

## **INQUIRY INTO LOCAL GOVERNMENT IN NEW SOUTH WALES**

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## ***Inquiry into local government in New South Wales***

### *Introduction*

1. I have viewed the documents and published arguments relating to the *Fit for the Future* (FFTF) proposals in light of my understanding and past experience of local government as an elected council member, my interests as a ratepayer and community activist, and my professional interest in public finance, economic and land use planning issues.

### *Summary*

**2. I conclude** that the FFTF proposals do not offer benefits of the kind that are purported to flow from and be implicit in them. Regardless of how their areas are constituted or re-constituted, councils will still remain subject to the same kinds of potential weaknesses and strengths that flow from decision-making by elected people, from decisions by regulators in response to policy imperatives of varying quality and validity, and from inability to forecast the future. The FFTF council amalgamation proposals in particular have the come-by-chance character of an essentially unreliable means directed towards an illusory end.

3. It is unfortunate that the burden of proof seems to have been laid on the relevant councils to show why they should not be merged, willingly or otherwise, with the other councils nominated in the documentation; the benchmarks put forward for the purpose of the exercise are themselves partial, irrelevant in many contexts, and static in their applicability anyway.

4. Other - perhaps praiseworthy - purposes may be served by some of the policy changes proposed in the FFTF framework, but they are too closely aligned to and dependent on the boundary change proposals to be assessed sensibly in their own right at this stage.

5. I do not know of serious or significant obstacles to the successful negotiation of council boundary changes between consenting councils, and none appear to have been identified in the FFTF papers, but I think that the matter warrants investigation. I do not think external financial and administrative inducements – such as those offered by the Government in the FFTF context – should drive council boundary changes. Similarly, I do not think it wise to base council boundary changes on the application of abstract concepts or simplistic financial formulae.

### *Submission*

6. My comments/views have regard to paragraphs (b), (d), (e), (j), (k), (n) and (o) respectively of the Committee's *Terms of Reference*.

#### *(b): Benchmarks*

7. I find it difficult to envisage any relevant *sustainability benchmarks* that might apply reliably to local government bodies generally. That is because the tasks undertaken by councils are neither

common to all councils, nor are they standardised. Individual activities may be commenced, continued, enhanced, reduced, and ceased as the individual council determines from time to time. There is no effective restriction on council activities in the enabling legislation; councils may, in effect, do anything that is lawful. Even their rating power is not standardised – within the terms of the relevant legislation, councils may structure their rates as they see fit, with emphasis varying between minimum rates, *ad valorem* rates, and base amounts in the total package. Some council charges are standardised by regulation, but the activities that they refer to are variable in volume, scope and intensity within councils, between councils, and over time.

8. Additionally, the *future* cannot be forecast accurately in the short or long run – the future is inherently un-knowable. While normal financial accounting conventions relating to on-going solvency are, of course, relevant and applicable to councils, the various FFTF ratios under examination by the Independent Pricing and Regulatory tribunal (IPART) for the Government at present can only be useful at the time they are measured, if at all; they cannot predict or ensure solvency, or competency, or wise selection of activity in the future. The FFTF phrase itself is unfortunate, since it – and many of the proposals that accompany it – stigmatises those councils that do not conform to the somewhat arbitrary and certainly limited criteria by which fitness is being determined. I cannot think that a process which potentially demeans councils in that way is a good one, or that it can really produce a sound outcome for them.

9. Sound business practice caters for the contingencies of the future in various ways, but not all of them (*for example*, calls on shareholders) are available to councils. For local councils as well as other enterprises, one prudent measure is to adjust service menus and/or charges for them. Another way, which I advocate strongly, is for a council to retain a proper margin of *sound borrowing capability* as a safeguard to deal with unexpected events. But the recommendations of the Independent Local Government review Panel (ILGRP) and the Government response to them take the view that councils should be *encouraged* in their day-to-day decisions to *make increased use of debt to invest in critical infrastructure, improve financial sustainability and ensure intergenerational equity in providing services to the community*. I dissent strongly from what looks like a saturation-debt strategy for the present time, compromising – as it must if it is implemented with any enthusiasm – the ability of councils to cater for the unexpected and un-knowable future.

10. As a matter of elementary self-interest, I think most ratepayers would be reluctant to endorse a strategy which could see a council respond so enthusiastically to the debt inducements to the extent that it became over-stretched in loan servicing obligations, because those obligations are effectively secured on the rate income – and therefore ultimately on the rateable properties – of their communities.

11. The Government's proposed preferential inducement of councils judged to be FFTF to undertake additional debt, by way of special access to low cost loans through a State borrowing facility, seems highly likely to entrench and enlarge any disadvantage of councils that are judged *not* to be FFTF – an outcome that I think would be counter-productive and inimical to the interests of 'un-fit' councils and their populations as well as those of the State in totality.

12. I note that if the FFTF benchmarks were seriously believed to be sound, there would be no need for such inducements as interest rate concessions to be extended to qualifying councils anyway.

(d): *Scale*

13. The broadly-based assumption of a decreasing marginal cost of council operations that underlies the ILGRP and the IPART reference approaches to council amalgamations is undefined in detail,

unsupported in the specific groupings that are proposed, and - I think – indefensible on ordinary business grounds.

14. In practice, the first call for funding a council budget is its rate revenue.

15. The approach in the ILGRP report seems to be founded on some belief that for a given financial budget, the per-head-of-population costs for a council will be lower if the council residential population head count is higher.

16. As an arithmetic truism, that is correct, but it is irrelevant.

17. *Land-owners* are liable for and required to pay the council rates. Residents, and visitors, and council service users are not necessarily ratepayers at all. The incorporation of rate costs that can be passed on to tenants, service users, and visitors in rents (and fees and charges) is dependent, among other things, on the balance between demand and supply of rental accommodation, and services and facilities. This is perhaps most obvious in the case of residential investment property, where the notoriously low net returns to owners from rents are so frequently underpinned by negative gearing taxation concessions and capital gains objectives of owners. In fact in the residential rental sector today, it is highly unlikely that any arithmetic *per capita* rate reduction benefit that might be gained from notionally calculating a council's rate burden over a larger resident base would be reflected fully in tenants' rental bills, if at all.

18. Scale and scope economies may be obtained by local councils (and any other enterprise) by various means for various activities. But scale has many dimensions, especially in a varied task menu such as that of a local council. Where population *numbers* may be highly relevant to the cost structure for one service, *density* of population may be most relevant for another; land *area* may be irrelevant for some services but not others, and land *use* or land *type* may be critical for others. Importantly, *capital equipment* items and technology may – or may not – in some applications be susceptible to cost-of-use or cost-of-supply savings from added use of existing stock, or from joint purchasing or joint ownership and use of items that can operate at a larger scale, but may be virtually irrelevant to the delivery of other services. That list could be extended.

19. In practice, while some local activities may not be susceptible to economies of increased scale in their conduct and delivery, they may well benefit from co-operative *planning* of those services. Some activities would actually benefit in quality and effectiveness from *reduction* in the scale of their conduct. It is difficult to conceive that a service enterprise *as a whole* providing a wide range of goods and services like councils do, would have a decreasing marginal cost of supplying the full range of its goods and services.

20. There is not much credence given in the FFTF context to possibilities of generating economies of scale by means other than the resident population encompassed in land boundary changes, which of course do not and cannot guarantee such an outcome anyway! Self-evidently, populations shift over time. Boundary delineation thought to be appropriate now by reference to a specific financial or population yardstick will begin to be inappropriate in those terms with the first migration into or out of it.

21. While there is some recognition in the IPART methodology documentation of the benefits available from co-operation in various forms, the reports and conclusions of the various reviews that underlie the IPART reference subordinate that approach in favour of council boundary extension, as does the IPART reference itself. But there is a long and productive history of inter-council co-operation, only grudgingly acknowledged in the various inquiries. With that in mind, it is particularly

unfortunate that **obstacles to co-operation** among councils, and between councils and other entities, have not been accorded any insights of value or status in the IPART *Terms of Reference*. Such obstacles need to be identified and they need to be managed; there is no indication of that issue having been addressed in the development of the FFTF criteria or the amalgamation proposals.

22. Co-operation among councils and by council/s with non-council parties can take myriad forms. Joint endeavours can be – and are - adopted and adapted for any of a very wide range of services/works and activities without adversely impacting on the balance of the services/works/activities menu of individual councils. Such essential flexibility received short shrift in the various recent reports, and by virtue of the primacy accorded to boundary change it was relegated to a minor place in the IPART *Terms of Reference*. Faced with that clear bias, I think any council has a hard task ahead of it to retain its area intact, even when its residents and ratepayers clearly and vehemently want it to be retained intact and un-extended.

23. The democratic and responsible reality is that efficiency and effectiveness measured by cost-of-operation is not necessarily or always a superior or particularly useful criterion. Consumer satisfaction in its widest sense is in fact the *raison-d'être* for local government itself. In sharp contrast to the bureaucracy of the State and Commonwealth Governments, it is the more readily adaptable and more approachable scale of councils that commends itself to people who care about their environment, their amenity, and their ability to be heard on, responded to and advised about close-to-home matters of importance to them – that is, to seek, expect and receive quality and personal service at acceptable cost under a properly disciplined financial regime.

*(e): The role of IPART*

24. The whole approach of the IPART *Terms of Reference* to council amalgamations as a preferred strategy to be followed *unless* councils can persuade IPART otherwise is sadly at odds with the Government's intention to *enhance community engagement* that was stated in its response to the Local Government Acts Taskforce recommendations. Those councils proposed for amalgamations and their residents/ratepayers who do not accept the proposals might well contemplate the Government's statement about community engagement and the IPART *Terms of Reference* – which presumably were agreed with IPART - with a high degree of cynicism.

25. Just as formidable if not more so is the apparent barrier to objectivity posed by the IPART response of 24 March 2014 to the New South Wales Office of Local Government (OLG), relating to the *Final report of the ILGRP*, which records IPART's view thus: *Overall, we consider that the report is soundly based and thorough, and the Panel's proposals constitute a well-structured response to the issues*. In the light of that endorsement, I cannot readily comprehend how IPART might view independently any submissions that dissent from the Panel's conclusions. In particular, the IPART statement seems to drive a conceptual wedge between it and those councils that were nominated for amalgamations but whose councillors, residents and ratepayers actively resist such a course.

26. A concern of a different kind emerges from consideration of the Government's proposals to provide financial assistance of various kinds (including access to low-interest loan funding) to councils; the measure is presented as one intended to assist and encourage the recommended amalgamations. That proposal constitutes an inducement of a kind that may be superficially appealing even though the quantum for the recipient entity is not specified in advance, because it purports to recognise that there are real financial costs of combining council operations that have been documented by councils and others in the past.

27. One obvious implication of the amalgamating councils subsidy proposal is its unstated assumption that the first base business cases for the amalgamation proposals in the ILGRP are not sufficiently robust to justify their pursuit *without* subsidy. That is hardly reassuring from a ratepayer viewpoint. It should sound a note of alarm for ratepayers affected by the amalgamation proposals, because it is not clear what latitude in conformity with its stated criteria IPART is expected/required to allow for those councils whose FFTF compliance indicators are close to borderline (however defined); they may well think the inducement betokens a done deal. But I think it also places IPART itself in an invidious position having regard to its March 2014 *de facto* endorsement of the Panel's proposals.

28. It would be regrettable if the inducements for boundary changes were to overshadow or obscure other, real opportunities for improving the operation, management and public standing of councils.

*(j): Municipal employment*

29. I register a concern relating to what appears to me to be the general thesis of the ILGRP and the Government approach to the extent that they seem to be suggesting that the enlarged councils resulting from the amalgamation recommendations will be more readily capable of employing expert staff.

30. I do not think it is always - or necessarily ever – imperative to *employ* expert staff, although I do accept that it is wise to utilise the services of experts when and where practical. But they do not have to be *employed*, and that is a relevant – and can be a crucial - element when the overhead costs related to municipal staffing are considered. There are other issues, too.

31. The rationalisation of staffing, particularly at senior levels, is one of the benefits often supposed to arise from council amalgamations, and that may well be achieved in some instances of enterprise blending, especially if there has in fact been excess capacity at senior levels. There is no evidence of underemployment and excess capacity at senior levels in the FFTF documentation, so I suppose that the relevant managers somehow keep well-occupied for most of the time. If that is so, the tasks that they are undertaking now will – I think – not go away just because the land boundaries of the council have changed and the area population thereby enlarged, although they may well be re-shuffled among the carry-over staff.

32. Of more concern to me in the present context is the ILGRP and the Government's tacit encouragement of councils to engage a full slate of *in-house* expertise. That approach contains the seeds of top-heavy administration and associated overhead costs, and is not self-evidently desirable. I think it must tend to entrench a level of expertise and technology that may well be superseded in relatively short time. The IT sector is one obvious example, but the principle applies elsewhere, notably in the broad engineering sector.

33. The access to and use of external expertise by way of consultancies and contracts offers councils and other enterprises at least one major and useful line of insight into evolving knowledge and practice in all sorts of fields that are relevant to the council involved.

34. Council amalgamations, if desired at all, are not and should not be justified on the ground of enabling a putative expert staffing menu; just like any other enterprise, expertise can be acquired as and when needed by councils without the on-going financial and technological commitment involved in formal staffing appointment.

*(k): Costs and benefits of amalgamations for local communities*

35. Preferential treatment for FFTF councils in relation to their reporting and compliance ‘burden’ is foreshadowed in the Government’s response to the Local Government Acts Task Force recommendations. I read that as an indication that those councils judged to be FFTF will be subject to less rigorous ongoing regulatory oversight than others, and the prospect alarms me. Councils are the creatures of the State Government, which has, I think, some duty of care to ensure they act properly. Further, ratepayers in particular rely to a fair extent on the official oversight of council activities to provide reassurance that the enterprise is being conducted in a proper and financially responsible manner; non-ratepayer residents have a similar, if less direct, interest.

36. I have noted above my reservations about the debt subsidy inducement on offer for amalgamating councils. Having regard to the proposed method of selecting eligible beneficiary councils, and to the loss of future contingency funding implied by the Government’s intent to encourage councils to take more debt for current works, I cannot think it is a soundly based policy.

37. Obviously, ratepayers will consider an amalgamation proposal beneficial if they see their own rate burdens being reduced and their service menu being better oriented to their wishes by a proposed merger. Effectively and understandably, such ratepayers will be applauding a cross-subsidy from the ratepayers of the other council(s) involved. But it is equally understandable that ratepayers in the losing council area – those whose rate burdens rise – should have no enthusiasm for such a proposal.

38. As I noted above, local government is the creature of the State Government, established by it and regulated by its laws, and the State therefore has the ability and right to fashion it to its satisfaction. It seems imperative that the purposes of the State in any such fashioning or re-fashioning of local government should be clearly and unambiguously enunciated and the measures utilised for those purposes precisely composed and directed. In the present situation, that does not seem to be the case.

39. The strenuous and apparently well-founded opposition of local communities and their councils to some proposed FFTF mergers reflects an apprehension that the present purposes of the Government are directed to party political ends rather than to real and lasting economic and social advancement of the communities concerned. It also reflects a lack of confidence in the reliability of the measures and processes being used to determine ‘fitness’ for the present (let alone for the future), and deep-seated suspicion about the integrity of a system offering preferential treatment to some (supposedly FFTF) councils in matters of finance and oversight. That environment does not bode well for the success at local level of the Government’s objectives, whatever they may be.

*(n): Democratic structures*

40. The whole approach to council amalgamations as a preferred FFTF strategy to be followed unless councils can persuade IPART otherwise is sadly at odds with the Government’s stated intention to *enhance community engagement* that was stated in its response to the Local Government Acts Taskforce recommendations. Those councils proposed for amalgamations and their councillors/residents/ratepayers who do not accept the proposals might well contemplate the Government’s statement and the IPART terms of reference – which presumably were agreed with IPART - with a high degree of cynicism.

41. In reality, the only meaningful and limiting and definitive functions of a council land boundary definition are to specify the location of the land that is subject to rating by that council and to identify the electorate/electors on which the council is democratically based.

42. Those simply stated functions of council boundary lines do not appear to have been the drivers of the boundary change recommendations in the ILGRP report or the Government's response to it. Had they been recognised for what they actually do in practice, I think the recommendations for amalgamations might well have been very different. *For example*, concerns about scale of council operation and its relationship to service bases would not primarily be defined by the land boundaries, or by the number of people living in the council's area. Instead, such concerns would and should be related to the nature of each service; the demand for the service in the council area and outside it; the economics of service supply with regard to capital and staffing and control issues, and the management of any relevant constraints on the council's ability to provide *or arrange for* the provision of the service in question by its own effort or in conjunction with others.

43. Neither of the basic functions of council boundary definition figures in the Government's proposals relating to council amalgamations. Rather, while the rateable land component has obvious implications for revenue, at no stage or place that I can find does the ILGRP report or the Government response suggest any target rate revenue total or proportion for a FFTF council, or a target maximum rate/per dollar of land value for such a council. The population estimates given for the amalgamation proposals do not distinguish electors from non-electors, or ratepayers from non-ratepayers or concessional ratepayers, or adults from children, or service-users from non-users, or businesses from individuals, even though those are services determinants and relevant categories on which to base assessments of whether council operations are financially robust as they stand, or would be improved following the various amalgamations proposed.

44. Existing area boundaries for councils are certainly not self-evidently ideal for any operational purpose. They are the result of history and past perceptions about community of interest and access to locally-relevant and locality-sensitive decision-making. In various ways they are the outcome of then-current views about desired land use mixes, or concurrence of natural landscape features, or desired cultural mixes, and similar values. Over time, some boundaries have been changed, usually with the agreement and at the request of those immediately affected.

45. Fundamentally, council boundaries only *need* to be enlarged if the rateable land they enclose is insufficient in value to support an acceptable/affordable rate level, or their adult population is too sparse to support the reasonable diversity of views required for an effective working democracy. Nothing I have seen in the FFTF documentation discusses or purports to justify its council area merger proposals on those grounds.

46. It is not clear whether any or much of the responsibility for community and official views about successful and/or unsuccessful outcomes of boundary adjustments in the past can realistically be attributed to the geographic changes involved. The competence of those making decisions and delivering services following the changes is obviously highly relevant. I favour the latter category of explainer, recognising that at the elected member decision-making level there is no pre-qualification of expertise in anything other than electoral appeal (and there will be none of significance flowing from the ILGRP report's recommendations about councillor training in the future, I think ).

47. At the executive level, merged councils initially inherit a skills set from the constituent councils – which in the present context will be inherited from those councils judged *not* to be FFTF *unless* the mergers are implemented. Nothing that I can see in the merger proposals will enhance that



inherited executive skills set except time; in the interim, surviving officials will be working on a larger canvass and past inadequacies and mis-judgments that have been contributors to the *unfit* attribution will simply flow through to the new bigger - and supposedly FFTF - configuration. As the GFC showed so decisively on a world-wide scale, size does not immunise even very large enterprises against fault and failure.

48. In the present boundary change proposals under the amalgamation scenarios, there are no objective locality-specific and community-specific criteria stated. Cultural commonality, intra-area movement linkages and accessibility determinants do not figure in the merger proposals. Rather, some kind of unstated regionalisation ethic pervades the merger approach in a way that I think only the authors can properly comprehend. As far as the public version goes, the merger proposals merely utilise without alteration the existing council land boundaries as jig-saw piece components of an enlarged area, for the purpose of generating a new FFTF entity. That default position supposedly leaves room for councils to make a case for variation, but the IPART March 2014 endorsement of the general thrust of the ILGRP recommendations threatens to make a farce of that option in practical terms.

49. For those and other reasons, I cannot see that the amalgamation boundary change proposals are well-founded in anything other than some kind of intuition to the effect that *bigger is better*. But I am very cautious about that idea: commercial experience shows only too clearly that bigger entities certainly make bigger decisions, but they can - and do on occasion - make bigger blunders. The divestment activity so evident in world business today provides a timely reminder that excessive enterprise size and scope can be administratively cumbersome, un-responsive, and ultimately un-accountable. I would not like to see that happen with our councils.

50. At the local level, the enlargement of certain council areas that is envisaged in the proposals is intended to gather into the administrative ambit of the (resultant enlarged) council what is seen to be an appropriate number of *residents*. Not all residents use or require all services. Besides, what matters in the efficient and effective delivery of council services is the service base for *each* service; one size does not fit all! And the service base for any activity can be readily managed by the traditional and common-sense mechanisms of co-operation with and among appropriate suppliers of that service within and/or outside the council area.

51. The clear and present local community antipathy to at least some of the current amalgamation proposals seems to me to be founded not so much on resistance to the (perhaps understandable) claimed desire of elected members to retain and enlarge their fiefdoms as in a recognition that their justification in the ILGRP report is deficient in democracy as well as economic flexibility and rationality.

(o): *Impact on rates*

52. It is a curiosity that the Government's response to the ILGRP proclaims that *The Government is committed to a rating system that protects local ratepayers from unfair rate rises*. That contrasts sharply with the calculated rate consequences of some of the amalgamations proposals, where ratepayers of one council would face very large rate rises and those of another in the same proposed group would see rate burdens fall substantially under any of the rate structure scenarios that presently apply in any of the constituent councils.

53. Again, the ILGRP proposal to employ the Auditor General's office for council financial matters is acknowledged by the Government to involve an increase in audit fees for councils, but that seems to be relegated in its view to being a minor, albeit negotiable, matter.

54. While the Government expresses its support for *targeting Financial Assistance grants to communities with the greatest need* – presumably councils that *not* FFTF - it deliberately excludes them from its low-interest borrowing facility (see (b) above). I might applaud that approach to the extent that at least it does not *encourage* higher debt levels in vulnerable councils, but it really looks like a measure designed to divert Financial Assistance Grants (FAGs) away from the councils that have traditionally been recipients of only base (minimum) grants under the NSW Grants Commission distribution systems.

55. If that diversion is based on the ground that the minimum grant councils do not *need* the grants, then it also implies that minimum grant councils have been/are already FFTF! But it seems they still have to prove their fitness even in those councils where it has long been assumed for FAGs distribution purposes. That does not inspire confidence in the integrity of the FFTF assessment framework as a whole.

56. Other clear and uncomfortable equity issues would be involved in removal of the minimum grant mechanism, arising from the source of the FAGs funds, namely the Commonwealth Government. The issues have been well canvassed elsewhere; the present idea of a gradualist approach to withdrawal, while doubtless meant to reassure minimum grants councils that they will not experience a large revenue drought overnight, offers no consolation on the equity issue, nor does the FFTF designation itself.

57. Uncomfortable, too, is the situation in which the Government's support for targeting grants to communities with greatest need seems to imply that such targeting has not been implemented in the past by the NSW Local Government Grants Commission, even though the minimum grant mechanism has only existed because of the need for an equitable response to the practical recognition that some councils may well need more than others in order to deliver standard local services, and so qualify for more assistance.

58. The glitch lies in the absence of a common menu of and standard for delivery of council services, but the ILGRP does not support the specification of council activities, nor does the Government response to the recommendations of the Local Government Acts Taskforce envisage any such specification or rationalisation. It might fairly be argued that basic council activities - traditionally defined as *rates, roads, parks and rubbish* – should indeed be subject to special assistance in those areas where delivery costs are inflated above average by some intrinsic local characteristic. The proper exercise of such a system of grant distribution should then be accompanied by a requirement that when councils undertake optional activities on behalf of other entities, whether public or private, those activities should be funded by the agencies for which the councils are acting and/or the users of the services.

59. A funding hook of that kind seems especially appropriate for the health, education and welfare activities of local councils, given that those matters are the primary responsibility not of councils (who are given no primary service responsibility) but of other levels of government having their own taxing powers – and the authority to delegate their responsibilities! The cost shifting to local councils involved has been well recognised, but certainly not well recompensed to date.

60. In this context, it is also worth noting that the property tax that constitutes the council *rating* mechanism is echoed and enlarged for many landowners by the NSW *Land tax*, such that the land-based assets of businesses and residential landlords are taxed by two authorities annually. That double taxation of capital is not really welcome, of course, but its impact (especially on rental levels) is also not evidently recognised in the amalgamation proposals that would see rate levels in some

council areas escalated substantially under any of the likely rating scenarios. Noting that the ultimate recourse of councils for payment of unpaid rates lies in the forced sale of the rateable property itself, it would be reasonable to hope that no government would knowingly pursue a path leading to sudden and large rate increases of the kind foreshadowed by some of the councils embraced by the present merger proposals.

61. Further, the Government claims that it *encourages councils, in consultation with their community, to make appropriate use of fees and charges, in particular to ensure cost recovery, to ensure financial sustainability*. Of course, financial sustainability cannot be *ensured* by fees and charges, especially when maxima and standard fees and charges are set – as so many are – on a State-wide basis by IPART; in that context, genuine cost recovery by an individual council is likely to be achieved only by accident. The mish-mash of service menus and cost structures that presently exists in councils subject to some of the amalgamation proposals might be more likely to approach commonality at least after a time, since arithmetically the larger the council unit, the more likely its costs of a specific service are to approach something like the average efficient costs of all councils (which supposedly informs the authorised/statutory levels of so many council fees and charges). But there is no guarantee of that outcome, and no apparent intention by the Government to abandon its regulated-fee approach; indeed, the Government has made it clear that it will be retained.

62. Where cost recovery for services provided by a council is constrained by sector-wide State Government statutory limits on fees and charges, local ratepayers are the first and principal resource utilised to meet any consequent council budget funding deficit. The *fairness* in that picture is obscure. Additionally, the implications for residents and ratepayers who demand, expect, presently receive and *are prepared to pay for* premium levels of services are troubling for local residents at best in the amalgamation context, in which local preferences would be necessarily subordinated to those of the enlarged entity. The Government's intended retention of restrictions on fees and charges in order to *minimise red tape, protect service users and avoid significant local variation* has little if any credibility in that context.

63. The Government response to the ILGRP recommendations foreshadows a *streamlined and more proportionate approach for FFTF councils wanting to increase rates above the rate peg, and to offset revenue loss through FAGs redistribution*. That response is something of a puzzle to me; once again, I do not see how it can be reconciled with the Government's stated concern about *unfair rate rises*, and its meaning in terms of proportionality is simply unfathomable. It does not sit well with the calculated rate implications of some of the proposed mergers, either.

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