

**Independent Inquiry into the  
Financial Sustainability of NSW  
Local Government**

**Submission by**

**DG & AB MAXWELL  
Consulting Accountants**



## INTRODUCTION

Our firm provides specialist financial and administration consulting services solely to Local Government throughout Australia, but principally within New South Wales. Our senior principal, David Maxwell is a Fellow of the Institute of Chartered Accountants and an Associate of Local Government Managers Australia with over 30 years experience as Local Government Auditor, Principal Accounting Officer, Chief Executive Officer and Consultant.

We have also developed a range of spreadsheet templates designed taking advantage of common features in computer mainframes to assist Council officers in the preparation of the Annual Financial Statements, and these are marketed under the name of Coalface Software Solutions. Our templates complying with the NSW Local Government Code of Accounting Practice and Financial Reporting are used by over 50% of the Councils in that State.

Coalface Software Solutions sponsors the NSW Annual Financial Statements Award presented by the NSW LGMA Financial Professionals Group, judged by nominees of the NSW Local Government Auditors Association, Finance Professionals group and Coalface Software Solutions.

The firm also edits and supplies the Coalface ®NSW Rates Administration Cluebook™, an annual subscription service for Rates Officers of Councils throughout NSW.

## THE CONTENTS OF THIS SUBMISSION

The Inquiry's terms of reference are extremely broad, and will involve, in the first place, developing a definition of what is meant by *financial sustainability*, and consideration of the measures to be used to assess *financial sustainability* of Councils individually and generally.

We have studied the reports<sup>1</sup> of the Financial Sustainability Review Board established by the SA Local Government Association<sup>2</sup>, and a number of our comments have been developed as a result of our consideration of these reports.

In particular, we wish to address the characteristics of some of the financial measures that may be considered in assessing financial sustainability.

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1. *Rising To The Challenge - Towards Financially Sustainable Local Government in South Australia* Volume 1 - Overview & Volume 2 - Supporting Analysis, August 2005
  2. Subsequently referred to as the *SA Inquiry*.



## NET RESULT FOR YEAR BEFORE CAPITAL REVENUES

This amount, which appears on the face of the audited annual financial statements, is the result of deducting operating expenditures (including depreciation, which is separately treated later) from operating revenues. It appears to have been the basis of a statement by former Local Government Minister Tony Kelly that “in 1972, 116 of the 172 councils in NSW spent more than they earned in income.”<sup>3</sup> We submit that this measure suffers from at least two significant flaws.

### *Definition of Capital Revenue*

The *NSW Code of Accounting Practice and Financial Reporting*<sup>4</sup> does not contain any definition of either *capital revenue* or *operating revenue*. Neither term is generally used in commercial accounting, although the terms *capital*, *operating* and *revenue* all have well known and accepted accounting definitions. General practice has been to identify Council revenues that have been received to fund capital expenditures as *capital revenues*.

Some Councils have allocated portion of their *Federal Assistance Grant*<sup>5</sup> as capital revenues, usually on the basis of a Council resolution that (a) certain capital expenditure project(s) is(are) to be funded from the FAGs grant. We understand that in 2004, thirteen Councils adopted this practice, and in one instance this represented over 37% of total FAGs grants received.

We submit that the interpretation adopted in South Australia would result in more consistently comparable accounts:

#### ***“Capital Grants, Subsidies and Monetary Contributions***

***This classification is not intended for grants where a council has a discretion on spending the grant on maintenance expenditure or capital investment expenditure (whether that capital expenditure is associated with new assets or renewal/replacement of existing assets). For example, councils have discretion on the use of Local Government Grants Commission “Local Road”<sup>6</sup> grants or “Roads to Recovery” grants. Therefore, in these cases, such grants should be recorded under “Operating grants and subsidies”.***<sup>7</sup>

### *Exclusion of Capital Revenues*

One consequence of the consistent exclusion of capital revenues from this measure is that, as the assets acquired from the capital revenues are depreciated, every Council will ultimately tend to show a net deficit situation.

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3. Quoted in the *Sunday Telegraph*, 5 June 2005, page 90-91.

4. Subsequently referred to as the *NSW Code*.

5. Subsequently referred to as *FAGs* grants.

6. A component in the calculation of *FAGs* grants.

7. Local Government Financial Accountability Advisory Committee, South Australia, *NEWS* issue 3, page 2.



We submit that the above are significant limitations in the use of *net result for year before capital revenues* as a definitive indicator of financial sustainability of Councils.

## **NET RESULT FOR YEAR AFTER CAPITAL REVENUES**

The particular difficulty that arises with capital revenues is that Australian Accounting Standards AAS 27 *Financial Reporting by Local Governments* and AASB 1004 *Contributions* require recognition of revenues upon gaining control which frequently occurs significantly in advance of expenditure. Further, the resulting capital expenditure is added to the balance sheet, and does not offset the revenue recognised. As a result, many Councils report significant surpluses after capital revenues.

Proposed amendments to AAS 27<sup>8</sup> would amend this in relation to grants and other amounts potentially subject to refund, but this would not affect the largest single type of revenues received significantly in advance of expenditure - developer contributions made pursuant to section 94 of the Environmental Planning & Assessment Act.

Ordinance 26 made under the *Local Government Act 1919* provided for grant revenues to be recognised in full when expended. Where the expenditure was not capitalised<sup>9</sup>, this approach was neutral to the net surplus/deficit, but in other circumstances often resulted in the reporting of significant surpluses.

***Australian Accounting Standard AASB 120 Accounting for Government Grants & Disclosure of Government Assistance (which applies only to for-profit reporting entities) provides that grant revenues received for the acquisition of assets is to be recognised as revenues at amounts equivalent to the depreciation charge against those assets.***

***This is the only accounting procedure of which we are aware that would remove the bias towards net deficits inherent in the previous measure, and the bias towards net surpluses in this measure.***

***We doubt the practicability of its use in a NSW local government context.***

We have undertaken extensive research into the annual statements of NSW Councils for the years ended 30 June 2000 - 2004 (and have commenced analysis of 2005) with a view to developing a reliable adjustment, but have not been successful in doing so.

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8. ED 152, Australian Accounting Standards Board 2005. Although the AASB does not propose to re-issue AAS 27 as an industry accounting standard, it proposes to modify other accounting standards to incorporate the requirements previously forming part of AAS 27. For convenience, we will continue to refer to AAS 27 and ED 152.

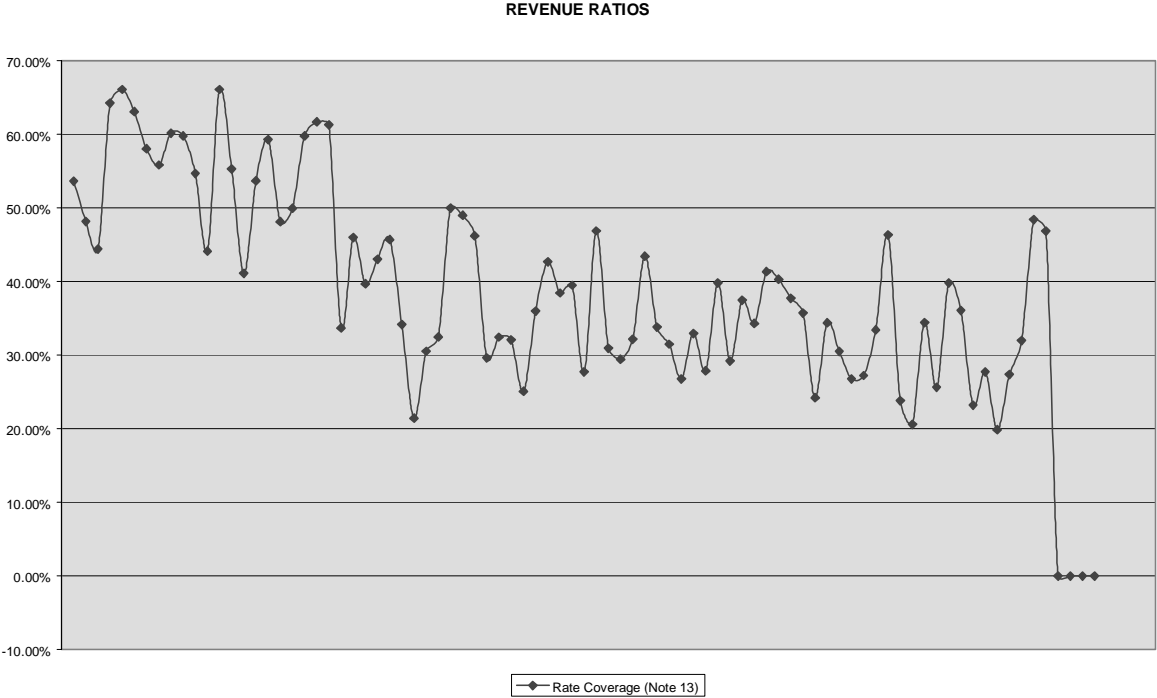
9. For example, for roadworks, stormwater drainage and other general infrastructure assets.



# RATES COVERAGE RATIO

This ratio is prescribed for disclosure as a financial ratio for the purposes of Note 13 to the annual statements<sup>10</sup> and is sometimes used as an indicator of a Council’s “viability”. Another similar ratio is the amount of grants as a percentage of total operating revenues<sup>11</sup>.

The following chart plots the 2003/04 rates coverage ratio for a significant sample of Councils.



In the chart, Sydney metropolitan Councils are shown to the left, grading to far western Councils to the right. We submit that, due to the geography of the State, it is inevitable that the more remote Councils will have a lower population, lower rating capability and lower rates coverage ratio.

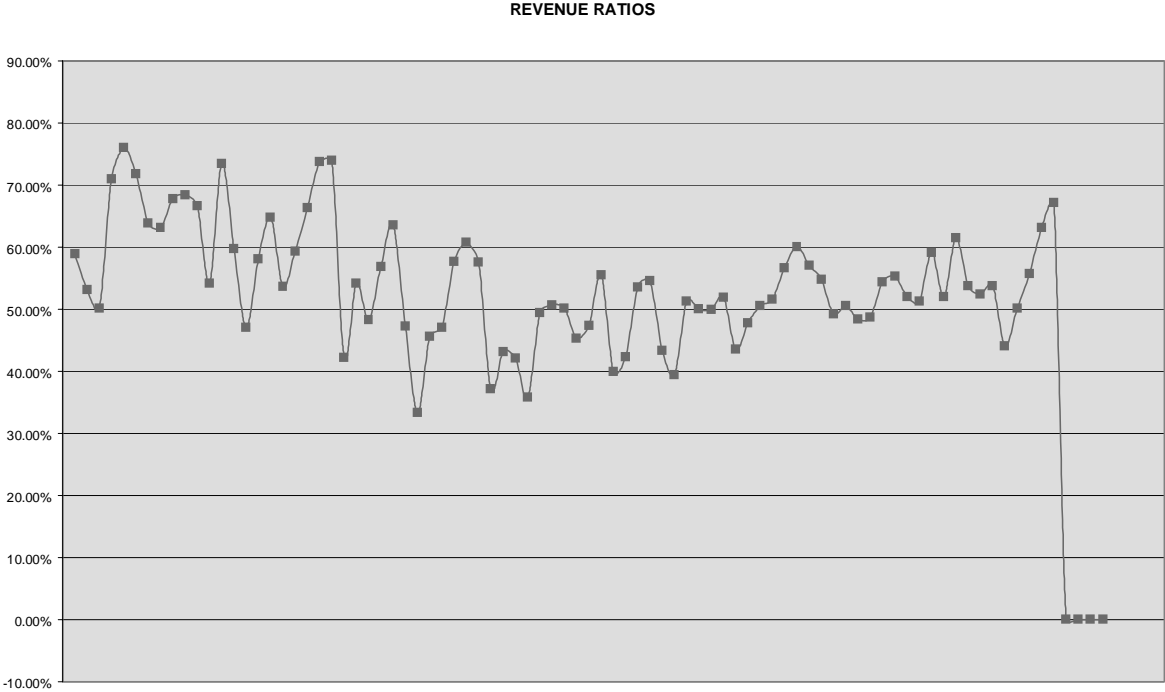
We submit that the rates coverage ratio is inappropriate for use as an indicator of local government’s financial sustainability, as it merely reflects the geographic realities of the State rather than forming a sound basis for comparison of Council performance after taking into account those geographic realities.

10. See Code, section 5.14

11. See Comparative Information 2002-2003, pp64-71



The disability factor calculation used by the NSW Local Government Grants Commission recognises the lower rating capability of these Councils, and subject to funding limitations seeks to minimise its effect. When the rates coverage ratio is adjusted by including FAGs grants, the above chart appears very much as shown below<sup>12</sup>:



The range of values is very much reduced, and although Sydney metropolitan Councils have generally higher values this is largely the result of other factors in the FAGs grant calculation, and that insufficient funds are made available to fully cover all disability factors.

FAGs grants are untied, and may be utilised by Council in furtherance of the Council’s own priorities and policy objectives. Special purpose grants, however, are made in accordance with the policy objectives of the grantor, which may or may not align with the policy objectives and priorities of the Council. At least in part, special purpose grants recognise that the grantor government is unable to itself deliver the services that its own policies require, and are an indicator of the strength and effectiveness of local government, rather than the contrary.

In recent years, the state government has instructed the Grants Commission to maintain previous year grants levels in the case of certain Councils undergoing boundary adjustment. For this and other reasons we are not confident that a discretionary revenue ratio is an adequate measure in assessing the financial sustainability of individual Councils.

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12. Again, Sydney metropolitan Councils are shown on the left, grading to far western Councils on the right.



## **POLICY ASPECTS - OTHER GOVERNMENT GRANTS & SUBSIDIES**

It has been noted above that special purpose grants are made in accordance with the policy objectives of the grantor, not necessarily those of the Council. Yet it is beyond dispute that many millions of dollars are paid annually to Local Government as special purpose grants, many of which are for the construction or reconstruction of assets<sup>13</sup>.

Accordingly, it may be presumed that it is other government policy that the services embodied in these assets be available to the other government's constituents that access them through the Local Government.

If these assets become so run-down that they are unable to provide these services to the other government's constituents (which also happen to be the Local Government's constituents), it can be expected that the reconstruction / replacement / refurbishment of these assets will again become a charge on the other government's Treasury.

We submit that the assumption that no grant funding will be available for the reconstruction / replacement / refurbishment of assets, which has been implicit in a number of the "sustainability" calculations that we have seen, is not necessarily valid.

## **ANALYSIS OF REVENUES - "DISCRETIONARY REVENUES"**

We have identified that there are certain types of revenues - which we have termed "discretionary revenues" - that present a reasonably consistent trend line over multiple years, while other revenues are commonly subject to dramatic variation.

We have defined "discretionary revenues" to include:

***Rates & annual charges - includes general rates, special rates and annual charges<sup>14</sup> levied pursuant to sections 496 & 501, LGA.***

***General purpose grants & subsidies, where the Council has an unfettered discretion on the use of the granted amounts - principally FAGs grants and pensioner rates subsidies.***

***Interest received, excluding amounts where the expenditure discretion is fettered<sup>15</sup>.***

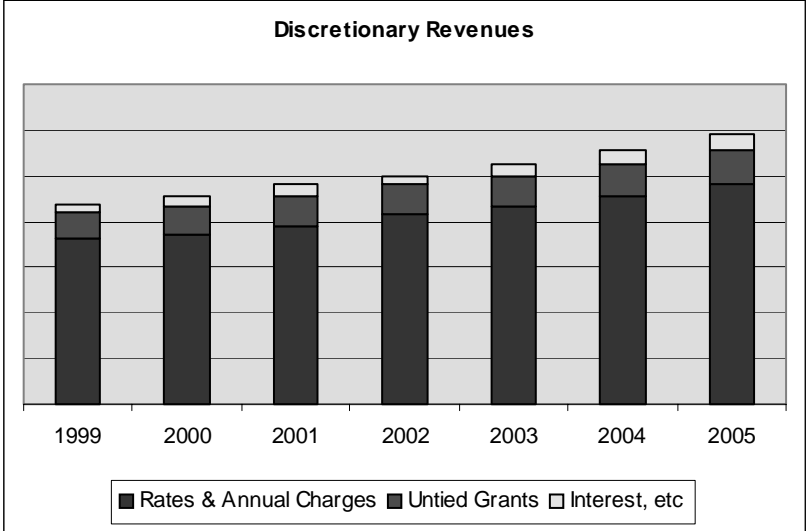
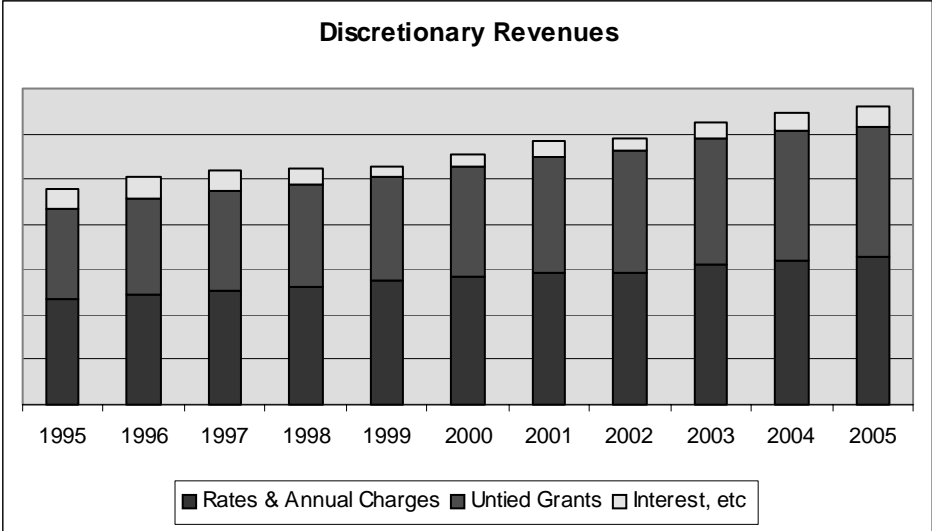
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13. We regret that we are unable to quantify these amounts. The maintenance of many of these assets becomes the financial responsibility of Local Government, as an exercise in cost-shifting.

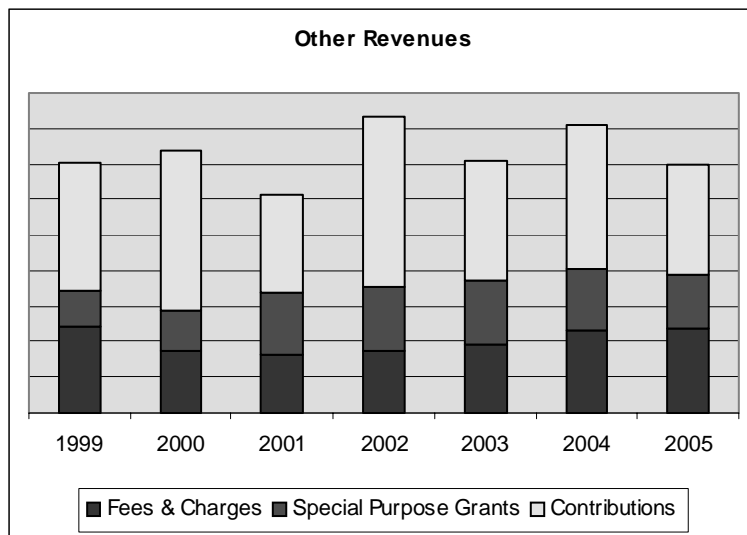
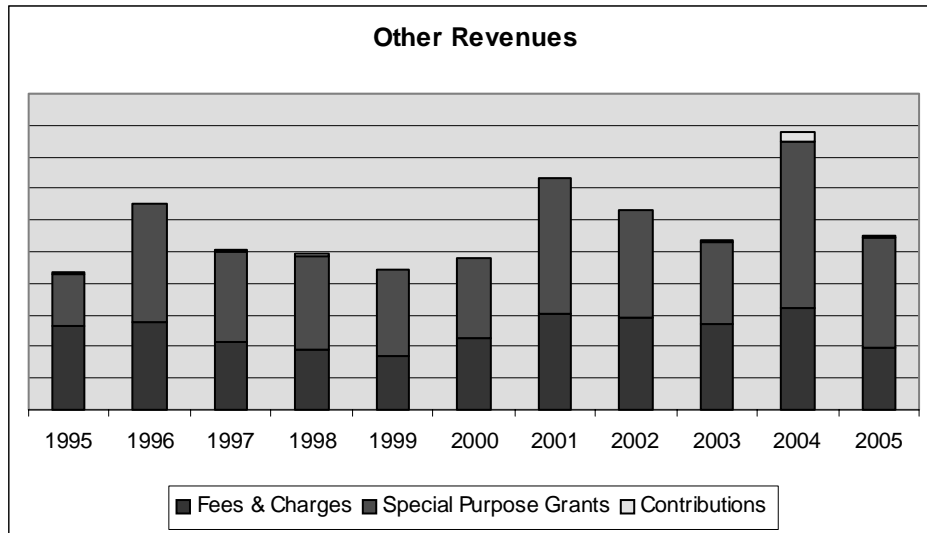
14. Annual charges are made in relation to the availability, rather than usage, of a service.

15. For example, interest earned on unexpended section 94 contributions must be expended for the purpose for which the contributions were received.

The following are two examples of the change in discretionary revenues over time:



Other revenues (including capital revenues) for the same two Councils show significantly greater volatility.



Major components of non-discretionary revenues include:

***Service charges (user charges) levied pursuant to section 502, LGA<sup>16</sup>.  
Statutory and discretionary fees, including private works, RTA works, charges for the use of facilities, etc.***

16. The Code of Accounting Practice defines *user charges* as amounts levied pursuant to section 502, LGA, but not all Councils correctly apply this definition. We prefer the term *service charges* to avoid confusion.

***Special purpose grants & subsidies, both operating and capital.  
Contributions of all types, including section 64 (EPA Act) & 94 (LG Act) contribu-  
tions and contributions to roadworks.***

It happens that, by and large, non-discretionary revenues have a very significant “cost of sales” component<sup>17</sup>. On the other hand, with the exception of annual charges for domestic waste, discretionary revenues have a relatively low “cost of sales” component, and the net revenues comprise the great majority of the Council’s general purpose income.

We suggest that discretionary revenues are much more significant than other operating revenues in the overall scheme of Council finances, but further research is required to develop it into a practical and reliable tool for use in assessing financial sustainability.

## **DEPRECIATION - THE ACCOUNTING PROCEDURE**

Australian Accounting Standard AAS 116 defines depreciation as follows:

***Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.***

*Depreciable amount, useful life and residual value* are also defined:

***Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.***

***Useful life is:***

- (a) the period over which an asset is expected to be available for use by an entity;***  
***or***
- (b) the number of production or similar units expected to be obtained from the asset by an entity.***

***The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.***

Depreciation is therefore an arithmetical calculation that will, over the entire life of an asset, equal the economic benefits consumed, but without necessarily correlating on a year-by-year basis. There is **no** direct connection - indeed, **no connection** - between depreciation and funding the purchase of the replacement asset.

Accurate calculation of depreciation requires accurate estimates for each asset of:

***Cost***

***Residual value***

***Useful life***

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17. In the case of special purpose grants & subsidies, the equals or exceeds 100% of the revenues, in that at least the whole of the amount granted must be expended for the stated purpose.

Estimates are required to be reviewed and updated to the best currently available values annually (AASB 119.51).

## **DEPRECIATION - RECOGNITION OF ASSETS**

AAS 27 commenced to apply to NSW Councils from 1 January 1993: from that date capital expenditure on infrastructure was required to be recognised as an asset, unlike the requirements of Ordinance 26 to the Local Government Act 1919. Transitional provisions contained in AAS 27 provided for the staged recognition of existing infrastructure assets during the reporting periods up to and including 1997, and in NSW these were prescribed as follows:

*1997 reporting period - drainage assets*

*1996 reporting period - roads, bridges, footpaths, etc assets*

*1995 reporting period - all other assets*

Prior to this, very few - if any - Councils attempted to maintain comprehensive records of the construction dates of infrastructure assets. Further, the records used as a basis for the initial recognition of assets commonly contained serious deficiencies<sup>18</sup>.

At the time, no software suitable for the maintenance of comprehensive asset management records existed, and subsequent development has continued to be slow. However, some Councils have made major efforts to develop comprehensive asset management systems, and are now working through the various issues relating to their ongoing maintenance and upkeep. It can be expected that it will still be some years before efficient, robust and reliable software is available *and proven*, and even longer before all Councils reach an acceptable standard of recording.

Even those Councils that have sought to develop comprehensive asset management systems find that the vast majority of their assets have unknown construction dates - or estimated dates based on evidence from various sources. Regrettably, in many Councils, no conscientious attempt is being made to accurately identify and describe newly constructed assets<sup>19</sup>.

For most NSW Councils asset records are sufficiently inaccurate to provide grounds for doubt on any conclusions based thereon.

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18. In the 2002 reporting period, the Auditor-General of Victoria strongly encouraged Councils to revalue all infrastructure assets. As a result, Victorian Councils reported "fundamental errors" of over \$42.8 million as net found assets in that reporting period. Errors for individual Councils were as much as \$17 million, and duplicated assets were as much as \$4.5 million. Similar error rates are likely to have occurred for NSW Councils.

19. Based on comments made by finance officers attending Annual Financial Statements training courses provided by Coalface Training in June of each year.

## DEPRECIATION - ESTIMATES OF COST

While the cost of acquired and constructed assets is generally accurately recorded by Councils, there are areas of concern.

One concerns the effect of AASB 116.16 (c) which includes, as an element of cost “the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.”

These estimates will first be included in Councils’ 2006 financial statements and should not affect historical data accessed by the Inquiry.

The other area concerns grant funded road construction works where we have observed, over many years, a tendency to allocate costs away from the construction project to avoid cost over-runs. By its nature, it is not possible to quantify the mis-statement of construction costs arising from this source. Its effect can be magnified when the incorrect unit construction costs derived from such projects are used as basis for revaluing all assets to fair value using written down current replacement cost.

Similarly, although AASB 116.22 requires “the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset” to be excluded, we have never seen this adjustment made.

The normal governmental method of appropriating funds to specific projects tends to reinforce these practices and the most extreme examples that we have seen have all arisen in State or Federal Government. However, these can be significant factors mitigating against the reliability of available financial information and engineering estimates.<sup>20</sup>

## DEPRECIATION - RESIDUAL VALUE

The definition for residual value of an asset in AASB 116 (quoted above) is particularly clear for cases of discrete items of plant and equipment, etc. However, for infrastructure assets there are two different schools of thought and debate is continuing. For the purposes of illustration we will use the example of the wearing surface of a sealed road. We will express the example in layman’s terms, and seek your indulgence for technical engineering inaccuracies.

One such approach assumes that the useful life of the seal extends only until it is resealed. Because the reseal is applied directly over the original seal, the residual value of the remnant of the original seal is high<sup>21</sup>, and is incorporated in the cost of the resealed surface.

20. The *Infrastructure Asset Accounting Policy Review Phase II Report* prepared for the SA Local Government Financial management Group by Team Synergy, April 2005, Table 3 discloses variation in the “total cost for a metre of road” between \$349 and \$840 used by different SA Councils.

21. We have been advised of instances where this has been set at 90% of original cost.



The other approach assumes that the wearing surface is a compound asset with staged acquisition at intervals of a number of years and a long useful life until eventually no further reseals can be applied and the amalgam of a number of coats of seal must be broken up and recycled. The appropriate residual value of the recycled material is the cost of an equivalent quantity of new material less the future cost of recycling, and is therefore very low<sup>22</sup>.

At the moment there is neither correct answer nor consensus as to a preferred approach. While our example referred to the wearing surface of a sealed road, almost every type of infrastructure exhibits the same difficulty with estimating an appropriate residual value.

## **DEPRECIATION - USEFUL LIFE**

The biggest difficulty arises with estimating useful life. Characteristically, infrastructure assets are long-lived, and Councils do not have accurate records of the construction dates of the assets they are currently replacing. Conversely, very few of the assets for which they do have accurate construction dates are showing significant signs of deterioration, and those assets are usually subject to extreme use or other conditions that mean that they are not representative of the generality of infrastructure assets of that type.

Further, we understand that a common characteristic of infrastructure assets is that it takes approximately 50% of the useful life before the first 10% of wear indicators become visible. Accordingly, visual condition assessment of much of the infrastructure stock is vulnerable to significant error. We understand that the wear indicators clearly visible can vary substantially depending on weather conditions.

The example of the difficulty in estimating useful lives that we usually use relates to uPVC sewer pipes. PVC pipes were originally developed in the late 1960s, and the uPVC versions a few years later. The first sewerage schemes using PVC pipes were installed in the early 1970s, and the most common useful lives used in local government are in the range 70-80 years. If this estimate is accurate, these schemes will require replacement some 30 years into the future, and reliable estimates of the useful life will become evident some years before.

We understand that the former Parry Shire Council, for whom one of the early schemes was constructed, undertook a visual inspection of their pipes some 12 months ago and were unable to identify any signs of deterioration. Accordingly, we understand that they have now increased their estimated useful life for PVC pipe to 110 years<sup>23</sup>. And uPVC is expected to have a longer useful life than PVC. It seems likely that reliable estimates of the useful lives of the many millions of dollars of infrastructure constructed with these materials will not be known for as long as 50 years.

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22. Usually NIL

23. Reported at our NSW Annual Financial Statement training course, Tamworth, 2-3 June 2005.

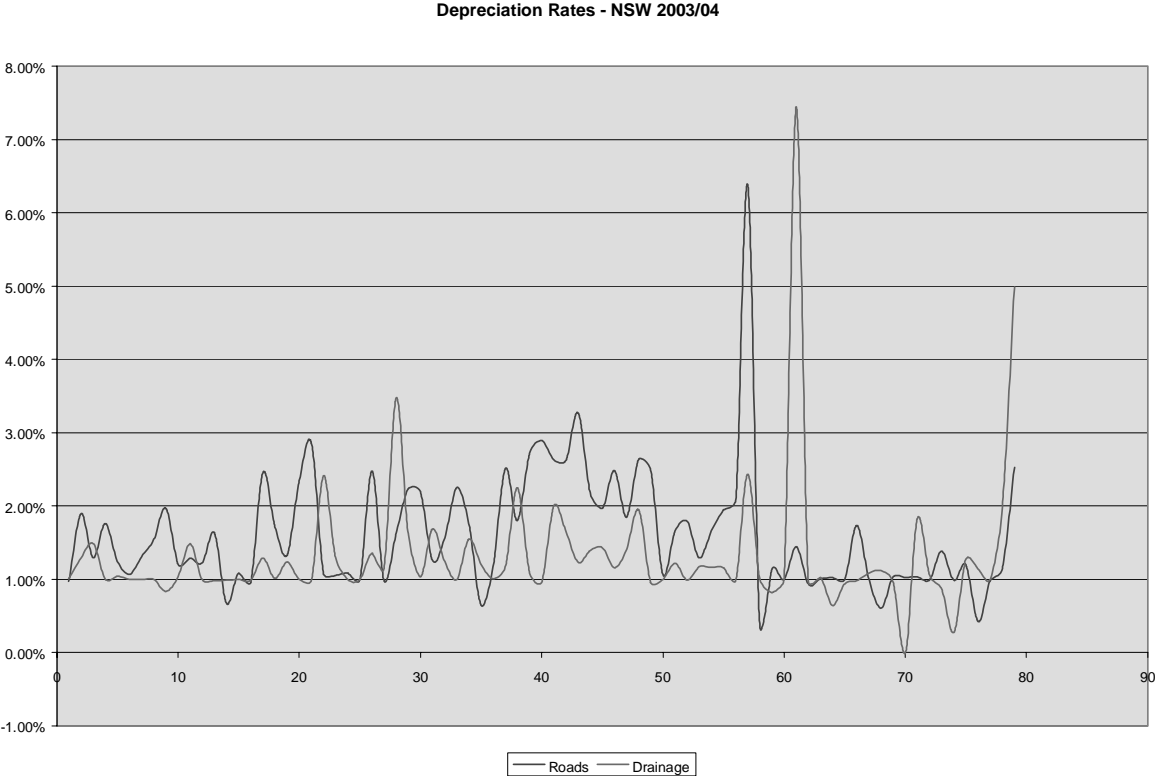


While it is very easy to accept the general proposition that “all infrastructure assets have a finite useful life” it is much more difficult to point to an individual infrastructure asset and nominate the actual remaining useful life of that asset. What is the remaining useful life of the Sydney Harbour Bridge?<sup>24</sup>

*Because useful life is the divisor in the depreciation calculation, the quotient varies widely as estimates of its value are revised. We know of NO infrastructure asset types where there is a reliable calculation of average actual useful life.*

**DEPRECIATION - DEPRECIATION RATES**

The “depreciation rate”, invariably expressed as a percentage, is the inverse of the estimated useful life. The attached chart shows the effective depreciation rates used by NSW Councils in



2003/04 for roads and drainage assets. The chart<sup>25</sup> is based on “raw” data including assets recognised at fair value and at cost (including “deemed” cost, derived from a previous revaluation).

24. The *Phase II Report*, *ibid*, Table 4 discloses variations in estimated useful lives of kerb as ranging between 20 and 70 years by SA Councils.  
 25. Sydney metropolitan Councils are shown on the left, grading to far western Councils on the right.



This chart is useful only for the purposes of recognising the variation that exists. Where a Council has previously applied excessive depreciation rates such that a large proportion of assets are currently fully depreciated, depreciation expressed as a percentage of carrying value will be high<sup>26</sup>. (We understand that Moree Plains Shire Council revalued roads assets and significantly increased estimates of useful lives in 2005 because almost 75% of unsealed roads had been fully depreciated.)

This distortion operates in addition to variations in estimated useful lives.

*We will not further belabour the point that the depreciation charges currently reported in NSW Council annual financial statements is an inadequate basis for assessing financial sustainability, even as a proxy for future renewal and replacement of assets. While it will be necessary for the Inquiry to refer to depreciation, or other information derived after depreciation is taken into account, the Inquiry should make full allowance for the deficiencies inherent in the information.*

## THE USE OF FAIR VALUE

The SA Inquiry made the following recommendation:

***“3.2 (2) That, where they are not currently doing so, each council revalues its non-financial assets annually by applying a price escalator such as the CPI in the annual roll-forward calculation, with a more rigorous adjustment taking place at least at five-yearly intervals to reflect actual changes in market values.”***<sup>27</sup>

In NSW it is most common practice that Councils record their non-financial assets *at cost*, which for many assets derives from the “deemed” cost attributable to original recognition.

We offer the following comments:

- In accounting terms, *at cost* means “beware - this figure is a historical accident”. *Fair value*, on the other hand, implies that a valuation procedure complying with the requirements of AASB 116 has been undertaken, and that additional weight can be given to the amount when assessing the financial position.
- An annual price escalator procedure does not comply with AASB 116.
- We know of no software - and certainly none in general local government use - that has the capability of automatically applying such an adjustment.
- “CPI” is a generic term and the Australian Bureau of Statistics publishes quite a number of tables under this general heading. Selection of such an escalator (which we oppose) should only occur after full industry consultation.

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26. Reported at our NSW Annual Financial Statement training course, Tamworth, 2-3 June 2005.

27. SA Inquiry, vol 1, recommendation 3.2 (2), page 16 and volume 2, page 25.

- The recommendation ignores the sheer volume of individual assets that would be recorded in a comprehensive asset register or asset management system. Based on our experience with incomplete registers, we estimate that even an average Council would require up to 100,000 individual asset entries. The clerical input required to apply such an adjustment required to apply - and reconcile - such an adjustment would be significant.
- Until the problems referred to above in relation to the recognition of assets are addressed and overcome, **any** revaluation procedure will not provide benefits commensurate with the costs involved.

*We submit that rather than considering any similar recommendation, the Inquiry should seek to encourage and expedite the development and adoption of comprehensive asset management systems by all Councils.*

## INTERNAL REPORTING

The SA Inquiry also recommended:

*“13.3 (9) That each council undertakes all internal reporting of its planned and actual financial performance and position in a format and on a basis that is fully consistent with the external financial reporting standards and codes applying to the council.”<sup>28</sup>*

We offer the following comments:

- We fully support the proposition that all budgets, management reports and external reports should be prepared **but not formatted** on an accrual basis that is fully consistent with the external financial reporting standards.
- Annual and longer term budgets are the financial expression of Council’s future management plans.
- Council’s future management plans must be developed in accordance with its organisational structure to ensure that the organisation and its managers are capable of putting them into effect.
- Accordingly, the original budget structure must reflect the development structure of the management plan, and hence will be on an organisational or program basis. This structure will also facilitate the quantitative assessment of each manager’s performance, as well as the qualitative aspects, at the time of contract performance review.
- When finalising the budget, elected members include and exclude revenues and expenditures on a program basis, not the basis included in the annual financial statements prepared in accordance with the Australian Accounting Standards.

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28. SA Inquiry, vol 1, recommendation 13.3 (9), page 18 and volume 2, page 102.

- Actual performance reports against budget should be prepared on a basis consistent with the budget, and hence be supplied to elected members on a program basis.
- Because the number and nature of programs can vary significantly between Councils, the program basis generally does not facilitate comparisons them. Individual programs can be compared individually, but broader comparisons are more appropriately made on an AAS 27 basis (assuming consistency in interpretations<sup>29</sup>).
- Council's budget, after preparation on a program basis, can be "sliced and diced" to conform to AAS 27 format. Although this provides some measure of comparison on a holistic level, we are not convinced that the benefits are significant, nor does it address the important question of which programs were proposed to be completed and were not completed, and how does the cost / revenues from completed projects compare with estimates<sup>30</sup>.
- We see no conflict in reporting internally and externally in different formats. Our experience in public accounting practice indicates that this is common commercial usage, and certainly neither commercial internal reports nor commercial external reports bear any resemblance to taxation returns.

## THE SA INQUIRY

The terms of reference of the Inquiry are substantially similar to those of the SA Inquiry, most of the recommendations of which we support. Without pre-empting the findings of the Inquiry, we would anticipate that the general findings would be broadly similar to those of the SA Inquiry, plus State-specific issues.

The SA Inquiry has spawned a number of research projects which are being progressed with funding from the Local Government Association of SA and the SA Government. Many of the research projects relate to difficulties with available data, and on their conclusion and adoption by all councils will go a long way to addressing the issues raised in this submission.

We submit that it would be unfortunate if this Inquiry were to spawn a number of parallel - rather than co-operative - research projects in NSW. In appointing its principal consultants the Inquiry has sought to maximise the benefit from projects undertaken to assist the SA Inquiry.

***We submit that the Inquiry should positively encourage mechanisms for interstate co-operation, including provision of funding to enable Councils to allocate staff to such projects, and for the preparation of reports.***

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29. We are of the view that there is currently significant *inconsistency* in interpretation, as shown in relation to capital revenues above, and as is the case in South Australia, which was considered and addressed in Chapter 3 of the SA Inquiry Report, volume 2.

30. And, equally importantly, have future estimating parameters been updated to reflect actual experience in the completed programs (see Depreciation - Estimates of Cost above.)