



CENTRAL NSW
COUNCILS

CENTROC

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Chairman: Cr Neville Castle, Mayor Lithgow City Council

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Dr Michael Keating, Chairman
Independent Pricing and Regulatory Tribunal - IPART
Review of Regulatory Framework of Local Government – Draft Report
PO Box Q290
QVB Post Office NSW 1230

Dear Dr Keating,

Re: Centroc submission to the draft Revenue Framework for Local Government Report

Centroc represents 17 local government organisations across 16 local government areas, from Lithgow to Lake Cargelligo, Crookwell to Condobolin, Wellington to Harden and everywhere in between. Our area is slightly bigger than Tasmania with a population about half the size of the Apple Isle.

Centroc membership is regional and the commentary provided reflects the premise held here by our members that "one size does not fit all." This thinking informs our advice regarding the LGCI, cost shifting, efficiency gains, consultation with our communities, as well as both options A and B. We contend that the blanket approach to managing the revenue framework for local government will significantly disadvantage our members and their communities.

Our members would like to note that the draft report provides a concise account of the current funding framework for NSW Local Government in a national context.

Centroc Councils support the general thrust of the commentary regarding transparency and accountability and support the idea of IPART taking a role in the setting of any rate cap. Further, we make some suggestions for change of the draft document regarding both the tenor of the document and its recommendations.

With the current low levels of income to local government in Australia, the main game for Centroc members is maintaining our assets and sustaining our communities. While our members appreciate that this was not in the ambit of the IPART brief, we encourage IPART to take all opportunities in its report to support our contention that even if the asset backlog is not as significant as reported by some Councils, it is still significant and the main challenge to the sustainable delivery of services in Central NSW.

The Options – add an Option C

Centroc views Options A and B as a good first step in moving away from rate capping and suggests that more could be done to support this direction into the future.

We contend that NSW is in a “rate capped paradigm” and as a result the language, thinking and activity around the funding framework for Local Government becomes complicated when it should be as simple as any other strategic process. We suggest that the Local Government Act 1993 provides direction to a strategic process embedded in communities that directs and funds activities of Councils and as such a rate cap is neither necessary nor desirable. As Council strategic processes improve engagement, transparency and accountability under integrated planning currently underway across the State, Centroc contends that the inclusion of Option C is necessary to rework the paradigm of rate-capping.

While our member Councils understand that there is a push from Sydney ratepayer associations to retain rate capping and that IPART sensibly recognises that that removal of the rate peg may not ‘get up’ at this point in time, we would like to highlight that our experience with ratepayers is not the same as with these associations in Sydney. This is another of innumerable differences between the funding framework and issues for metropolitan and non-metropolitan councils.

Therefore we suggest an Option C, at least for non-metropolitan Councils, which is to remove the rate cap and return to a situation where communities and their Councils work together to direct their future’s within the context of the integrated planning programming underway across NSW.

Rework the document with a filter that looks to improving thinking in the State about rate pegging and the role of Local Government

In light of the commentary above and subsequent to the discussions in Wagga around language like “earned autonomy”; it is suggested that the IPART team have a good go at rewriting the document addressing the “rate pegging paradigm.” An example is removing usage like “earned autonomy” and instead embedding Option B in the language and thinking of the Local Government Act 1993 along with the integrated planning framework under development.

Reviewing the document, the authors need only remain silent on “earned autonomy” type of commentary.

Community engagement – the realities in the Centroc region

Centroc notes the commendable approach by IPART to community engagement which looks to greater and more meaningful involvement of our ratepayers in the strategic process of our member Councils.

For a significant number of our members, the rate base is between 30% and 35% of income coming into Council budgets that are comparatively small. Therefore **any** added activities added into the rating process under any option need be considered against the comparatively small amounts of money being generated by this increase in income. It would be a travesty if the process absorbed a significant amount of the increase.

Therefore, if there is to be any compulsory survey of the community we suggest that it be a statistically sound phone survey that on present estimates would come in at around \$20,000 for larger communities. This would be preferable to printed and post back surveys which are a more expensive exercise, rely on community members self identifying involvement and in our experience skew results to the commentary of interest groups. A vote is out of the question in our view, especially if linked to a Council election as it can be only too easily hijacked by the political process.

We suggest that the recommendations around community engagement for rural Councils should reflect the commentary made through-out the report where it is recognised that rural Councils have

- The greatest challenges in terms of asset maintenance
- The most “low hanging fruit” in terms of what needs to be done which makes strategic work somewhat unnecessary (just fix the roads, don’t waste time and effort asking questions of the community when this is clearly what they want)
- The least capacity for growing rates and therefore income streams as they are often in population decline
- The least capacity to do the strategic work as they have no money and no staff in this sector

Therefore we suggest to you that community engagement in both Option A and Option B be different for metropolitan and non-metropolitan Councils.

We suggest that

1. the community surveys in rural communities not be mandatory but rather that this dialogue will take place as a matter of course through integrated planning
2. the survey component recommended by IPART to all Councils be more along the lines of a statistically sound and defensible phone survey rather than a paper mailout where respondents self select as in the South Australian model outlined

Asset maintenance – the backlog and Centroc members

Very few of our members have a sound grasp on their asset backlogs. Most are well into the fair value on asset work as directed by the State. A few are near completion of asset strategies.

Our most silvery Council, in terms of the rates they charge, is Orange City Council who are well into asset maintenance strategies. They have provided advice that they are under funding asset maintenance and renewal for roads and bridges. Arguably all other members will be worse to much worse off.

For our members, this asset backlog is the real issue with regard to service delivery and we recognise that we will not be going to our rate payers to resolve this problem because it would not be affordable. We can see a role here for IPART in the future to provide commentary on a fair way that funding of the back-log can be achieved.

Further, Councils have had our “paying assets” like electricity stripped while being handed over roads, airports and the like without the funding required to maintain them. The decline in State funding of water and sewer is significant impost on Council budgets.

These are particular issues for rural Councils as we have more assets, must deliver a wider range of services and have lower populations to rate from.

Therefore our members are more than delighted to see the commentary in the report around benchmarked and standardised asset information.

Centroc supports recommendation 1.6.1 and suggests that it should be mandated with an associated funding stream from the State. It is our contention that it is only through mandate and funding that our members will have the resources to be able to deliver on the asset backlog.

We also suggest that IPART have a role in the future, once Councils can provide accurate advice on its degree, with regard to reviewing a fair and reasonable way for Local Government in NSW to address the asset backlog.

Cost Shifting

Even under the narrow view of cost shifting as outlined by IPART, Centroc members have had many budgetary impacts in recent years including:

1. Election costs
2. Weed control
3. Fire and emergency services
4. Underground petroleum products storage

We also make the commentary that rather than fund legislative requirements, other levels of Government insist on a 'user pays' principle where Council charges become higher. Indeed we submit that a significant amount of the growth outlined in the report in member charges is to do with having to charge for mandated programming.

Examples that have been particularly challenging for our members are septic tank legislation and the Companion Animals Act, as the community have been very resistant on both counts.

Then there is the sector where legislation changes have an insidious and unintended effect on Council services. A recent example is the new "Gateway" legislation by the Department of Planning that was supposed to simplify the development process but has ended up using significant Council resources.

Finally there are the "recommendations" for changes in Council activities, for example as generated by the Department of Local Government Best Practice Reviews. Councils across Central NSW are now developing programming in Internal Audit, Enterprise Risk Management, among other activities, all which have resourcing impacts.

Our members suggest that cost shifting in all its forms affects non-metropolitan Councils more; as we must manage a far broader range of services. Further, while not wanting to sound like the forgotten orphan, it is only too easy to overlook financial impacts on rural and regional Councils when drafting State and Federal Legislation.

Centroc suggests that "cost shifts" as defined by IPART should form part of the Local Government Cost Index basket and be reviewed and reported on annually.

Further, we suggest that a broader definition of cost shifts be developed with the LGSA that accounts for the more insidious types of impacts on costs and where these occur at an agreed rate any productivity adjustment be traded off.

The Local Government Productivity Adjustment

Centroc notes the productivity adjustment. Our members relate that their staff feel overwhelmed rather than efficient and the thought of further efficiencies are inconceivable. Areas where there may be efficiencies are often politically sensitive, for example the sale of assets that require maintenance such as pocket parks or showgrounds.

Having said that, new technologies may provide relief. Given that the experience in Central NSW is that there is a consistent increase of indirect impacts on expenditure, ie cost shifting outside the IPART definition but none-the less having an impact on Council resourcing and therefore efficiencies; there should be a trade-off as outlined above.

Local Government Cost Index (LGCI)

Centroc supports the idea of an LGCI in preference to a CPI. Some suggested items for the basket are:

- rubbish tips disposal and remediation costs
- gravel pits restoration, winning, crushing, extraction and remediation expenses
- costs for fuel in rural towns and centres
- freight and transportation costs for rural towns and centres
- road base and road specific materials costs

Centroc notes that there will be a five year revision of items for the basket.

Centroc suggests that there be an inclusion of an annual review of cost shifting as defined by IPART which we believe will pick up what may be significant imposts on Council budgets.

Our members suggest that there are items that would be in our regional basket that would not be in a metropolitan basket, for example emergency services and weed control.

Further we note that costs here in Central NSW are different to metropolitan costs and these can at times be significant, for example in petroleum products such as diesel and bitumen.

Should IPART decide to go down the track of a separate cost index for non-metropolitan Councils as we suggest, our members have provided advice they would welcome the opportunity of working with IPART on a basket relevant to this region.

Specific commentary regarding Options A and B

Besides the commentary made above regarding community engagement, the real challenge Centroc sees for its members in Option A is the uncertainty and possible increased expectations around seeking variations. Centroc members note that the process is open to negotiation with the Department of Local Government and seek commentary around ensuring the task is not too challenging.

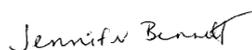
Our members make this commentary with regard to the hurdles that need to be jumped in order to achieve Option B status. While we believe we will be able to meet the requirements of integrated planning over time, the fiscal challenges in Option B are not likely in Central NSW. Again this takes us back to an Option C or an achievable variation framework for option A.

Summary of Centroc recommendations to IPART

1. Inclusion of an Option C, at least for non-metropolitan Councils, which is to remove the rate cap and return to a situation where communities and their Councils work together to direct their future's within the context of the integrated planning programming underway across NSW.
2. Rewrite the document addressing the "rate pegging paradigm." An example is removing usage like "earned autonomy" and instead embedding Option B in the language and thinking of the Local Government Act 1993 along with the integrated planning framework under development.
3. Regarding consultation and community engagement:
 - a) the community surveys in rural communities not be mandatory but rather that this dialogue will take place as a matter of course through integrated planning
 - b) the survey component recommended by IPART to all Councils be more along the lines of a statistically sound and defensible phone survey rather than a paper mailout where respondents self select as in the South Australian model outlined
4. a) Regarding the infrastructure back-log, support for recommendations in 1.6.1 and suggest that they should be mandated with an associated funding stream from the State. It is our contention that it is only through mandate and funding that our members will have the resources to be able to deliver on the asset backlog.
b) IPART have a role in the future with regard to reviewing a fair and reasonable way for Local Government in NSW to address the asset backlog.
5. "Cost shifts" as defined by IPART should form part of the Local Government Cost Index basket and be reviewed and reported on annually.
6. A broader definition of cost shifts be developed with the LGSA that accounts for the more insidious types of impacts on costs and where these occur at an agreed rate any productivity adjustment be traded off.
7. Noting that the process of variations under Option A is open to negotiation with the Department of Local Government IPART provide commentary around ensuring the task is not too challenging.
8. The criteria in Option B need to be more realistic in terms of what regional Councils can achieve, particularly in the fiscal sector.

For enquiries regarding the above please contact the Centroc Executive Officer Ms Jennifer Bennett on 0428 690 935.

Yours sincerely



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