnr Tarcutta and Morgan Streets, Wagga Wagga**

**On Tuesday, 8 September 2009, at 10.40am**

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1 MS KRIEGER: I would like to welcome you to this public  
2 workshop which is being conducted by IPART - the  
3 Independent Pricing and Regulatory Tribunal - into the  
4 review of the financial framework for local government.  
5 First of all, I would like to introduce myself. My name is  
6 Sibylle Krieger and I'm one of three members of the  
7 Tribunal. With me today are members of IPART's  
8 Secretariat, including Michael Seery who is the program  
9 director for the local government project and  
10 Tony Camenzuli who is in the front row.  
11  
12 The former Premier asked IPART to undertake a review  
13 of the revenue framework for local government and asked  
14 that the review consider three terms of reference. The  
15 workshop today is really about the first two terms of  
16 reference. The third one concerns statutory authorities  
17 and only a limited number of councils in Sydney, so we  
18 won't spend time on that. The two that we want to talk  
19 about today are first, an appropriate intergovernmental and  
20 regulatory framework for setting rates and charges that  
21 facilitates the effective and efficient provision of local  
22 government services and second, an appropriate role for  
23 IPART in setting rates and charges in future years.  
24  
25 This workshop is part of our public consultation  
26 process for the review and one of a number of workshops  
27 that have been held in Sydney and in regional areas over  
28 the past four weeks. During the past year we first  
29 released an issues paper and we received 65 submissions  
30 from local government, interest groups and members of the  
31 public in response to that. At the end of last year  
32 we held workshops in Sydney and a number of regional  
33 centres to discuss the key issues that were raised in the  
34 submissions.  
35  
36 We have also undertaken 11 case studies of councils  
37 through New South Wales to get a cross-section of councils  
38 and to understand in some detail the issues that they face  
39 and how they are addressing them.  
40  
41 We recently presented a draft report - which I think  
42 you've all had access to - to the Minister for Local  
43 Government and released it to the Government on 23 July.  
44 At the same time we put out an information paper detailing  
45 a comparative analysis with revenues and expenditures of  
46 local government in other States.  
47

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1 One important thing to emphasise is that this is a  
2 draft report. The purpose of releasing it as a draft  
3 report is to test some of the ideas that we've put forward  
4 in it and to see what people think. Some of the  
5 propositions that we've put forward would involve a fairly  
6 substantial change to the arrangements for determining  
7 local government rates in New South Wales and so I want to  
8 emphasise that we're here to hear from you about the  
9 desirability and practicality of what we have suggested,  
10 particularly the more substantial changes.  
11  
12 In the draft report we've made 45 recommendations and  
13 we've put forward a proposed framework and a fair bit of  
14 material about its implementation. In relation to rate  
15 pegging, we've put forward two options for further  
16 consideration. I just want to touch on those two options  
17 in a bit more detail.  
18  
19 Before we finalise the report we want to listen to  
20 councils, ratepayers and the community generally on the  
21 proposals set out in the report and consider the  
22 submissions of interested parties. For anyone wishing to  
23 make a submission, they are due by 18 September. All  
24 submissions we receive are carefully considered and will be  
25 taken into account in reaching our conclusions on the  
26 framework for regulating local government revenue.  
27  
28 I would like to take this opportunity also to thank  
29 you for attending today and for the support that we've  
30 received from local governments so far in putting together  
31 our draft report, particularly the 11 councils who spent a  
32 lot of time allowing the Secretariat to look in detail at  
33 their operations and their financing. That is all  
34 indicative of what we consider to be an important part of  
35 the overall process. Your involvement and the time that  
36 you make available to us is very important.  
37  
38 Following consideration of the matters which  
39 stakeholders raise in submissions and at these workshops,  
40 IPART will make its final recommendations to the Minister  
41 for Local Government by our final report in November of  
42 this year.  
43  
44 Before we get under way, I just want to say a few  
45 words about how we're going to run this workshop. There  
46 is a brief agenda which we've put out which indicates each  
47 discussion topic or session. Today there'll be two broad

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1 topic areas. The first will be a general overview of the  
2 outcomes of our draft report and the second session will  
3 outline how the two options which we've put forward would  
4 work. The sessions and your comments in response to them  
5 are intended to provide us with information in our  
6 deliberations and for the finalisation of our report.

7  
8 At the outset of each session there'll be a brief  
9 presentation - the first one Michael will run - to  
10 introduce the main issues and to raise a series of  
11 questions and then I'll ask anyone in the audience who  
12 wants to comment or raise a question or has anything to say  
13 to say it.

14  
15 As you can see, the proceedings today are being  
16 transcribed and the transcript will be available on the  
17 IPART website within about a week and so for the benefit of  
18 the transcribers please use the mobile microphone,  
19 introduce yourself by name and the organisation you  
20 represent and speak slowly and clearly. Could I hand over  
21 to Michael for the first session.

22  
23 MR SEERY: Thank you. In this first session I will be  
24 talking about IPART's draft report from a general  
25 perspective and will highlight some of the key findings and  
26 recommendations that are in the report. I will leave  
27 discussion about the detailed revenue framework until the  
28 second session.

29  
30 The two terms of reference relevant to today's  
31 workshop relate to IPART recommending a framework for  
32 the setting of rates and charges and a role for IPART in  
33 setting those rates and charges in future years.

34  
35 After considering the 65 submissions and conducting six  
36 public workshops in Sydney and regional centres, IPART  
37 released its draft report on the revenue framework on  
38 23 July. This report includes a number of findings and  
39 45 recommendations. I will outline some of those findings  
40 and recommendations shortly. Most of the recommendations  
41 relate to the future arrangements for rate pegging, with a  
42 key element being the local government cost index. I will  
43 talk about the cost index in this part of the discussion  
44 today and the chair will discuss the two options, Options A  
45 and B, in the second session.

46  
47 We have broken the key findings into a number of broad

1 areas. In relation to rate pegging, IPART has found that  
2 rate pegging has achieved the government's original  
3 objective of restraining rate increases. Rates have  
4 increased by less than in other States but by more than the  
5 rate peg due to extensive special variations. Fees and  
6 charges and other revenues have increased by more than  
7 other States and increases in total revenue have been  
8 around that of other States.

9  
10 These findings have been based on analysis that IPART has  
11 undertaken, particularly the comparative analysis that it  
12 has released in a compendium document to the draft report.  
13 Over the most recent nine years, analysis of Department  
14 of Local Government data has shown that whilst half  
15 of councils have increased rates by less than the rate peg  
16 amount, half have increased rates by more than the rate peg  
17 amount. Whilst many councils may have increased rates  
18 along with the rate peg, a number for various reasons have  
19 not increased rates over the total period in line with the  
20 rate peg amount. This reflects in many cases councils'  
21 desire not to impose rate increases on their ratepayers.

22  
23 In relation to the rate pegging processes we found  
24 that the process for determining the amount by which rates  
25 may increase under the rate peg is not transparent. That  
26 is, the Minister announces the rate peg amount each year  
27 but it's not clear on what basis that amount has been  
28 determined. This is evidence of the fact that the allowed  
29 increases do not necessarily reflect council's costs.

30  
31 Secondly, we found that processes for assessing  
32 special variations are not transparent. The reasons for  
33 which particular councils have a special variation in the  
34 past have not necessarily been made known either to the  
35 council or to the community.

36  
37 In relation to accountability, councils are accountable  
38 to both the New South Wales Government and the  
39 local community at the same time. There has been limited  
40 engagement of community in determining community  
41 preferences about revenue and expenditure options and  
42 these are two areas that IPART has particularly sought to  
43 address as part of its framework.

44  
45 There is considerable diversity amongst councils which the  
46 revenue framework must take into account. For example,  
47 there are significant differences in councils' abilities to

1 raise revenue. For many rural councils this is reflected  
2 in a higher reliance on rents. In relation to financial  
3 sustainability most councils, but not all, are financially  
4 sustainable and rate pegging has not adversely affected  
5 their financial sustainability. This has been possible  
6 because New South Wales councils have met their  
7 expenditure and revenue needs through greater use of user  
8 charges than has been the experience elsewhere and many  
9 councils have applied for and received special variations.

10

11 We recognise that a large number of councils but not the  
12 majority may not be financially sustainable. However, for  
13 many of these councils simply removing rate pegging may  
14 not remove their structural problems and may not assist  
15 them to become financially viable.

16

17 Our analysis shows that the financial position of  
18 local councils in New South Wales is no worse than that in  
19 other States. The evidence suggests that a number of  
20 councils may be using revenues for capital purposes to fund  
21 recurrent expenditure. In relation to capital expenditure,  
22 the reporting and accounting of capital expenditure and  
23 maintenance is not consistent across councils. As a result  
24 the evidence on the extent of backlogs is not conclusive.  
25 When we did an analysis of backlogs in other States we  
26 found that they do not appear to be worse in New South  
27 Wales than they are on average in other States.

28

29 A large number of councils and councils overall in  
30 New South Wales are net lenders, not net borrowers, and  
31 councils use less debt for capital than they could and they  
32 have capacity for a greater use of debt to fund  
33 infrastructure works.

34

35 Briefly, on the issue of cost shifting, IPART in its  
36 report has made a narrow definition of cost shifting.  
37 Essentially, cost shifting occurs where a higher level of  
38 government requires local government to undertake a  
39 function without adequate funding: for example, when the  
40 state transfers a function it previously undertook with no  
41 funding. It does not include changes that would apply more  
42 broadly than to local government: for example, where  
43 councils are required to undertake new reporting  
44 requirements or new standards, environmental standards or  
45 other standards that would apply, for example, occupational  
46 health and safety standards.

47

1 IPART's definition distinguishes between those cases  
2 where local government is required to undertake a function  
3 and those where local government decides to take on a  
4 function. Our definition is consistent with autonomy and  
5 decision making and accountability to local government.

6

7 Our draft report is not explicit on how increased  
8 costs from these sources could be funded. Whether or not  
9 these costs are recognised as a cost shift, they are not  
10 excluded from the framework. It is a matter of who pays,  
11 the higher level of government or the ratepayers. In  
12 either case, the framework should be flexible enough to  
13 address these concerns. An option for including these  
14 costs within the framework could be either through an  
15 adjustment to the cost index or through special variations.

16

17 Those were the findings. Now the recommendations,  
18 other than those relating to the framework. IPART has  
19 recommended in its report improved financial reporting.  
20 IPART recognises that there has been progress in these  
21 areas in the recent past, but more is needed. Examples  
22 where there could be improved reporting is that there  
23 should be a mandated requirement for the net operating  
24 result excluding capital revenues to be reported more  
25 consistently, that there should be reporting of maintenance  
26 costs relating to public works and there should be  
27 reporting of annual expenditure upon renewable capital  
28 works.

29

30 There should be improved asset management based on  
31 consistent definitions and that these definitions should be  
32 developed by the Department of Local Government. There  
33 should be regular surveys - say, every two years - of  
34 community satisfaction and the results of these surveys  
35 should be published in the annual report.

36

37 Unlike under the current rate pegging arrangements,  
38 there should be capability for a catch-up mechanism for  
39 recovery for ongoing rate increases. That is where a  
40 council decides in one year not to increase rates, but the  
41 next year they can apply the amount they could have  
42 increased the previous year to the next year's rate  
43 increase. Regulation of rate revenue should be continued,  
44 not a regulation of total revenue.

45

46 In relation to the local government cost index, the  
47 cost index will be based on an annual movement in costs of

1 councils and a productivity factor. It is not a measure of  
2 the costs of councils but rather the change of the costs of  
3 councils. The index should be a state-wide index and  
4 there'll be a single index for the whole of New South  
5 Wales. For those of who were at workshops last year,  
6 particularly the one at Queanbeyan, we discussed the  
7 possibility of smaller groups of councils being given an  
8 index or councils being able to develop their own index.  
9  
10 Our view at this time is that a state-wide index would be  
11 best and there is not a significant difference across  
12 councils in the rate of change in costs for other than a  
13 state-wide index. There will be a basket of costs, and some  
14 of these costs that we included in the index are listed  
15 in our draft report. There will be a retrospective index  
16 and we would use published indicators. Most of those  
17 are published by the Australian Bureau of Statistics.  
18  
19 The important part of calculating the index is to  
20 develop the weights of costs, to determine, using each  
21 indicator, what weight is given to each indicator based on  
22 councils' costs. This would be established every five  
23 years and would require a survey of all council costs. It  
24 would be independently calculated and ideally it would be  
25 calculated by IPART.  
26  
27 The minister would determine the annual increase in  
28 rates for most councils, and those councils that choose to  
29 seek a special variation from those rates under option A  
30 would be able apply to increase rates at a greater or  
31 lesser amount.  
32  
33 Timeframes: IPART believes that the local government cost  
34 index could be in place for the rate increases to apply  
35 from 2010/2011. However this would require a decision  
36 from government before the end of this year to enable  
37 IPART to undertake the survey work of councils to do the  
38 calculation of weights. The medium-term arrangements  
39 under Options A and B would commence around the time  
40 of the next council election, that is after the 2011/2012  
41 financial year. Until then the current rate pegging  
42 arrangements other than the local cost index would apply.  
43 However, it is possible that some of the improved  
44 transparency arrangements that are recommended in IPART's  
45 report could be implemented in the short term as well.  
46  
47 Recapping on the review timetable, we talked about the

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1 grey areas when we released the report last year and we  
2 published the draft report on 23 July. The submissions for  
3 the draft report of this review close on 18 September, that  
4 is Friday week. We are currently in the process of  
5 conducting workshops. We have already held workshops in  
6 Sydney and Coffs Harbour. We are here today at Wagga and  
7 we will be going to Dubbo on Friday. We are also holding  
8 another workshop in the Hunter next Wednesday morning.  
9  
10 Following consideration of the submissions and the  
11 input from the public workshops, IPART is proposing to  
12 report to the minister by mid-November of this year.  
13  
14 That concludes the presentation I will now hand back  
15 to the chair for questions or comments.  
16  
17 MS KRIEGER: In the second half of this morning's  
18 discussions, we will talk in some greater detail about what  
19 we call Option A and Option B. For the moment recapping  
20 the broad themes of what we think need to change, councils  
21 need to be able to manage in the longer term. They need to  
22 be given the opportunity to manage more than year to year.  
23 In order to do that councils need a better predictability  
24 of their revenue.  
25  
26 If councils are to have their rates capped, we think  
27 the system of capping rates needs to be on more transparent  
28 basis; so the reasons for the basis on which it is done  
29 need to be more transparent. If councils are to seek  
30 special variations on rates, the basis on which that  
31 application is either approved or not approved needs to be  
32 on more open.  
33  
34 In the longer term, we think that the only way in  
35 which capital expenditure can be brought under control and  
36 infrastructure issues dealt with is if councils are given  
37 the opportunity to manage in a longer time frame, not  
38 simply year to year as is the case at the moment.  
39  
40 I would like to open the workshop for comments.  
41  
42 MR STYLES: Gary Styles, Orange City Council. Am I to  
43 understand from your presentation on the issue of the  
44 backlog of assets and cost shifting, that that will not  
45 really form part of the framework if we follow the  
46 direction you are going; it will be more of a  
47 year-to-year thing? How then do you suggest we deal with

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1 the backlog? I saw the comment that there is nothing  
2 really in what is coming forward to do the cost shifting.  
3 You have the narrow definition and you have sort of dealt  
4 with it, but it does not seem as though it will form part  
5 of the basket of goodies, and then there will be catch-up  
6 and the like.  
7

8 Equally with regard to the backlog of the assets you  
9 have stated that the claims of the backlog have been  
10 overstated from special schedules, but I don't think they  
11 have been overstated 100 per cent. It might be 80 per  
12 cent, 60 per cent, or whatever it is, but it is still there  
13 and it still has to be dealt with. Are we therefore  
14 heading towards trying to do the catch-up on assets and  
15 cost shifting in another way through special variations or  
16 what will happen?  
17

18 MS KRIEGER: On this question of infrastructure backlogs,  
19 what we are saying in broad terms is in judging whether  
20 something is an infrastructure backlog or not, you are  
21 comparing it to a desirable or satisfactory or normal state  
22 of assets. From what we have seen, there is too much  
23 variation in approaches to the estimates that we have been  
24 given to just accept them at face value. What is a  
25 satisfactory state of assets is a little bit in the eye of  
26 the beholder, and sometimes when an engineer is the  
27 beholder, the standard is higher than it otherwise might  
28 be.  
29

30 There are not enough consistent asset management tools  
31 across local government in New South Wales and there is  
32 not a sort of uniform standard for us to be able to say that  
33 the figures need to be accepted at face value. We also are  
34 saying that, on a per capita basis, the revenues of people  
35 living in local government areas are comparable across  
36 Australia. On that basis we say there should not be a  
37 significant difference in New South Wales when compared  
38 with the rest of Australia - per capita revenues are  
39 comparable.  
40

41 In the longer term, we think the key things to address  
42 these issues will be better asset management systems; and  
43 the ability over time to seek better autonomy for local  
44 councils if they want to go that route, which we will  
45 discuss in the second half in the so-called Option B, if  
46 that is something that councils want to pursue. But, yes,  
47 there will still be scope for special variations. It is

1 just that they will be better substantiated and they will  
2 be dealt with on a more open basis by the minister deciding  
3 them. What we are recommending is that councils need to  
4 substantiate their application and the minister, in  
5 deciding, needs to give reasons for or against the outcome.  
6 Does that answer your question?  
7

8 MR STYLES: How strong is your recommendation to  
9 government to require councils to do proper asset plans  
10 with consistent criteria?  
11

12 MS KRIEGER: In the longer term, that is pretty much a key  
13 to the system working because having better asset  
14 management plans is a key to longer term sustainable local  
15 government management. It is key to differentiating  
16 between capital sustainability and recurring payment  
17 sustainability. It is key to a whole range of things that  
18 we have discussed in the report.  
19

20 MR STYLES: May I ask another question? In your case  
21 studies were there any councils included that had actually  
22 done the asset studies that could say with some authority  
23 what the backlog was and what the gap for sustainability  
24 was?  
25

26 MS KRIEGER: Some of the councils we looked at in detail  
27 had very highly developed asset management systems. I will  
28 hand this question over to Michael, who is much closer to  
29 the 11-council study.  
30

31 MR SEERY: Of the 11 councils, at least one of them had a  
32 very good asset management system. They could clearly  
33 identify all of their assets including roads and over short  
34 lengths of those roads. They had clearly developed the  
35 condition of those assets and the value or the cost to  
36 maintain those assets at a reasonable standard, and that  
37 would mean that they are closely related to the numbers  
38 that they had in their special schedule 7.  
39

40 With other councils, we noticed that over time the  
41 value of their backlog changed considerably and we were  
42 looking at a period of about eight to ten years. When we  
43 interrogated those councils, they themselves had become  
44 aware that they were overestimating the amount of their  
45 costs. As you are aware, we don't know the extent of the  
46 overestimate in New South Wales as a whole.  
47

1 At the end of the day, whether or not there is a  
2 backlog, whether or not there is cost shifting, they are  
3 inputs to your revenue requirements into the future and  
4 therefore they need to be considered in the framework for  
5 what would be your revenue requirements. Whether that  
6 means you have a high backlog or a low backlog, it all  
7 depends on what you are going to do. You need to work out  
8 a plan to remove the backlog, to provide the assets you  
9 require into the future, to cover your operating costs.  
10 That plan would include how you are going to get the  
11 revenue for that from rates, whether or not you need to  
12 take out debt to cover those costs. That is all part of  
13 the package that needs to be considered which is dealt with  
14 under our Options A and B.

15  
16 MS KRIEGER: I have one follow-up comment on this  
17 question of debt. A number of councils have said to us in  
18 the past, "Well, debt is all very nice in theory, but you need  
19 some predictability of revenue to know that you will be  
20 able to pay it back over time", and we fully accept that.  
21 If you have long-term assets, yes, it makes sense to borrow  
22 for the long term to build or sustain those assets, but you  
23 need a predictability of revenue to be able to have the  
24 insurance that you can pay it back, and that is the whole  
25 longer term focus that we are talking about.

26  
27 Does anyone else have a comment?

28  
29 MR BRAYBROOKS: My name is Paul Braybrooks. I am the  
30 mayor of Cootamundra and chairman of REROC. Can I ask a  
31 very fundamental question, and it is about rate pegging.  
32 You have acknowledged in your report that local government  
33 needs to be responsible in its financial management. You  
34 have also acknowledged that the net income of local  
35 government has probably kept parity with other states. You  
36 have also acknowledged this parity has been achieved by  
37 increasing charges and other costs. In light of the  
38 considerable changes that the state government is bringing  
39 in this strategic planning and community consultation, can  
40 I ask why we are unique in New South Wales in having rate  
41 pegging still here? I note that your report in reality  
42 endorses that principle of rate pegging.

43  
44 MS KRIEGER: I would not describe it as much an  
45 endorsement of rate pegging as simply an acceptance that we  
46 will not move from 30 years of rate pegging to an abolition  
47 of rate pegging. What we have put forward is a system of

1 incremental change, and fairly significant incremental  
2 change.

3  
4 If you look at the so-called Option B that we will be  
5 discussing later on - the sort of earned autonomy option -  
6 to go down that route, councils need to show not only  
7 management systems but also history of planning and  
8 financial responsibility and so on, as well as support from  
9 the local community. It seems to us quite possible that if  
10 a number of councils go down that option B route,  
11 eventually it becomes an obvious question of why are we  
12 rate pegging at all? But that is really the tribunal  
13 response. We are not endorsing rate pegging. We are just  
14 saying we don't think it will go from 30 years of rate  
15 pegging to none in a single step.

16  
17 MS CUMMINS: (Mayor, Junee Shire Council) Why not?

18  
19 MS KRIEGER: A question has been asked why aren't we  
20 going from rate pegging to the abolition of rate pegging in  
21 a single step. The answer is that we don't think that the  
22 state government will accept it and the feedback that we  
23 have had from ratepayers shows that they want to hang on  
24 to a capping of rates.

25  
26 We have had feedback from a number of people,  
27 including a number of ratepayers associations. They are  
28 clinging quite tightly to rate pegging and favour it. They  
29 say that, in many communities, ratepayers constitute a  
30 minority of the people living in the local government area.  
31 They are more than happy to have rates capped and to  
32 allow a lot of council revenue to be on the basis of user pays,  
33 and they are an important voice in the overall scheme of  
34 things.

35  
36 We are well aware of the push from a number of  
37 councils towards an abolition of rate pegging, but we don't  
38 think it will wash. We think that what we are doing is  
39 mapping out a road that goes in that direction rather than  
40 proposing something that will not get up

41  
42 MR RICHARDSON: My name is Craig Richardson. I am the  
43 manager of financial services at Wagga Wagga City Council.  
44 In August 2008 the council made a submission to IPART.  
45 That was following the meeting you had in Queanbeyan  
46 around that time. Council has considered the draft report  
47 that has been released and has resolved to support Option B.

1  
2 I understand you will be giving a presentation later  
3 on in relation to the two options so I will not comment too  
4 much further on that issue at this stage. Council, in its  
5 submission, resolved that IPART should play a direct role  
6 in the determination of the rate pegging limit, and I think  
7 the report adequately addresses that issue.  
8  
9 Our second recommendation is that the role of IPART  
10 should be determinative in respect of the rate pegging  
11 limit and this role should be provided for in the Local  
12 Government Act. I note from the report, particularly under  
13 option A, that IPART's role is not a determinative role.  
14 It is just an indicative role that IPART is playing. That  
15 certainly falls short of our expectations, and I suspect  
16 the expectations of many councils. In that case, IPART can  
17 make a recommendation based on a well-researched cost  
18 index, but the minister can then turn around and ignore the  
19 recommendation and stick to the status quo in terms of rate  
20 pegging.  
21  
22 Also we submitted that the current regulatory  
23 framework for the council revenue has a detrimental impact  
24 on the financial sustainability of local government, and I  
25 think that is well acknowledged in the report.  
26  
27 Finally, the New South Wales state government needs to  
28 increase the autonomy of local government in line with  
29 other states to determine the required level and mix of  
30 rates, annual charges and fees to fund services and the  
31 renewal of infrastructure in consultation with the local  
32 community.  
33  
34 I think that can be achieved through Option B, but we  
35 note that the criteria in relation to meeting Option B are  
36 quite strict. I have some other questions in relation to  
37 Option B which I will ask later on.  
38  
39 MS KRIEGER: As to IPART having the role of making a  
40 recommendation to the minister, yes, it is conceivable that  
41 a minister, if we are only recommending, can decide to  
42 ignore what we recommend; but if you get state government  
43 agreement to a much more open process where that can't be  
44 done without a justification or statement of reasons, it is  
45 less likely to happen.  
46  
47 The other thing, of course, is if we are putting

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1 together a cost index which measures the way in which local  
2 government costs increase as a percentage from year to  
3 year, it is entirely possible that the minister would agree  
4 to a cap higher than that. Most levels of government have  
5 real increases over time. They don't just have cost-based  
6 increases. They actually increase their services and the  
7 scope of what they do over time. There is no reason why  
8 local government should be any different. If we establish  
9 what the cost index is, it should be open to the minister  
10 to go above that not simply below as you might fear.  
11  
12 In terms of IPART taking a determinative role, that is  
13 open to the state government but that would require  
14 legislative change to the Local Government Act, as you have  
15 said.  
16  
17 MR CAMPBELL: I am Greg Campbell from Junee Shire  
18 Council. We would have a basic objection to the  
19 presumption that rates need to get capped. If you don't  
20 make a contrary suggestion to the state government, well,  
21 we can guarantee that the government will not uncapp them.  
22 That is our basic objection.  
23  
24 With respect to the index, we believe that there is no  
25 one single index for the whole of the state. The index for  
26 metropolitan Sydney will be somewhat different from  
27 anything out in this part of the world, and that really  
28 does need to be taken into consideration.  
29  
30 Talking of cost shifting, the requirement to hold a  
31 survey every couple of years is classic cost shifting  
32 because those things are very expensive. We went through  
33 the process a couple of years ago and had a very  
34 respectable survey done based on the IRIS survey, which  
35 was done in support of the Allan report. That is something  
36 we would commend to you as a starting point for a survey;  
37 however, it is expensive.  
38  
39 Here we get to the real point. In that survey we  
40 found that ratepayers were accepting of rate rises in order  
41 to maintain existing services. If you published an  
42 advertisement in the newspaper suggesting, "All those who  
43 are against rate rises please meet in the Town Hall" on  
44 such and such a night, you'll get a got roll up, but if you  
45 actually drill down into the community through a good  
46 random survey then you'll get a different answer because  
47 people do in fact want decent services and they are

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1 prepared to pay more for them. That is why we don't  
2 believe rate capping should be the rule. It should be  
3 something that happened back in 1977 and which we've  
4 grown out of, thank you very much.

5  
6 MS KRIEGER: Thank you. On the question of rate capping  
7 or no capping, I think there is a range of views. There  
8 are ratepayer association views. Not even all councils by  
9 any means are formally in favour of abolishing rate  
10 capping, so you have to accept that there is a range of  
11 views on that issue.

12  
13 On the question of a cost index, the point that you  
14 make has been raised by other people. Can there be a  
15 single index that covers councils across New South Wales?  
16 What I'd say about that is we just need to be clear what  
17 we're talking about in a cost index. The way in which we  
18 do that - and we do it in other industries, for example,  
19 the taxi industry - is where you get a survey of cost  
20 inputs from councils so that you can see as a percentage of  
21 their total costs what it's made up of, how it works,  
22 employee administration, et cetera, et cetera, et cetera,  
23 and that enables you to weight the index.

24  
25 The cost index won't allow any individual council to  
26 calculate a dollar number for its costs. It will simply be  
27 a question of an indicator of the percentage by which a  
28 typical council's costs increase from year to year. Based  
29 on what we've done in this project so far, to the extent  
30 that we can tell, the differences between councils are not  
31 as large as you might think in terms of how their costs are  
32 made up. Those differences are picked up in large part by  
33 basing the initial weightings on an extensive survey of  
34 councils. That is the approach that we're proposing. Does  
35 anyone else wish to comment?

36  
37 MR DROWLEY: My name is Trevor Drowley. I am from  
38 Harden Shire Council. I have only been at Harden for two  
39 days, so I'd qualify that. I've actually come from a local  
40 government water authority subject to price regulation and  
41 I can see that Option B probably follows a similar basis  
42 upon which the regulation has worked with water  
43 authorities.

44  
45 Working in the water authority it was quite obvious to me  
46 that the water and sewerage pricing system worked much  
47 more effectively than the rate pegged general revenue

1 requirements in being able to meet long-term capital  
2 expenditure and maintain assets effectively because there  
3 was less political involvement in the setting of those  
4 rates and charges. The recommendations at the moment  
5 proposed Option B along those lines. However, the rate  
6 pegging still remains.

7  
8 My question relates to that backlog of infrastructure  
9 services. If we build those backlog costs into a pricing  
10 structure over a short period, even if it's four years,  
11 most councils are not going to achieve that backlog in that  
12 sort of time frame. They need the certainty that if there  
13 are going to be special price increases, that they can levy  
14 those charges - it may be over 10 years - to achieve that  
15 catch up. Is that something that's likely to be able to be  
16 considered as part of the overall recommendation?

17  
18 MS KRIEGER: If you look at what we're proposing in terms  
19 of the cost index increases each year, you've got a basket  
20 of costs and the idea is that they would go up each year by  
21 publicly available escalators published by the Australian  
22 Bureau of Stats, so you've got a very transparent system,  
23 and once you've got a couple of years of experience with  
24 that you will know which way your baseline is going.  
25 You won't know the exact percentage but you will have a  
26 pretty good guess of which way the baseline is going.

27  
28 You will also have the opportunity not only for the  
29 Minister to decide that you should have a cap on rates  
30 higher than that, you'll also have the opportunity to make  
31 a special variation application if you can show the  
32 community support and the other things that you need to  
33 do to get that across the line.

34  
35 Even assuming rate capping, once there is a system of that  
36 working on a known and open basis, you should have the  
37 assurance that you're talking about to plan 10 years ahead.  
38 The other thing of course is that the integrated planning  
39 framework that has been introduced contemplates a much  
40 longer planning cycle as well.

41  
42 PROFESSOR SHEEHAN: John Sheehan. I am deputy  
43 director of the Asia Pacific Centre for Complex Rural  
44 Property Rights at UTS. I just want to go back to the earlier  
45 presentation. I am very disappointed in the draft report.  
46 I will deal later on in the second session with Options A  
47 and B, but there is this constant theme all the time that

1 you will accept rate pegging. I am sorry, that is the  
2 theme as you read through the document and even at the  
3 start of it, when you're looking at Options A and B, you  
4 state that you're going to be accepting that as something  
5 that has to happen.  
6  
7 To start off with I think there are some real issues  
8 there in the way you've done the analysis and that is that  
9 the section 94 contributions have really been one of the  
10 major cost shiftings that have occurred between state  
11 government and local government. I feel very sorry for  
12 local government because as the state government has cost  
13 shifted it has basically, as you said at the outset there,  
14 handed jobs to local government but not funded it. They  
15 have indirectly had to expand what they see as being the  
16 costs arising as a result of particular development and  
17 there have been some very innovative ways of putting in  
18 what should have been renewal of say basic council assets  
19 in various ways into payments which have been required  
20 under section 94 contributions and the updating of old  
21 infrastructure on the basis that a new project is going to  
22 cause this to wear out much quicker. Some of those things  
23 have been very subtle. I think there is a real failure in  
24 your report because you should have really looked at the  
25 impact of section 94 contributions.  
26  
27 As I said at the outset, I think when Harry Jensen  
28 introduced that one-year rate pegging back in 1976 it  
29 became permanent. It's a bit like the income tax in the  
30 war years, it has become a permanent feature, and you're  
31 quite right, it doesn't exist in other states. What has  
32 happened is that local government has had all these extra  
33 responsibilities placed upon them and I think it is a  
34 failure in your report that you should have looked at the  
35 impact of that cost shifting and in particular section 94  
36 contributions.  
37  
38 What it has done is move councils away because they've  
39 had real controls upon their income stream from rating,  
40 land based rating. They have been forced to look at such  
41 things as section 94 contributions to pick up the things  
42 that the State Government would have originally done, or  
43 maybe it's because they've moved away from such things as  
44 long-term debt.  
45  
46 They are issues which I think you need to go back and  
47 think about in terms of that background research you've

1 done because I don't think what you've done so far is  
2 successful. I will speak in the second session about  
3 Options A and B.  
4  
5 MS KRIEGER: Thank you for that. Is there anyone else?  
6  
7 MR RICH: Ian Rich from Corowa Shire Council. I am the  
8 director of corporate and community services. I would like  
9 to touch on water and sewerage. We heard our friend over  
10 here talk about water earlier on. There doesn't seem to be  
11 a lot in your report in regards to water and sewerage and  
12 having had a look at appendix G, classification of local  
13 government functions, water and sewerage are not  
14 mentioned in there.  
15  
16 They would be one of the biggest cost shifting exercises  
17 I think we've seen in recent times, especially with the  
18 country water and sewerage scheme. We have had rising or  
19 higher standards imposed on us at state government level.  
20 Therefore, when we deliver a new water treatment plant  
21 or a sewerage treatment plant we have higher standards  
22 that we have to apply. We have much much higher  
23 capital costs in those functions now than we ever had  
24 before and to exacerbate that, we've now got much lower  
25 contributions by the state government in respect to those.  
26 We used to get a 50 per cent subsidy: now we only get  
27 about a 33 per cent subsidy.  
28  
29 That is a cost shifting exercise due to standards that  
30 are imposed at a higher level of government that we have to  
31 deal with at a local government level and at a community  
32 level and I just question whether or not the community  
33 itself has the capacity to pay in some rural councils.  
34 It might be different in the city, but in the rural  
35 councils the ability to pay appears to me to be getting  
36 beyond many of our ratepayers.  
37  
38 We have had the economic circumstances across the  
39 world. We have had drought for many years.  
40 Our outstanding rates and charges at Corowa Shire have  
41 risen from 4 per cent to 6 per cent to 6.75 per cent to  
42 around about 8.5 per cent this year and I don't believe  
43 it's any change in the way we're going about recovering our  
44 rates. It is just the inability of the community to deal  
45 with that.  
46  
47 MS KRIEGER: Thank you for that. There are two things to

1 be said about that. I think the situation that you've  
2 described falls within the definition of a cost shift even  
3 in the stricter or more narrow definition that we've  
4 accepted in the draft report.  
5  
6 The second issue is that we're well aware of the fact  
7 that rates form a different contribution to total revenues  
8 in rural and regional councils as compared to a lot of  
9 metropolitan councils and we're fully aware of the fact  
10 that a number of rural and regional councils are heavily  
11 dependent on grants and that rates are not irrelevant but  
12 they're a much smaller issue in the overall scheme of  
13 things than they may be in a large city council.  
14  
15 If nobody else wants to talk on this first section  
16 we might go into the second session, because a number of  
17 people have obviously got some comments about Options A  
18 and B.  
19  
20 Looking at the key themes in the draft report as to how  
21 we think the current framework could be improved, the  
22 key issue we think is the need to go from a year by year  
23 framework to a multi-year framework to both revenue  
24 raising and financial planning and asset management. We  
25 also think that if there's to be a rate setting or rate capping  
26 system then it has to be more independent, more apolitical,  
27 more rigorous and more transparent. We think that there  
28 ought to be a stronger link between the framework for  
29 councils' strategic planning processes so that revenue, capital  
30 and opex are all linked in an overall planning mechanism  
31 that goes a number of years into the future.  
32  
33 We think that the baseline should be an explicit,  
34 particular local government cost index independently  
35 calculated - that is, independent of government - and that  
36 there should be a productivity adjustment to encourage  
37 efficiency gains. On this question of efficiency gains  
38 I should say in passing that a number of councils feel  
39 strongly that there's no further scope for efficiency gains  
40 in local government and that may or may not be the case.  
41  
42 Over a long period of time it's clear that there have  
43 been productivity gains to be had. Clearly, local  
44 government works more effectively now with the use of  
45 computers than it did on paper based clerical systems years  
46 ago. We accept that to the extent that services are  
47 tendered and outsourced, that that in itself is a

1 substitute if you like for productivity gain. We also  
2 accept that in certain periods a productivity gain might be  
3 zero, but we certainly don't want to rule it out.  
4  
5 The framework that we are putting forward builds on the  
6 proposed integrated planning and reporting framework to  
7 improve community engagement and accountability of local  
8 government over time. The aim is to provide greater  
9 certainty into the future for local government and greater  
10 transparency for members of the community. We are  
11 putting forward our so-called Option B which is what we  
12 call an earned autonomy option for councils.  
13  
14 Option A takes a part of the status quo but seeks to  
15 improve it in certain important ways. It changes a year by  
16 year cap into a multi-year revenue path and it seeks to  
17 make stronger links between rate setting and strategic  
18 planning in councils. If you like, it is the default  
19 option that we put forward for all councils. For some  
20 councils it will be the system that they would live with  
21 long term. The key features which it has which are  
22 different from the status quo are first that IPART would  
23 develop a cost index particularly developed for local  
24 government. It would prepare and publish that cost index.  
25 The Minister for Local Government would determine  
26 annual rate increases taking the cost index into account.  
27  
28 Reasons would need to be given for any refusal to  
29 approve rate increases at least the size of the cost  
30 increases. Councils could apply for special variations by  
31 preparing a four-year revenue plan and satisfying some of  
32 the other criteria which we've set out in the draft report.  
33 The main thrust of all of this is that even special  
34 variations would be conducted on a much more open basis.  
35 The basis on which the Minister would be likely to accept  
36 them would be published over time and people would  
37 become familiar with it.  
38  
39 At the moment it seems to be a bit of a black-box  
40 system where it's pretty hard to predict which special  
41 variations will get up and which won't.  
42  
43 As I have said, each year IPART would calculate the local  
44 government cost index and advise the Minister of the  
45 percentage change. The Minister would then determine  
46 what the increase in rates is to be having regard to the local  
47 government cost index. Councils who want to apply would

1 apply for a four-year period and not just for a single-year  
2 period and there would be a clear statement of the factors  
3 on which special variations would be approved or not.  
4  
5 The sorts of assessment criteria that could be taken  
6 into account in considering special variation applications  
7 in the future are demonstrated need for a special  
8 adjustment on the basis of service requirements, which a  
9 number of people have spoken about, including putting  
10 forward evidence of unmet demand, evidence of community  
11 support for a higher level of services and of course a  
12 willingness to pay for an existing or higher level of  
13 services; special or unique cost pressures faced by the  
14 particular council applying; the fact that without the  
15 special variation there are implications for safety, health  
16 or the financial sustainability of the council; a  
17 demonstrated and adequate use of other sources of funds  
18 and of course the impact which the special variation would  
19 have on taxpayers, by which we mean ratepayers.  
20  
21 Option B - the earned or autonomy alternative - in  
22 essence, this is a system allowing councils to earn  
23 exemption from rate pegging for up to four years. The  
24 four-year period is simply to fit in with the election  
25 cycle in local government. To qualify for Option B a  
26 council would need to develop and cost a list of major  
27 projects in consultation with the community. There would  
28 need to be a revenue plan spanning up the four years and  
29 there would need to be community support.  
30  
31 On this question of community support, we're not being  
32 totally prescriptive here. We have put forward a couple of  
33 ideas of how that community support might be garnered and  
34 put forward. For example, the council's program could form  
35 part of the local government elections, so that after the  
36 election it would be clear to say that the incoming council  
37 has a mandate for a particular set of proposals.  
38  
39 In some councils we have been told that that's not  
40 realistic or unlikely to work, that there have been any  
41 number of elections where it would be hard to say after the  
42 event when a majority is formed by coalition that a  
43 particular program got community support.  
44  
45 We have talked about community surveys. Again, we're  
46 not trying to be prescriptive. It is very difficult to map  
47 it out in detail because if you send out a survey to

1 ratepayers the general response rate tends to be fairly  
2 low, so that in the end result you've got a fairly small  
3 number of people commenting one way or the other.  
4  
5 There are other ways of doing it. A well formulated  
6 opinion poll is possibly a better way of doing it than a  
7 community survey. We are not wedded to any particular  
8 approach. We are just saying to go down the earned  
9 autonomy route we would envisage that councils would have  
10 to be able to demonstrate to the Minister for Local  
11 Government that they've got strong community support for  
12 the programs they're putting forward.  
13  
14 If a council's application for exemption from the rate  
15 pegging system were rejected then you'd go back to the  
16 default option which is Option A. To be eligible to go  
17 down the Option B route you'd need to be able to show a  
18 track record of financial and asset management. We have  
19 given a couple of examples there of what that involves.  
20 Again, it's not a tick the boxes prescriptive list, but  
21 clearly to opt out of the current system, particularly in  
22 the early years of a changed regulatory framework, there  
23 would need to be some substantiation for the fact that a  
24 council is a good manager with a track record and has  
25 community support. That would extend to being able to  
26 show a medium term approach to revenue expenditure and  
27 service delivery planning and as I've said evidence of a  
28 community mandate.  
29  
30 The two approaches for community engagement which  
31 we've referred to in the draft report as I've said are  
32 examples. It may be there are better and cheaper systems  
33 of getting to the same outcome. We have given some details  
34 there of the community survey option and of the voting  
35 option which is effectively seeking to get the mandate from  
36 a local government election.  
37  
38 In the Option B system that we're talking about who  
39 does what? The Minister determines the annual rate  
40 increases which are the Option A fall-back option.  
41 Councils put forward their application for eligibility  
42 under Option B and the Minister decides whether or not  
43 they have got the track record and the community support  
44 to go down the Option B route and if they do they then set  
45 their own rates over that four-year period.  
46  
47 The role of the Department of Local Government is

1 pretty much a monitoring role and the role for IPART is  
2 as I've said developing the index because of course, even  
3 if councils go down the Option B route, the cost index is  
4 still relevant. The proposal which a local council puts  
5 forward to the community would still be assessed directly  
6 or indirectly against that cost index even though it might  
7 be a long way above it.

8  
9 The sorts of issues that come out of what we've put  
10 forward are what are the comparative strengths and  
11 weaknesses of Option A and Option B? Are the proposed  
12 changes under Option A a significant improvement on the  
13 status quo? Are the eligibility criteria for Option B  
14 stringent enough, too stringent, are they practical, would  
15 they work in practice, and are the options for showing  
16 community engagement and support under Option B  
17 realistic and would they work in practice? Is there anyone  
18 who would like to kick off, please?

19  
20 MR PERKINS: Rowan Perkins, Berrigan Shire Council.  
21 One of the questions I have in this is where are the other  
22 levels of government, the state and federal governments,  
23 given that they are largely determining what levels of  
24 grant and what levels of responsibilities we get into the  
25 future? I'm not seeing how they're feeding into our model  
26 of predicting our future capital requirements or our levels  
27 of grants, et cetera.

28  
29 MS KRIEGER: Yes. I am afraid that the system that we're  
30 talking about and the focus of the review that we've done  
31 is rate pegging. There's nothing that we can do that will  
32 make government grants any more predictable, but it is  
33 undoubtedly the case that if councils have a better grip on  
34 their long-term asset management and their planning needs,  
35 that their ability to negotiate for the grants would have  
36 to be improved.

37  
38 MR VLATKO: I am Peter Vlatko, the general manager of  
39 Young Shire Council. I wish to make a couple of comments  
40 but I also have some questions. Throughout this  
41 presentation, you mentioned community support. You  
42 suggested therefore the council must have that community  
43 support, but it has to go to another authority to get  
44 approval. I suggest that is a fundamental problem because,  
45 as a council, the issue should be what is best practice in  
46 getting community support. We should look at what are the  
47 processes so that councils can enter into an engagement

1 with the community. Once you have that support from the  
2 community, I believe it is the role of council to act on  
3 that support.

4  
5 If a major project is coming before a council may I  
6 suggest that four years is not the life of that project.  
7 It is much longer than that. It can be 15, 20, 25 years;  
8 it is significant. I suppose we are mixing the issue there  
9 that a council is not just about a major project. Yes,  
10 there is the fundamental question of its future, but it is  
11 also about the continuation of existing services.

12  
13 I also believe in a strategic plan that is owned by  
14 the community and again that there be best practice in  
15 getting that ownership. I would question whether a council  
16 strategic plan actually fits into what the State  
17 government's strategic plan would be. I don't think they  
18 are the same. Our plan is very much local. I therefore  
19 question why the minister has an involvement in  
20 understanding our strategic plan.

21  
22 I came from South Australia originally and there is  
23 another point I would like to comment on. The cost index  
24 will not work. Each council has its own variables. If in  
25 one particular year the cost of my pipes shows a 10 per  
26 cent increase but the next year I get it cheaper, what does  
27 that mean to my community and my price index?

28  
29 MS KRIEGER: On the question of the role of the minister,  
30 we accept there are any number of ways to engage your  
31 community and the way in which you do it in a small rural  
32 council may be very different from the way you do it in  
33 Campbelltown or wherever. We are not seeking to be  
34 prescriptive about how you engage the community; what  
35 we are saying is that the Option B route is an earned  
36 autonomy route, so that in order to be able to effectively set  
37 your own rates, you need to show community support.  
38 That can be done in a range of different ways.

39  
40 MR VLATKO: If you get the first part right, why do you  
41 need A or B? That is what I am saying. If you get the  
42 first part right with your community, that is a significant  
43 sort of learning point. If the staff of the government was  
44 to focus on getting best practice and community support,  
45 then I think that would be your answer - you would not  
46 have to go anywhere else.

47

1 MS KRIEGER: That then becomes a case for the abolition of  
2 rate capping altogether, saying, "If we have engagement  
3 from our community and we have community support, why  
4 do we need rate capping at all?", and that is an entirely  
5 feasible argument. All I am saying about that is our  
6 assessment of the situation is you will not go from A to Z  
7 in one step.

8  
9 MR VLATKO: I come from a state where rate capping does  
10 not exist and --

11  
12 MS KRIEGER: Yes, and the sky hasn't fallen in; quite

13  
14 MR VLATKO: Exactly.

15  
16 MS RUSSELL: I am Lyn Russell, general manager at Wagga  
17 Wagga City Council. I also come from another state. I  
18 think the term "earned autonomy" is a difficult one to use  
19 with local government because it assumes a parent/child  
20 relationship and that somehow the child has to earn the  
21 approval or the endorsement of the parent. Where a good  
22 relationship exists between the state and local government,  
23 there is a respectful partnership between the two tiers.

24  
25 The use of the term "earned autonomy" is really  
26 insulting to local government in many ways. It might be  
27 better to use a another term because that terms assumes  
28 somehow that local government has to earn something in  
29 order to qualify and that demonstrates a powerless  
30 relationship rather than a respectful partnership. I just  
31 wished to make that comment about the terminology you  
32 are using.

33  
34 MS KRIEGER: If anybody has a better term, we would be  
35 more than happy to hear it. That is our sort of shorthand  
36 reference to the Option B given the status quo that  
37 everyone is starting from but if anyone has a term they  
38 prefer, we would be more than happy to hear it.

39  
40 MR RICHARDSON: I wish to comment on the eligibility  
41 criteria for Option B, in particular the financial  
42 performance criteria. You have a discussion point on the  
43 screen:

44  
45 Are the eligibility criteria for entering  
46 into Option B stringent enough?

47

1 I would argue that they are too stringent in some regards,  
2 in particular, the need to have a positive operating result,  
3 which is shown on pages 174 and 175 of the document.  
4 Under the current accounting requirements where  
5 we have to recognise our assets at fair value, and that  
6 involves a consumption-based depreciation approach, it is  
7 very difficult for councils to get a positive operating  
8 result before capital under that scenario, and I think most  
9 councils would really struggle with that.

10  
11 Because councils don't have a positive operating result  
12 that does not mean that there is not good sound financial  
13 management in place. So you have this connection here  
14 between good sound financial management and financial  
15 ratios which are set at a level which are really beyond our  
16 ability or the ability of most councils to achieve.

17  
18 In denying those councils who don't meet those  
19 criteria, you are slapping those councils in the face. You  
20 are denying them the opportunity to get out of the position  
21 that they are in by having some autonomy. In that respect  
22 it is really counterproductive.

23  
24 MS KRIEGER: Actually I think that is a completely valid  
25 point. A number of councils have said to us that it is a  
26 circular problem in the sense that they regard rate capping  
27 as one of the reasons why they are not able to produce a  
28 positive operating result. That is a valid point and I  
29 think we probably need to have another look at that part of  
30 the report.

31  
32 PROFESSOR SHEEHAN: I wanted to make a couple of  
33 points in relation to Options A and B. I genuinely believe  
34 there should have been an Option C. As I said at the outset,  
35 I do think that, unfortunately, you cut your job down too  
36 tightly. There should be an Option C, which is to assume  
37 that there is no rate pegging and it should look at that  
38 particular aspect. In the literature, rating on the basis  
39 of land has always been described as being an extremely  
40 equitable basis of dealing with the earning of taxation at  
41 local government level.

42  
43 The other point is that local government itself is  
44 extremely close to the electors. Consequently, with regard  
45 to the sort of bureaucratic framework that you are putting  
46 forward in terms of trying to obtain feedback, frankly, if  
47 it doesn't work with a council, if their planning is not

1 very good, they get thrown out. If councils are good  
2 enough to run sewerage and water without any controls  
3 upon them, I can't understand why they can't be responsible  
4 for the broader picture of running their shires and  
5 municipalities. It does not make sense.

6  
7 There is no sense at all in having rate pegging the  
8 way it exists at the moment because some of the major  
9 expenditure in local government involves sewerage and  
10 water; yet there are virtually no controls over that. I  
11 can't understand why the rest has to be pegged.

12  
13 We will put in a submission in respect of that issue,  
14 but I do respectfully ask you to think about changing the  
15 ultimate report and having an Option C and genuinely  
16 looking at no rate pegging at all, thank you.

17  
18 MR LITTLEMORE: Chris Littlemore, general manager,  
19 Balranald Shire. I have a couple of comments about Option  
20 B. There is a proposal that a four-year revenue plan be  
21 put to the electors. It would be almost impossible for a  
22 set of new candidates to prepare a four-year plan, if they  
23 were dissatisfied with the current council and wanted to  
24 tip them out on their ear and bring forward such a  
25 proposal. That is something that would be almost  
26 impossible. It probably couldn't happen. That is my first  
27 comment.

28  
29 My other comment is in relation to the eligibility  
30 criteria. It would probably be better if you had something  
31 simple like an audited and verifiable four-year plan. If  
32 the council could meet all the things that you propose, I  
33 don't think they would need a rate increase.

34  
35 MS KRIEGER: As I have said, with that long list in the  
36 draft report of positive operating ratios and all the rest  
37 of it, if you ticked all of those boxes, you would probably  
38 be close to heaven. I think that we need to have another  
39 look at that and focus on what is at its core, which is  
40 asset management and medium- to long-term planning  
41 rather than current positive ratios.

42  
43 MR STYLES: What is the difference in the community  
44 support requirements between Option A and Option B?

45  
46 MS KRIEGER: In Option A you really would not need to show  
47 any community support. You are making a special variation

1 application, and I think that you would be held to a much  
2 less stringent standard there. It would depend, because  
3 special variation applications can cover a whole range of  
4 different situations. There would therefore be a whole  
5 range of different levels of community support that you  
6 would have to show.

7  
8 In sum, and I am trying to think of a concrete example,  
9 there could be situations where the level of community  
10 support would be relatively low. There could be  
11 others where you are wanting to build that into your base  
12 where you might be asked to show something more. I think  
13 that in the Option B, you would be expected to show  
14 community support for a much more concrete plan than in  
15 Option A.

16  
17 MS BRIGGS: Julie Briggs, executive officer with REROC. I  
18 want to refer to the local government cost index and the  
19 basket of costs that you have identified and ask where  
20 costs like governance figure because they are not in the  
21 list? For instance, the State Electoral Office tripled the  
22 cost of running a local government election this year, but  
23 that does not seem to figure. The provision of emergency  
24 services doesn't figure as well. All the councils here are  
25 paying a levy to the Rural Fire Service, and again they  
26 again have no control over what that costs - and now we  
27 have SES.

28  
29 Then there are human services. Take libraries and  
30 aged care and day care - with libraries, for instance, in  
31 1980, the state government funded just over 23 per cent of  
32 the operating costs of a library. Today it funds less than  
33 8 per cent. Councils have picked up that cost. How will  
34 IPART take into account reducing state government or  
35 federal government contributions to what we would deem  
36 to be core services in this basket of costs is being put  
37 together?

38  
39 MS KRIEGER: In the laundry list of costs that are put  
40 forward there as local government costs, those are examples  
41 rather than a definitive list. If there are any omissions  
42 that you think should be included, you should definitely  
43 let us know.

44  
45 The governance costs that you are talking about would  
46 fall within a general administrative overhead for most  
47 councils. Fundamentally, there is a fairly extensive list

1 of examples. If you can't see a cost being encapsulated  
2 there, you should point it out to us.  
3  
4 MS BENNETT: Jenny Bennett, executive officer from  
5 CENTROC. In relation to the LGCI, is it possible to run a  
6 filter over cost shifting so that you ensure every time there is  
7 a check for those kinds of things coming from the federal and  
8 the state government? You have talked about cost shifting,  
9 but there does not seem to be a significant link between the  
10 LGCI or perhaps a trade-off against what we are supposed  
11 to do in terms of productivity improvement because  
12 you don't do an adjustment based on how efficient we are  
13 going to be. In a year which is particularly nasty for  
14 local government with a lot of cost shifting, we are  
15 supposed to be more efficient at the same time, so that  
16 will be very unattractive for us.  
17  
18 MS KRIEGER: The proposal in the draft report is that the  
19 index would be compiled, in the first instance, by a survey  
20 of councils. That would result in the percentages of the  
21 weightings being set in the index and it would be  
22 re-weighted every five years.  
23  
24 MR STYLES: So would that catch it up or not?  
25  
26 MS KRIEGER: Yes, you would expect so because every five  
27 years councils will be re-surveyed on their cost base and  
28 the components of the index would be re-weighted  
29 accordingly. If at the end of five years, a particular  
30 cost which used to form 18 per cent of the typical basket  
31 now forms 20 per cent, it would be picked up as 20 per  
32 cent.  
33  
34 MR STYLES: Would that get us full recovery of the  
35 additional expenses we would incur in undertaking that  
36 task or would it just come on as a percentage?  
37  
38 MS KRIEGER: The whole purpose of the cost index is to  
39 provide a percentage increase from year to year, which is  
40 effectively a baseline under the rate capping increase.  
41  
42 MR WHITFIELD: John Whitfield, Junee Shire Council,  
43 manager corporate services. As an observation, I think what  
44 a lot of your audience is saying today is that with the  
45 introduction of integrated planning and reporting coming  
46 on board, this is actually the perfect time to let go of rate  
47 pegging. This new system is pretty complete. It is very

1 comprehensive and it is integrated, as the title says, and  
2 what a perfect time to let that system take over. Thank  
3 you.  
4  
5 MS KRIEGER: I am hearing that loud and clear.  
6  
7 MR RICH: I am interested in the comment you made before  
8 in regards to ratepayer support for whatever we do. You  
9 mentioned earlier doing surveys of ratepayers' returns and  
10 receiving fairly poor response. I would think that a  
11 better measure would be ratepayer dissatisfaction with what  
12 we are doing rather than support - because they don't say  
13 anything in support. This year was the first year in the  
14 last five years that we got a comment on our management  
15 plan, and we got two letters about the same thing. I think  
16 dissatisfaction is probably a better way to look at it.  
17  
18 MS KRIEGER: I think we are well aware of the fact that  
19 actually getting feedback from a community is quite a  
20 difficult exercise and that people sometimes comment more  
21 willingly comment on the things they don't like than on  
22 things they do like. That is why the survey that we have  
23 put forward is put forward only as a possibility. It may  
24 be, on reflection, that there are better ways of doing it.  
25  
26 If you get an opinion poll based on some reasonable  
27 random basis, you might get a better indicator of what a  
28 community thinks rather than sending out a whole lot of  
29 stuff that depends on people self-selecting as to whether  
30 they respond or not. There may be better ways - better and  
31 cheaper ways than that even  
32  
33 MR CAMPBELL: You have some discussion points up on  
34 the screen. I will skip the first, but you ask:  
35  
36 Are the proposed changes under Option A a  
37 significant improvement over the existing  
38 arrangements.  
39  
40 The quick and dirty answer to that is not really.  
41  
42 Are the eligibility criteria for entering  
43 into Option B stringent enough ...  
44  
45 They are far too stringent. Yes, we could make them work  
46 but we would have to turn ourselves inside out to do it and  
47 we would incur costs that would be unwieldy.



1  
2 The fourth question is:  
3  
4 Would the arrangements for engaging with  
5 the community under Option B work in  
6 practice?  
7  
8 Yes, you can make anything work if you throw enough money  
9 at it and resources, but it would be involve considerably more  
10 than what we are doing now and we are already jumping  
11 through hoops to do our community strategic plan.  
12  
13 One of my colleagues, who has read every single word  
14 of the document, regards it as a masterful document except  
15 that the recommendations don't follow from the  
16 consideration of the situation. It all stems from the  
17 presumption that rate pegging has to stay. Can I say again  
18 that unless you tell the politicians that people are  
19 saying, "Let go of it", then you can guarantee that the  
20 politicians will not let go of it. Thank you.  
21  
22 MS KRIEGER: Yes, it is the same point, but the problem  
23 that we have is that not so much in the regions but  
24 certainly in the city you get a fairly strong voice from  
25 ratepayer associations saying that they want rate pegging  
26 to continue. You tend not to hear that out in the regional  
27 meetings. You tend to have a much more council-dominated  
28 voice in the regions and a very strong pro-abolition voice  
29 in the regions; and, yes, the politicians seem to be of the  
30 view that out there among the population of New South  
31 Wales, there is strong support for a continuation of rate  
32 pegging.  
33  
34 MR VLATKO: Can I make a comment there? If you were  
35 to ask the ratepayers association to do a proper consultation  
36 of their members, you may get a different result. I am  
37 suggesting that they are an association. They represent  
38 the same views. The people who normally go on the  
39 executive are the ones who have an issue, but if they're  
40 members who are our same people, our same shareholders,  
41 they're consulting for different questions.  
42  
43 MR CHAPMAN: Chris Chapman from Walco Shire. I am  
44 the general manager there. I am going to explore that last  
45 point a little bit, the metro versus the rural differences  
46 as we see them. I take it that urban ratepayers can get  
47 those services elsewhere, maybe next door, whereas in rural

1 and regional areas it's very difficult to go and source  
2 those services because of remoteness. I think that the  
3 model is not identifying the lack of choice that rural  
4 areas have and therefore by maintaining rate pegging,  
5 you're going to keep that status quo maintained. That's  
6 just an observation.  
7  
8 MR CRAKANTHORP: Andrew Crakanthorp, Wagga City  
9 Council. I agree with most of the comments here. I urge you  
10 to go back and look at the time they reformed the Local  
11 Government Act in 1993. The reasons for doing that were  
12 eminently sensible because they brought us up to speed  
13 with contemporary management and strategy and all of  
14 that, but they retained rate pegging within the legislation.  
15 The broader discussion here is all about the relationship  
16 between local, state and federal and a respect for our  
17 role.  
18  
19 Going back to Lyn's point about the parent-child  
20 comment, I totally agree. In my view, unfortunately state  
21 politicians see a lot of our elected representatives as a  
22 threat and that it is really a good way to control us, for  
23 want of a better word. By reviewing the intent of the  
24 review of the Act in 1993 and applying it to your terms of  
25 reference might help you understand some of the frustration  
26 that the industry feels, because we believe we're operating  
27 at a far more professional level by virtue of the Act and  
28 that it took most of the shackles off. It became less  
29 prescriptive and gave us a lot of autonomy and in many  
30 ways this is still just a legacy of the 1909 Act. Thank you.  
31  
32 MR LITTLEMORE: Chris Littlemore, Balranald Shire.  
33 I think one of the comments you had about the ratepayer  
34 associations, the difference that you will see once you  
35 come across the Divide is the level of trust in the local  
36 authorities. You have ratepayer associations deeply  
37 suspicious of the motives of some of those metropolitan  
38 councils.  
39  
40 The other comment I'd like to make is about the  
41 revenue streams. The significant level of growth in the  
42 major metropolitan centres practically provides rate  
43 increases beyond what we get in the west and also their  
44 innovative use of section 94 means that they can pretty  
45 much ignore rate pegging, whereas to a shire like us  
46 \$1 million is our general rate revenue. We don't really  
47 give a damn whether it's 3 per cent or 4 per cent. That

1 means the difference between a \$30,000 to \$40,000 increase.  
2 It's a moot point for some of us out here.

3  
4 MS KRIEGER: As I said, we appreciate quite clearly that  
5 the significance of rates and rate pegging in rural  
6 councils is completely different from say a city council  
7 with a rapidly increasing population. Is there anybody  
8 else? No? If we have got to the end of the comments that  
9 people want to make, I have a few things to say in closing.

10  
11 First and foremost, please put any further submissions  
12 that you have in by 18 September. It doesn't matter  
13 whether they're matters of detail, such as additions to the  
14 cost index, or whether they are matters of broad policy,  
15 such as reiterating the support that's clear from this  
16 group for a complete abolition of rate pegging.

17  
18 I want to thank you all for taking the time to come out and  
19 make a contribution to this. We will take into account  
20 what you've said today and any further submissions  
21 that you would like to put in. The final report will be  
22 out in November. There are copies of the draft report up  
23 the back in case anybody didn't get one and would like to  
24 take one. Thank you very much.

25  
26 AT 12.18PM THE TRIBUNAL ADJOURNED  
ACCORDINGLY

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